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I wouldn't want to buy anything where I wouldn't want to put 10 per cent of my net worth into it. If I don't want to put that into it, then it just isn't much of an idea.

Warren Buffett
Outstanding Investor Digest (18 April 1990)

"Robert," [Buffett told me,] "we just focus on a few outstanding companies. We're focus investors." … The essence of focus investing can be stated quite simply: Choose a few stocks that are likely to produce above-average returns over the long haul, concentrate the bulk of your investments in those stocks, and have the fortitude to hold steady during any short-term market gyrations. … Buffett believes that the only investors who need wide diversification are those who do not understand what they are doing.

Robert G. Hagstrom
The Warren Buffett Portfolio:
Mastering the Power of the Focus Investment Strategy (1999)

In investing Santayana is right: history repeats and repeats, and forget it at your peril. All bubbles break, all investment frenzies pass away. You absolutely must ignore the vested interests of the industry and the inevitable cheerleaders who will assure you that this time it's a new high plateau or a permanently higher level of productivity, even if that view comes from the Federal Reserve itself. No. Make that, especially if it comes from there. The market is gloriously inefficient and wanders far from fair price but eventually, after breaking your heart and your patience (and, for professionals, those of their clients too), it will go back to fair value. Your task is to survive until that happens.

Jeremy Grantham
The Longest Quarterly Letter Ever
GMO Quarterly Letter (February 2012)

Dr Ronald Ernest ("Ron") Paul, MD, is a graduate of Gettysburg College and Duke University School of Medicine. Between 1963 and 1968 he was a medical officer in the U.S. Air Force. From the 1960s until the 1980s he practised as an obstetrician-gynaecologist, and during those years delivered more than 4,000 babies. At a special election in April 1976 (which was held in order to fill a vacant seat), Paul was first elected to Congress. He narrowly lost at the regular election in November 1976, but regained the seat in November 1978. In 1984 he stood unsuccessfully for election to the Senate, and in 1985 he left the House of Representatives and returned to his obstetrics practice. He returned to Congress in 1997, and since then has been the U.S. Representative for Texas's 14th district. He has announced that he will not stand for re-election in 2012. Dr Paul is also a three-time candidate for President (as a Libertarian in 1988 and as a Republican in 2008 and 2012). When his son, Rand, was elected to the Senate for Kentucky in 2010, Ron became the first U.S. Representative to sit concurrently with his son in the Senate.

According to Keith Poole of the University of Georgia, on a scale measuring American politicians' advocacy of government intervention in the economy (as opposed, among other things, to positions on non-economic issues), Paul's voting record has been more consistently anti-interventionist than that of any other member of Congress since 1937. He bases his political philosophy – and his votes in Congress – upon the conviction that "the proper role for government is to provide national defence, a court system for civil disputes, a criminal justice system for acts of force and fraud, and little else" (see Ron Paul, Political Power and the Rule of Law, 5 February 2007). Dr Paul has been nicknamed "Dr No" – reflecting both his medical vocation and his insistence that he will "never vote for legislation unless the proposed measure is expressly authorised by the Constitution."

Since the early 1980s, Ron Paul has written many books, beginning with Gold, Peace and Prosperity (1981) The Case for Gold (1982) and Mises and Austrian Economics: A Personal View (1982, 2004), and also including Freedom Under Siege: The U.S. Constitution After 200 Years (1987), *A Foreign Policy of Freedom: Peace, Commerce, and Honest Friendship* (2007), Pillars of Prosperity: Free Markets, Honest Money and Private Property (2007), *The Revolution: A Manifesto* (2008), *End The Fed* (2009) and *Liberty Defined: 50 Essential Issues That Affect Our Freedom* (2011). See also The Ron Paul File at LewRockwell.com and the Congressman Ron Paul website. As an author and member of Congress, he has rigorously analysed and trenchantly criticised the U.S. Government's fiscal, foreign and above all monetary policies. He knows and regrets what everybody else in Congress ignores or denies: the Fed's virtually continuous – since its establishment in 1913 – policy of high inflation has underwritten Washington's increasingly profligate fiscal and ever more aggressively interventionist foreign policy.

Alas, for years his prescient warnings fell upon deaf ears. On 16 July 2002, in Government Mortgage Schemes Distort the Housing Market, for example, Paul warned:

> The government's policy [is creating] a short-term boom in housing. Like all artificially-created bubbles, the boom in housing prices cannot last forever. When housing prices fall, homeowners will experience difficulty as their equity is wiped out. Furthermore, the holders of the mortgage debt will also have a loss. These losses will be greater than they would have otherwise been had government policy not actively encouraged over-investment in housing. Perhaps the Federal Reserve can stave off the day of reckoning by purchasing GSE debt and pumping liquidity into the housing market, but this cannot hold off the inevitable drop in the housing market forever. In fact, postponing the necessary but painful market corrections will only deepen the inevitable fall.

On 10 September 2003, he testified before the House Financial Services Committee, which was holding hearings regarding the special privileges extended to government-sponsored enterprises (GSEs), particularly the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac). In his testimony, Paul criticised these privileges; specifically, he warned that GSEs could and likely would trigger disaster. Paul noted that, according to the Congressional Budget Office, in fiscal 2000 alone housing-related GSEs received $13.6 billion in indirect federal subsidies; moreover, they possessed lines of credit with the U.S. Treasury. This support was potentially unlimited; as such, it constituted an explicit promise by the Treasury to rescue the GSEs during times of economic difficulty. In Paul's words, it

> helps the GSEs attract investors who are willing to settle for lower yields than they would demand in the absence of the subsidy. Thus, the line of credit distorts the allocation of capital. More importantly, the line of credit is a promise on be-

> half of the government to engage in a huge unconstitutional and immoral income transfer from working Americans to holders of GSE debt.

The government's backing of GSEs, Paul observed, isolated their managers from the market's discipline, and thereby encouraged them to accept risks that sane managers in a free market would not undertake. "Ironically, by transferring the risk of a widespread mortgage default [from the GSEs to the government, i.e., to taxpayers], the government increases the likelihood of a painful crash in the housing market," Paul warned. He continued:

> This is because the special privileges granted to Fannie and Freddie have distorted the housing market by allowing them to attract capital they could not attract under pure market conditions. As a result, capital is diverted from its most productive use into housing. This reduces the efficacy of the entire market and thus reduces the standard of living of all Americans. Despite the long-term damage to the economy inflicted by the government's interference in the housing market, the government's policy of diverting capital to other uses creates a short-term boom in housing. Like all artificially created bubbles, the boom in housing prices cannot last forever. When housing prices fall, homeowners will experience difficulty as their equity is wiped out. Furthermore, the holders of the mortgage debt will also have a loss. These losses will be greater than they would have otherwise been had government policy not actively encouraged over-investment in housing.

"I hope today's hearing sheds light on how special privileges granted to GSEs distort the housing market and endanger American taxpayers," Paul concluded his testimony. "Congress should act to remove taxpayer support from the housing GSEs before the bubble bursts and taxpayers are once again forced to bail out investors who were misled by foolish government interference in the market." For that reason, on that day he introduced the Free Housing Market Enhancement Act. This legislation would have removed government subsidies from Fannie Mae, Freddie Mac and the National Home Loan Bank Board. Alas, nobody co-sponsored the bill, and it stalled in the committee process.

On 20 October 2005, Ben Bernanke, then the Chairman of George W. Bush's Council of Economic Advisers, in his Testimony before the Joint Economic Committee, showed (as he had repeatedly done previously and as he has done numerous times since) that he's utterly clueless:

> House prices have risen by nearly 25 per cent over the past two years. Although speculative activity has increased in some areas, at a national level these price increases largely reflect strong economic fundamentals, including robust growth in jobs and incomes, low mortgage rates, steady rates of household formation, and factors that limit the expansion of housing supply in some areas. House prices are unlikely to continue rising at current rates. However, as reflected in many private-sector forecasts such as the Blue Chip forecast mentioned earlier, a moderate cooling in the housing market, should one occur, would not be inconsistent with the economy continuing to grow at or near its potential next year.

Almost exactly two years later, Paul again warned:

> America's economic difficulties, especially the problems in the housing market, are the direct result of the Federal Reserve's inflationary policies … Inflationary monetary policies created the problems in the economy we are seeing, and these problems will be made worse, not better, by more inflation … Make no mistake,

> the problems faced by the American people are not caused by unscrupulous mortgage brokers or the rising price of oil. These are symptoms of an economic disease caused by a spendthrift Congress enabled by loose monetary policy. Rather than continuing to pursue a policy of easy credit and increasing debt, we need to return to a sound monetary system.

Our political masters either do not understand or wilfully misunderstand what money is and what it is not, as well as what it can and cannot do. In the wake of their relentless meddling, commerce and investment rest upon weak and unstable foundations. It hardly helps that the government routinely lies to its subjects about the cause and magnitude of its inflation (see also Inflation: Not as Low as You Think, *CBS MoneyWatch*, 29 February 2012). The bust is merely a visible consequence of less visible causes – namely erroneous thinking and poor policy regarding money and banking. The government's control over a nation's currency means that it (through its central bank) strongly influences and – inevitably – comprehensively mismanages the nation's economic well-being. By manipulating the supply of dollars and fixing key rates of interest (that is, suppressing below the rate that would obtain in a free market), central bankers continually debase the value of money. As a result, the depreciating value of our savings and the dwindling purchasing power of our paycheques, etc., relentlessly make us poorer. Hence Paul concludes that a return to first principles is both urgent and inescapable:

> Unless we embrace fundamental reforms, we will be caught in a financial storm that will humble this great country as no foreign enemy ever could. We can find safe harbour in our ideals. Reclaiming our historic legacy of principled commitment to liberty will, once again, unleash the innovative spirit that propelled our nation to the heights of prosperity.

Why Don't the Mainstream Media Treat Ron Paul Impartially?

Ron Paul foresaw the crisis that brewed for years and erupted in 2007-2009. The mainstream media (MSM), in contrast, blindly worshipped Greenspan and Bernanke and otherwise dozed contentedly. Perhaps that's why the MSM have not covered Ron Paul's philosophy, proposals and campaign impartially. Quite the contrary: typically, and despite the fact that he often polls better than candidates who receive a greater quantity of positively-slanted coverage, it either ignores or maligns him. Never mind that, if he were the Republican presidential nominee, Paul would run neck-and-neck against Barack Obama: as far as the MSM is concerned, Ron Paul is "unelectable." In Ron Paul Remains Media Poison (*Politico*, 15 August 2011), Roger Simon reported that the MSM had "shafted" Paul. In his own words, "it [his electoral support] is hard for them [the MSM] to accept. I had one interview scheduled for this morning, a national program, but they cancelled. It is shocking to be told nobody wants you." Simon added: "was this because technically Paul came in second and not first [in the Iowa Straw Poll]? I don't think so. Four years ago, Mike Huckabee came in a bad second to [Mitt] Romney, losing by 13.4 percentage points. Huckabee managed to spin that into a victory at Ames and became a media darling. But Paul almost wins the thing and he remains poison." Why is this? "They [the MSM] believe this guy is dangerous to the *status quo*," Paul said of himself. "I am a bit more challenging, but I am not on the wrong track. I don't think that my ideas are more exotic. They are threatening."

Fox News asked Paul: "what is it about you that the MSM fears?" He answered: "they don't want to discuss my views, because I think they're frightened by me challenging the *status quo* and the establishment." Shortly thereafter, on CNN's *Piers Morgan Tonight*, he elaborated: "they don't want my views out there – they're too dangerous … We want freedom, and we're challenging the *status quo*. We want to end the war, we want a gold standard, and their view is that people just can't handle all this freedom" (see Ron Paul: Media Are Frightened By Us, *The Wall Street Journal*, 16 August 2011 and Ron Paul: I Scare Mainstream Media, *Newsmax*, 17 August 2011).

Does The Establishment fear liberty, or does it detest truth that speaks to power? A little context and history speak volumes. On 22 September 1964, during that year's presidential election campaign, the Republicans' nominee, Barry Goldwater, said that the U.S Government should do "whatever it took" to support U.S. troops in the (escalating) Vietnam war, and that if the administration of then-President Lyndon Johnson was not prepared to "take the war to North Vietnam," then America's military should withdraw. Although Goldwater discussed the possibility of using low-yield nuclear weapons in order to defoliate infiltration routes into and within Vietnam, he never explicitly advocated the use of nuclear weapons against the North Vietnamese. Nevertheless, the Democrats depicted Goldwater as a warmonger and an extremist who, if elected, would drop atomic bombs on Hanoi. Goldwater lost the election in a massive landslide.

My oh my, how times have changed: today, Ron Paul's views are "threatening" and "extremist" partly because he is the only Republican candidate – indeed, the only presidential candidate of either party – who has categorically refused to use nuclear weapons – indeed, weapons of any description – against Iran. Mitt Romney, who some have alleged is a "moderate," demands "régime change" in Iran. When pressed how a President Romney would achieve this goal, he has supported both "covert and overt" actions – that is, acts of war including military action "if necessary" – but will not deploy "boots on the ground." Rick Santorum has repeatedly demanded, in effect, that the U.S. military commit a war crime (as defined by the Nuremberg War Crimes Tribunal) against Iran, i.e., that it pre-emptively bombard Iranian nuclear facilities. Santorum has also implied that he would expand the use of covert operations, possibly including targeted killings, against Iranian nuclear scientists: "I will say to any foreign scientist that's [sic] going into Iran to help on their [nuclear] program: you will be treated like an enemy combatant, like an al-Qaeda member."

Figure 1: "Fair and Balanced" Faux News Claims This Was an "Oversight"

Newt Gingrich, too, is not just belligerent: he's bloodthirsty. He advocates "régime change" by "whatever means necessary." He demands increased sanctions and covert operations – that is, acts of war – to "break the Iranian régime" within a year by "cutting off the gasoline supply to Iran and then, frankly, sabotaging the only refinery they have." He supports the use of "conventional military force" against Iran as a "last resort," and struts and bellows like a Gauleiter: "unless they disarm their entire system, we are going to replace their régime." For a summary of these candidates' positions, see in particular Tough Talk on Iran from GOP Candidates, *The Los An-*

geles Times, 12 January 2012 – which, by the way, and characteristically, completely ignores Ron Paul!

It's important to emphasise that warmongering and imperial delusion is hardly a Republican affliction: it's a psychosis that, with a few honourable exceptions, pervades the Beltway, the American general public – indeed, the entire West (see Exploding the Myth of the Iranian Bomb, Public Takes Strong Stance Against Iran's Nuclear Program and Some Caliphate). On 21 April 2008, the "progressive" Democrat Hilary Clinton pre-empted and outdid all of today's neoconservative Republicans when she threatened to use nuclear weapons against Iran. In her warped mind, it presumably takes a nuclear detonation to remake a village to her satisfaction. In 1964, the mainstream denounced Goldwater as an extremist because (among other things) he wanted to intensify the war in Vietnam; in 2012, the mainstream dismisses and denounces Paul as an "extremist" partly because he refuses to attack Iran! The sad truth is that over the decades Paul hasn't changed, but the American mainstream certainly has. Have Americans as a whole become so aggressive because their most prominent politicians are so bellicose? Or have American politicians merely given the public the wars they crave?

Comedy Central's Jon Stewart – whose thoughtful interviews shame the MSM – has also decried the MSM's unbalanced coverage of Paul's campaign. Stewart has presented a montage of MSM clips that shows commentators ignoring – and two CNN correspondents frankly admitting that they suppress – Paul (see also Stewart's extended interview with Ron Paul). In *The Economist* (Manufacturing Irrelevance, 18 August 2011), Will Wilkinson wryly noted that if Paul had won the Iowa Straw Poll then the MSM would have dismissed the victory as irrelevant; but since Michelle Bachmann won – albeit by a razor-thin margin over Paul – they agreed that it boosted her campaign! The MSM's approach seems to be: heads, the others win; tails, Paul loses. How's that for impartiality?

During the CBS/National Journal Debate in South Carolina on 12 November 2011, Paul was allocated a grand total of 90 seconds – 2.5% of the total – speaking time. His campaign responded: "Congressman Paul was only allocated 90 seconds of speaking in one televised hour. If we are to have an authentic national conversation on issues such as security and defence, we can and must do better to ensure that all voices are heard. CBS News, in their arrogance, may think they can choose the next president. Fortunately, the people of Iowa, New Hampshire, and across America get to vote and not the media elites" (GOP Candidates Blast CBS News for 'Disgraceful' Bias at South Carolina Debate, ABC News, 12 November 2011). And on 3 January 2012, on the evening of the New Hampshire primary, CNN cut its live feed in mid-sentence during an interview with an American soldier supporting Ron Paul and his non-interventionist foreign policy. Was that another "technical" problem?

On 17 August 2011, the Pew Research Center's Project for Excellence in Journalism released research that confirmed that Paul has received quantitatively less and qualitatively more negative coverage from the MSM than have other candidates (see Are the Media Ignoring Ron Paul?). In October 2011, Pew released another study that reconfirmed that the MSM has accorded Paul disproportionately low and negative coverage. In nationwide surveys during the period the study covered, he polled 6.0-10.0% support, but received just 2% of media coverage – the lowest of all candidates. In late January 2012, *The Atlantic* cited the Pew study. It noted that despite steadily *rising* in the polls, Paul's share of press coverage has *shrunk*. It also observed a sharp drop of positive coverage and a small rise of negative treatment (see Ron Hudson, The Ron Paul Media Blackout is Back On, *The Atlantic*, 26 January 2012). According to Paul Mulshine, *The New York Times* has effectively admitted that it has blacklisted Ron Paul (see The Times Admits It Deep-Sixed Ron Paul, *The Star-Ledger*, 16 January 2012 and News Narratives for 2012, *The New York*

Times, 7 January 2012). Liberty, prudence, peace and strict adherence to the rule of law and the U.S. Constitution – apparently, these are not news that The Grey Lady sees fit to print.

The Ron Paul Portfolio

Never mind that long ago he foresaw the economic and financial catastrophe that the mainstream's banking and monetary policies have fomented: the MSM ignores and derides Ron Paul's philosophy, presidential campaign and policy positions. Similarly, never mind that over the past decade and more his investments have generated outstanding results that shame professionals: although they acknowledge the consistency of his economic views and his investment portfolio, the mainstream has belittled his portfolio and smeared the philosophy that underlies it. On 20 August 2011, for example, in an article entitled Candidate of Gloom and Doom, *Barron's* stated:

> Say this for him: Ron Paul puts his money where his mouth is. Over the past 16 years, the dollar gloom-and-doom prophet has invested heavily in gold-mining stocks. It's his hedge against what the Texas Republican congressman and perennial presidential candidate calls "The Great Inflation," which he has long preached is inevitable, given the profligacy of the federal government and the easy monetary policies of the Federal Reserve.
>
> In all, Ron Paul's portfolio amounts to a super bearish bet against the U.S. economy. … Paul's investment strategy is a financial planner's nightmare. Most pros say that gold-mining stocks should be a small part of a diverse portfolio because the shares tend to outperform in bull markets but underperform in bear markets. Mining stocks, for example, were among the most dismal performers in 2008.

On 21 December 2011, *The Wall Street Journal* joined the fray. In an article entitled The Ron Paul Portfolio, it reported

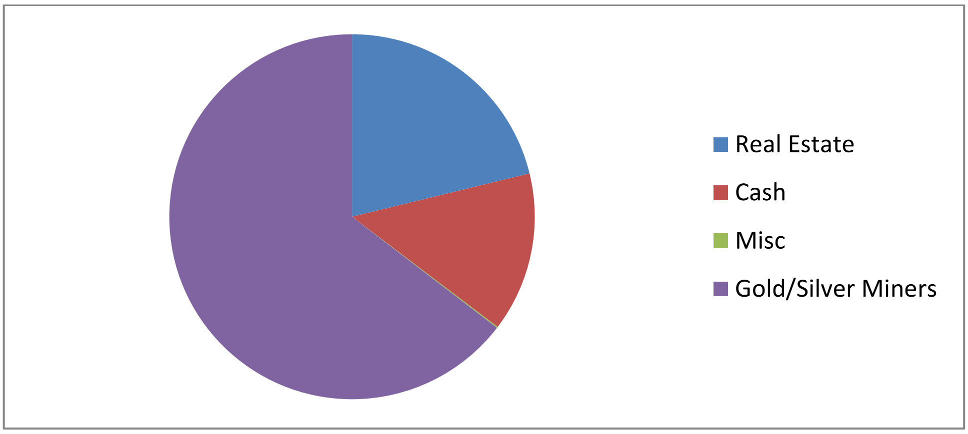
> Republican presidential candidate Rep. Ron Paul marches to his own drummer in politics – and in his investment portfolio, too. … We've looked at hundreds of the annual financial-disclosure forms in which the members of Congress reveal their assets and trades – and we've never seen a more unorthodox portfolio than Ron Paul's. … Rep. Paul's portfolio is valued between $2.44 million and $5.46 million. (Congressional disclosures are given in ranges, not precise amounts.) … But Ron Paul's portfolio isn't merely different. It's shockingly different.

Figure 2 (next page) shows that real estate comprises approximately one-fifth of Paul's portfolio, and cash another ca. 15%. He owns no bonds or bond funds, and effectively no managed (what Americans often call "mutual") funds: these constitute a miniscule 0.1% of the portfolio. Moreover, these managed funds are all "short;" that is, the more American stocks fall, the greater are these funds' returns. Indeed, one is a "double inverse" fund: on a daily basis, it rises twice as much as its stock benchmark falls. It's important to emphasise that Paul owns no diversified mutual, index or other equity fund: he holds, in other words, no broadly-diversified basket of American or other stocks. Instead, the shares of gold and silver mining companies comprise two-thirds – fully 64% – of his portfolio. Paul owns no shares of world-leading technology firms like Apple; no shares of consumer staples such as Procter & Gamble; no shares of industrial conglomerates like General Electric; and no "too big to fail, too well-connected to gaol" banks such as Bank of America. Paul doesn't own the stock of any major company at all – except precious-metals stocks like Barrick Gold, Goldcorp and Newmont Mining.

Paul also owns shares of 23 other mining companies – many of them smaller, Canadian "juniors" whose stocks – according to *The Wall Street Journal* – are "highly risky." In its words, "ten of these stocks have total market valuations of less than $500 million, a common definition of a "microcap" stock. Mr. Paul has between $100,010 and $326,000 (roughly 5% of his assets) invested in these tiny, extremely volatile stocks." It added:

> Rep. Paul appears to be a strict buy-and-hold investor who rarely trades; he has held many of his mining stocks since at least 2002. But, as gold and silver prices have fallen sharply since September, precious-metals equities have also taken a pounding, with many dropping 20% or more. That exposes the risk in making a big bet on one narrow sector.

Figure 2: Ron Paul's Investment Portfolio (2011)



At the *Journal*'s request, William Bernstein, an investment manager at Efficient Portfolio Advisors in Eastford, CT, reviewed Paul's portfolio. Bernstein says he "has never seen such an extreme bet on economic catastrophe. This portfolio is a half-step away from a cellar-full of canned goods and nine-millimetre rounds." According to Bernstein, many "possible doomsday scenarios" menace the U.S. economy and financial markets. Yet, he says without corroboration, Paul's portfolio protects against only one of them: the very high inflation that would accompany the collapse of the dollar. In Bernstein's opinion, if deflation (which he presumably defines in conventional terms, that is, as a general decrease in the prices of most goods and services) occurs instead, then "this portfolio is at great risk" because it contains no bonds and is so highly exposed to gold. The *Journal* concluded:

> Running an investment portfolio that protects against only one bad outcome is like living in California and buying homeowner's insurance that protects only against earthquakes, says Mr Bernstein. You also want protection against fire and wind and theft and the full range of risks that houses are prone to. Likewise, he adds, investors should hold a broad mix of assets that will hold up under a variety of good and bad scenarios.
>
> A spokeswoman for Rep. Paul didn't respond to requests for comment. But you can say this for Ron Paul: In investing, as in politics, he has the courage of his convictions.

On 5 January 2012, in a follow-up article entitled How Weird Is Ron Paul's Portfolio?, *The Journal* noted that "Paul's supporters protested, in their comments [about the article on 21 December], that his portfolio has already been vindicated by its performance." It conceded a vital fact that its first article somehow forgot even to mention:

> *There isn't much doubt that Rep. Paul's portfolio has outperformed the U.S. stock market as a whole. Ten years ago, the NYSE Arca Gold BUGS Index, a basket of stocks in mining companies, was at $65; this week, it's at $522. That's roughly a 23% average annual return; over the past decade, by contrast, the Standard & Poor's 500-stock index, counting dividends, has returned some 2.9% annually* (italics added).

But it conceded this point very grudgingly:

> Yet we would argue that performance alone can't tell you whether an investment approach is sensible or not. After all, over the 10 years ended Dec. 31, 1999, Internet stocks far outperformed most other investments. [It doesn't deign to list the Internet stocks that existed in 1989.] That didn't ensure that they would continue to do so in the years to come, and it certainly didn't mean that it was prudent to put all or most of your money into stocks like Pets.com or eToys Inc.
>
> The same has been true of countless other assets at many other times and places. In each of those cases, just as those assets were cresting in price, the people who owned them declared that their past performance proved that they were "right" to make huge bets on them. History proved them wrong. In short, investing isn't just about maximizing your upside if you turn out to be right. It's also about minimising your downside if you turn out to be wrong. Putting two-thirds of all your assets into one concentrated bet is a great idea if the future plays out just as you imagine it will – but a rotten idea if the future turns out to be full of surprises.

The Journal "reasoned," apparently with a straight face, that Ron Paul's portfolio has vastly outperformed the S&P 500; *therefore* it's no good and might show losses in the future. That, according to the *Journal*, is why most investors diversify: in order to insure against "the two greatest risks we face."

> One is the danger of other people's ignorance and error: that governments will pursue reckless policies, that corporations will be run into the ground [and] that speculators will drive valuations of assets to euphoric highs and miserable lows. This is the kind of risk that Rep. Paul has insured against, so far very successfully.
>
> The second risk is the danger of our own ignorance and error: that we will underestimate the resilience of people and markets, that we will mistake likelihoods for certainties, that we ourselves will be swept up in manias and dragged down into depression when markets go mad. Above all, it is the simple risk that we will end up so sure of our own view of the world that the future is certain to catch us by surprise. And this is the risk that Rep. Paul's portfolio doesn't appear to insure against at all.

Ron Paul's Investment Results

It's *very* interesting, to put it mildly, that *The Wall Street Journal*'s article of 21 December 2011 – the one that belittled Paul's portfolio as "unorthodox," "shockingly different" and "a half-step away from a cellar-full of canned goods and nine-millimetre rounds" – somehow omitted *any* mention – never mind a dispassionate analysis! – of his portfolio and its long-term returns! Its follow-up article conceded that he has generated excellent results – but still omitted any dispassionate analysis. But no matter: his portfolio is "weird." *Barron's* listed Paul's top-ten holdings. Curiously, however it displayed two glaring biases. First, it provided readers with one-year and three-year return numbers; that is, it omitted any mention of the portfolio's long-term results. Second, *Barron's* claimed that "Paul's 'stopped clock' portfolio looks like it's finally paying off."

Why does *Barron's* provide information about one-year and three-year returns, but exclude long-term returns? Now *that's* weird: as *Barron's* acknowledged, Paul acquired most of his big holdings 8-15 years ago. It's true that gold miners' shares – indeed, virtually all shares, which it also forgot to mention – fell significantly in 2008-2009. Did *Barron's* select a short-term time-frame deliberately in order to distract attention from Paul's outstanding long-term results? Does the apparent unwillingness of *Barron's* and the *WSJ* to consider the long-term performance of Paul's portfolio reflect their blindness (unintentional or otherwise) or unwillingness to face the facts?

As both *Barron's* and *The Wall Street Journal* correctly note, Paul is a long-term, buy-and-hold investor. As such, his portfolio's long-term results merit consideration. Ron Paul's Long-Term Holdings Outperform the Market and Most Pros (*Seeking Alpha*, 18 August 2011) analysed his portfolio from that point of view. Table 1, which is reprinted from *Seeking Alpha*, shows clearly that it has left the broader market (as defined by the S&P 500) utterly in the dust. Notice first that over five and ten years, *all* of Paul's top holdings have beaten the S&P 500 by a country mile. In the five years to August 2011 (when *Seeking Alpha* compiled the table), these holdings returned an average of 81% – that's a compound rate of return of 12.6% per year. In the decade to August 2011, Paul's top holdings returned an average of 547% – that's a compound rate of return of 20.5% per year. In diametric contrast, in the five years to August 2011 the S&P 500 shrank by 9.1% – that's a compound rate of return of -1.9% per year. And in the decade to August 2011, the S&P 500 shrank 0.9% – that's a compound rate of return of -0.1% per year.

Table 1: Ron Paul's Biggest Investments – and Their Results

TICKER	COMPANY	2011-TO-DATE	5-YEARS	10-YEARS
GG	Goldcorp	13.02%	72.37%	871.39%
ABX	Barrick Gold	-4.04%	54.11%	203.03%
NEM	Newmont Mining	1.19%	18.39%	186.50%
AEM	Agnico Eagle Mines	-1.58%	78.06%	622.74%
AU	AngloGold Ashanti	-8.90%	-4.94%	150.41%
IAG	IAM Gold	15.56%	92.42%	437.07%
PAAS	Pan American Silver	-22.96%	47.60%	772.00%
SLW	Silver Wheaton	0.95%	290.19%	1135.42%
	AVG	**-0.85%**	**81.03%**	**547.32%**
	S&P 500	-6.19%	-9.12%	-0.88%

With returns like these, why doesn't the MSM praise Ron Paul to the rafters? Why doesn't it laud him like Warren Buffett? After all, Buffett's returns over these intervals, whilst quite respectable and better than many, don't match Paul's. It's also worth noting that William Bernstein – who derided Paul's portfolio – has over the past decade generated results that are better than many others' but nowhere near as good as Paul's. Specifically, a decade ago Bernstein recommended a no-load, all-indexed portfolio. In the five years to 2 March 2012, Bernstein's recommended portfolio generated a compound rate of return of 2.3% per year; and in the ten years to 2 March 2012, it generated a compound rate of return of 5.8% per year. It's true that in the twelve months to August 2011 Paul's portfolio dipped slightly – albeit significantly less than the S&P 500. Still, his stellar long-term return refutes *Barron's* snide dismissal. Paul's portfolio, it's important to emphasise, is *not* "finally paying off:" *it's been performing superbly for years*. Not bad for what *Barron's* sneeringly described as a "stopped clock." (For an informative overview of Ron Paul's portfolio and its results, see this video by Peter Schiff.)

Ron Paul Follows – and the MSM Repudiate – Warren Buffett

Over the last decade, Ron Paul's portfolio has greatly outperformed the S&P 500. Because few funds managers outpace the S&P 500 (or any other major market index) over the long-term, it's reasonable to infer that over the past decade Paul has outperformed most professionals. He's also shamed the vast majority of hedge funds. Yet *Barron's* and *The Wall Street Journal* remain unimpressed. "In more than 20 years as an investing reporter, I've never seen a more unorthodox portfolio than Rep. Paul's." His portfolio is "shockingly different."

Why is that a bad thing? An average portfolio, by definition, will tend to generate average results. And surely finance journalists are well aware that the average return of the past decade has fallen well short of expectations – which, by the way, many finance journalists have done much to inflate, or, at least, little to reduce to realistic levels. In *The Intelligent Australian Investor*, I noted that in the decade to 2002 returns in Australia were well-above their historical average, that at the time mainstream finance journalists generally failed to emphasise this vital fact, and that they thereby encouraged many investors to develop unrealistic expectations that the future would likely dash. A decade ago, in other words, *mainstream portfolios were highly risky, and information readily available at that time to anybody who sought it and was prepared to think for himself could have demonstrated that vital fact*. But no matter: for mainstream journalists, cheering the Internet, mining and government intervention booms is far easier. Perhaps mainstream finance journalists simply feed their audience the bullish tripe they both crave; still, it should come as no surprise that during the past ten years returns have regressed below (whilst valuations remain well above) the long-term historical mean. Similarly, gold-based investments generated modest or poor returns in the two decades to 2002; consequently, it should shock nobody that more recently they have generated much better returns.

Barron's and the *WSJ* rightly say that – by the mainstream's standards – Ron Paul's portfolio is unconventional. But on what basis is it therefore "weird" and "risky"? The MSM superficially and ritually worship Warren Buffett, but his many insights utterly escape them and so they flout him. In the Warren Buffett Partnership Letter (1964), Buffett sagely wrote

> It is unquestionably true that the investment companies have their money more conventionally invested than we do. To many people conventionality is indistinguishable from conservatism. In my view, this represents erroneous thinking. Neither a conventional nor an unconventional approach, *per se*, is conservative.
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> Truly conservative actions arise from intelligent hypotheses, correct facts, and sound reasoning. These qualities may lead to conventional acts, but there have been many times when they have led to unorthodoxy. In some corner of the world they are probably still holding regular meetings of the Flat Earth Society [and at universities around the world, Chris adds, they're still teaching Modern Portfolio Theory].

> We derive no comfort because important people, vocal people, or great numbers of people agree with us. Nor do we derive comfort if they don't. A public opinion poll is no substitute for thought. When we really sit back with a smile on our face is when we run into a situation we can understand, where the facts are ascertainable and clear, and the course of action obvious. In that case – whether conventional or unconventional – whether others agree or disagree – we feel we are progressing in a conservative manner.

The mainstream applauds this sentiment when it passes Buffett's lips – but condemns it when Paul consistently applies it. Indeed, *Barron's* and the *WSJ* turn Buffett's insight on its head. To them, if it's conventional then it's conservative; and if the portfolio is conservative, then – to use the *WSJ's* words – it will comprise "a broad mix of assets that will hold up under a variety of good and bad scenarios." Never mind that during the past few years this "conservatism" and this "broad mix of assets" has decimated countless people's finances: to the mainstream a spectacular failure following from strict adherence to the conventional wisdom is unremarkable and forgivable – but great success that's achieved by defying that "wisdom" is risky and unpardonable.

To grasp this point, compare the mainstream's coverage of Ron Paul and William H. ("Bill") Miller III. The Legg Mason Value Trust, which Miller managed, beat the S&P 500 for a record 15 years through 2005. As a result, during the late 1990s and early 2000s the mainstream hailed him. In *The Warren Buffett Portfolio: Mastering the Power of the Focus Investment Strategy* (John Wiley & Sons, 1999), Robert G. Hagstrom wrote:

> Bill's pathway to the money management business was unusual. While his competitors were tied up in business schools studying modern portfolio theory, Bill was studying philosophy at Johns Hopkins Graduate School. … During 1990, Bill assumed full control of Value Trust and began to put the full weight of his investment approach into the Fund. What happened next was not repeated by any other general equity fund in the 1990s. For eight consecutive years (1991-1998), Value Trust consistently outperformed the S&P 500. At the end of 1998, Bill's outstanding track record brought him one of the industry's most coveted honours: he was named Morningstar's Domestic Equity Fund Manager of the Year. "Bill takes big positions and takes the long view," said Eric Savitz, formerly of *Barron's*. "Over the long term, you can see how it has worked … He was more insightful about stocks than anybody I knew."
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> Although he is not a focus investor by strict definition, he comes very close – he routinely keeps Value Trust in only thirty to forty names, with over half of the assets invested in just ten stocks. "There are several parallels between Bill Miller and Warren Buffett," explains Amy Arnott, editor of Morningstar. "He does have a very low turnover strategy and his portfolio is very concentrated compared to other equity funds. His method of valuing companies is similar to [Buffett's] …"

In the 1990s and early 2000s, the mainstream also lauded Miller's bullish – that is, very conventional – views about the U.S. economy in general and American financial institutions in particular. Alas, more recent years have been less kind to him. In the words of *Bloomberg BusinessWeek* (Legg Mason's Miller to Exit Main Fund After Trailing Peers, 25 November 2011), Miller "became mired in the worst slump of his career as he wagered heavily on financial stocks during the 2008 credit crisis." Most notably, he invested heavily in Bear Stearns and Freddie Mac just before they imploded. As a result, "Value Trust lost 55% that year as the S&P 500 dropped 37%, including dividends, prompting a wave of withdrawals. The fund's assets have plunged from a peak of $21 billion in 2007 to $2.8 billion." Late in 2011, Miller relinquished the reins of the Value Trust "after trailing the index for four of the past five years."

The higher they rise, the harder they fall? Not if you're an insider: to my knowledge, at no point before or after 2008 has anybody called Miller "weird" or his methods "risky." Nor at the height of his success did the MSM tut-tut that he was headed for a fall. Brett Arends (Legg Mason's Bill Miller on the Prowl Again, *The Wall Street Journal*, 2 July 2009) is typical:

> After several years of heavy losses, Bill Miller's diehard investors are breathing a tentative sigh of relief. The famous Legg Mason value investor, who stumbled so badly during the stock market turmoil of the past few years, is off to a much more promising 2009. Indeed, it's been the best first half for his mutual funds since 2003 … The explanation is simple: Mr Miller has stuck with the same kinds of bullish bets on an economic recovery that got him into hot water earlier. "Both funds [i.e., the flagship Legg Mason Value Trust and his smaller, more flexible and more volatile Legg Mason Opportunity Trust] are tilted towards economic stabilisation and recovery, that benefits them," Mr Miller said in an interview.
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> It has been a tough few years, to put it mildly. Through 2007 and 2008 the U.S. stock market fell by about 32%. During that same period Legg Mason Value crashed 58%, and Legg Mason Opportunity 66%. Mr Miller turned bullish on housing and homebuilders, plus other stocks sensitive to the economy, way too early. The nadir came last summer, when he raised his stake in mortgage giant Freddie Mac just before the government took it over, wiping out investors altogether. "I underestimated the crisis," Mr Miller admits. He thought the extra liquidity being pumped into the system would turn things around. He never thought house prices, or share prices, would fall as far as they did.
>
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> The big question remains unanswered: is Bill Miller a terrific investor who has simply had a bad few years? Or was he always just an OK investor who once had a great run of luck? Maybe we are going to find out. Investors in Mr Miller's funds, as always, need to understand what they own. This is a maverick manager willing to take big, bold bets. I'd rather have a small stake in the Opportunity Trust, which lets him pick his shots freely, than a big stake in the Value Trust, which is more constrained.

Clearly, the MSM has applied double standards to Miller and Paul. Miller, the insider, is "a maverick manager willing to take big, bold bets;" Paul, on the other hand, is "the dollar gloom-and-doom prophet" whose portfolio "protects against only one bad outcome" which "is like living in California and buying homeowner's insurance that protects only against earthquakes." Miller's portfolio didn't conform to the norm; therefore, in Hagstrom's words, "Bill's discriminating taste for companies, coupled with his long holding period, has certainly helped Value Trust achieve its status as one of the best mutual funds of the 1990s." *Barron's*, too, praised his non-conformity.

"Bill Miller, the world's other [than Warren Buffett] great investor, ranks right up there in the pantheon of all-time greats," wrote Sandra Ward ("Another Legend, Another Book?" 22 June 1998). "Yet, unlike Buffett, Bill Miller's a big believer in technology. Indeed it has been Miller's heavy bets on technology shares, in addition to heavy weightings in financials, that have helped push his performance beyond the benchmarks." Notice, then, that *Barron's* grants to Miller the very thing that it denies to Paul. *Because* Miller's results from 1990 to 2005 were excellent, *therefore* he is (or at least was) a great investor. What about Paul? "We would argue that performance alone can't tell you whether an investment approach is sensible or not."

Bill Miller's portfolio didn't conform to the norm; therefore Miller was an innovator. Ron Paul's portfolio doesn't conform: therefore, it's "shockingly different" and "risky." Never mind Paul's stellar long-run return, which is better than Miller's during his glory days; further, forget that it performed very well before, during and since 2007-2009. According to Hagstrom, "Bill's track record is, without question, impressive, but it is how he achieved the investment return that holds a valuable lesson for us all." So never mind the staggering losses that Miller's portfolio sustained in 2008. According to *Barron's* and the *WSJ*, neither Ron's track record nor the thinking that underlies it has anything to teach us. Indeed, the anointed command the benighted to reject Ron Paul's portfolio: remember, it's "a financial planner's nightmare" and "a half-step away from a cellar-full of canned goods and nine-millimetre rounds."

Barron's and the *WSJ* don't bother to answer – or even to address – obvious questions which their smears raise. Why should an investor care whether his financial planner can sleep at night? Why should the planner's comfort be the investor's priority? To use dispassionate language, shouldn't investors plan for a rainy day? Shouldn't they strive humbly to assemble a portfolio of investments at attractive prices? As *Seeking Alpha* rightly notes:

> While it may be true that a financial planner may sleep easier knowing clients are broadly invested in fee-based instruments and market-linked baskets, such a move would have cost Ron Paul essentially all of his substantial profit over the last decade. Do keep in mind that a financial planner's daydreams cost about 1-2% in annual fees that are not included in the S&P 500's performance, and that about half underperform the S&P 500 before fees anyway.

Barron's and *WSJ* have also forsaken – and Paul has embraced – Buffett in another critical respect. "Put all your eggs in one basket," Buffet has approvingly cited Mark Twain, "and then watch that basket." In *The Warren Buffett Portfolio*, Hagstrom lauds Buffett's and others' concentrated (in terms of their number of holdings) portfolios: "Warren Buffett recommends that investors act as if they owned a 'lifetime decision card' with only twenty punches on it. Throughout your life, you get to make only twenty investment choices. Each time you swing the bat, your card is punched and you have one fewer investment available for the remainder of your life. This would force you to look only for the best investment opportunities." Hagstrom adds:

> By holding a large number of stocks representing many industries and many sectors of the market, investors hope to create a warm blanket of protection against the horrific loss that could occur if they had all their money in one arena that suffered some disaster. In a normal period (so the thinking goes), some stocks in a diversified fund will go down and others will go up, and let's keep our fingers crossed that the latter will compensate for the former. The chances get better, active managers believe, as the number of stocks in the portfolio grows; ten is better than one, and a hundred is better than ten. … We have all heard this mantra of

> diversification for so long, we have become intellectually numb to its inevitable consequence: mediocre results.
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> What's wrong with conventional diversification? For one thing, it greatly increases the chances that you will buy something you don't know enough about. "Know-something" investors, applying the Buffett tenets, would do better to focus their attention on just a few companies – "five to ten," Buffett suggests. Others who adhere to the focus philosophy have suggested smaller numbers, even as low as three; *for the average investor, a legitimate case can be made for ten to fifteen. Thus, to the earlier question, How many is "a few"? the short answer is: No more than fifteen.* More critical than determining the exact number is understanding the general concept behind it. Focus investing falls apart if it is applied to a large portfolio with dozens of stocks (italics added).

Here, too, the mainstream applauds the concentration of insiders' portfolios – and condemns the concentration of Ron Paul's. Theirs is "focussed;" his is "weird." Similarly, *Barron's* reckons that "bullion prices likely will pull back as the born-again gold bugs rush to take profits. Gold-mining shares would pull back even more if history is any guide, taking a lot of the glitter of Ron Paul's gains." Curiously, before 2008 neither *Barron's* nor anybody else in the mainstream criticised Miller's heavy investments in American financial institutions, especially GSEs; and neither before or since 2008, nobody has called those weightings "extreme" or "a financial planner's nightmare."

Paul, it seems, has focused much too heavily upon a suite of winners that the mainstream simply doesn't like. But isn't that the very essence of intelligent investing? Didn't Warren Buffett advise "most people get interested in stocks when everyone else is. The time to get interested is when no one else is. You can't buy what is popular and do well." Isn't that exactly what Ron Paul did? Paul had the gall to pick a suite of stellar winners before others – and certainly before the mainstream! – recognised them as such. Moreover, he's dared to hold them through thick and thin. Apparently, for the sake of Modern Portfolio Theory (and the academics and journalists who preach it) Paul would do well to diversify into some losers. Applying that impeccable logic, gardeners should poison some of their roses and fertilise a few of their weeds!

What Ron Paul Knows and the Mainstream Stridently Denies

In yet another – and much more profound – sense, mainstream journalists' condescending dismissal of Ron Paul's portfolio and investment acumen demonstrates how they reject – and how Paul embraces – the investment wisdom of Benjamin Graham and Warren Buffett. In *The Intelligent Investor* (1949), Graham wrote: "Have the courage of your knowledge and experience. If you have formed a conclusion from the facts and if you know your judgment is sound, [then] act on it – even though others may hesitate or differ. You are neither right nor wrong because the crowd disagrees with you. You are right because your data and reasoning are right." In the Warren Buffett Partnership Letter (1964), Buffett reiterated Graham's point: "truly conservative actions arise from intelligent hypotheses, correct facts, and sound reasoning. These qualities may lead to conventional acts, but there have been many times when they have led to unorthodoxy." And in his Preface to the 1973 edition of *The Intelligent Investor*, Buffett added: "to invest successfully over a lifetime does not require a stratospheric IQ, unusual business insights or inside information. What's needed is a sound intellectual framework for making decisions and the ability to keep emotions from corroding that framework.

Mainstream financial journalists, in short, "lead" by following the crowd; Paul, in sharp contrast, ignores the MSM and thinks for himself. What, then, comprises the intellectual framework that underlies Ron Paul's investments? He hasn't directly linked the principles detailed in his voluminous writings and many speeches to his investments, at least publicly; still, we can infer reasonably clearly towards some foundations of his investment framework.

Property

Paul knows what St Thomas Aquinas glimpsed and what the theologians at the School of Salamanca, who were scholars of natural law, discovered in the 16th century: property is a naturally-arising relationship between human beings and material things. From property – and clear and stable property rights – spring economic calculation, a wider, deeper and hence more productive division of labour – and therefore increasing levels of prosperity. Accordingly, *any* encroachment by the state upon private property invariably diminishes liberty and prosperity. Paul thus rejects the utilitarian (Chicago School) notion that the state must modify the bundle of property rights such that it "allocates transactions costs" in a way that promotes maximum economic growth and efficiency. Paul also rejects the related (social democratic) notion that property is important but that its status as a "right" is always subordinate to an overriding "public good," and therefore that it must be regulated in the "national interest." The problem, as Paul knows well, is that state's legislation invariably violates natural law, and thus property rights, and thereby weakens liberty and prosperity. In the wake of the many *débâcles* it has caused, the mainstream is undeterred: property, it claims, does not arise naturally; rather, it is the product of the legal system (which in turn is a creature of the state). For this reason, it insists, state must intervene in order to prevent alleged abuses of economic power – even at the cost of infringing or eliminating the natural rights (which in any case the mainstream obscures or denies) of property owners.

Value

Building generally upon the natural rights conception of property, and more specifically upon the insights of Eugen Böhm von Bawerk and Carl Menger, Ron Paul knows that physical objects (such as a motor car, an ounce of gold, etc.) cannot possess intrinsic economic value. *Warren Buffett, in other words, is flatly wrong: when applied to goods and services in the economic realm, there's simply no such thing as "intrinsic value."* Goods can, however, possess extrinsic value; that is, a human mind imputes value to particular objects and actions. Only then do economists regard these things as goods and services. Something is valuable because – and only because – at least one person believes that it can help satisfy his (or somebody else's) subjective desires. Suppose, for example, that a particular root cures cancer. If no one knows this, and if the root has no other known uses, then it has no economic value and people will not trade money (see below) for it. Once somebody discovers its ability to cure cancer (or to serve some other purpose) people will value it. *Value, then, doesn't inhere within goods; rather, people impute value to goods.* The value of a good or service arises from an individual's subjective desires and beliefs about its causal properties.

Paul thus dissents from the mainstream notion that the value of a good or service is determined by the interdependence of supply and demand (i.e., the interaction of cost and utility). The mainstream doesn't explain value on the basis of utility alone; instead, it contends that value stems both from subjective preferences and allegedly objective technological conditions. The mainstream therefore believes that if a particular good's cost of production rises, then its equilibrium price must also inevitably rise. In contrast, subjectivists like Paul know that under these conditions this good's price will rise only to the extent that buyers are willing to pay the higher price – that is, only if they are willing to forego other purchases in order to pay the higher price for the same quantity of the good or service. If they are not willing, then its price will not rise and its producer must either find a way to reduce his costs or else cease production.

Paul emphatically rejects Marx's (and, to a significant extent, Adam Smith's) contention that the value of a commodity is equal to the amount of total labour used to produce it. If one bicycle has the same market value as, say, 500 eggs, then we can write 1 bicycle = 500 eggs. In what does this equality consist? Obviously the bicycle is not "equal" to the eggs in the sense that they possess common physical properties. According to this "labour theory of value," the relevant thing that the two goods have in common is the equal amount of labour used to produce them.

Money

Following Ludwig von Mises, Ron Paul knows that the state never has – and in principle cannot – originated money. Money always emerges from the actions of large numbers of individuals, typically through barter. It's often hard to find bartering partners; hence the emergence of commodity monies. Durable, portable and divisible commodities such as gold and silver typically best suit individuals' requirements for money. Given its durability, portability, divisibility and other characteristics, in other words, for millennia people have imputed value to gold. Money and related institutions thus emerge as a positive unintended consequence of individual self-interest. For this reason, the evolution of money and monetary institutions is best left to the market forces that created them in the first place. Above all, artificial, destabilising and destructive institutions like central banks are anathema to liberty and prosperity.

Although he applauds a few of its corollaries, Paul rejects the mainstream (Friedmanite) notion that money can emerge from barter, but private interests will probably not develop it to suit the needs of a modern economy. According to Milton Friedman, central banks can in principle sustain a stable and healthy financial sector. At the same time, says Friedman (and agrees Paul), the government's efforts to stimulate the economy by manipulating the supply of money will at best fail and at worst cause severe problems. According to Friedman, monetary authorities should not increase the supply of money at their discretion; instead, they should increase it at a constant and widely-known rate, i.e., that which corresponds to the economy's long-term rate of growth. Under a strict application of Friedman's rule, the central bank would exist but its staff would not: its policy (namely a constant increase of the supply of money at a pre-announced rate) could be implemented "by a computer." Under these conditions, say Friedmanites, businessmen would correctly anticipate all monetary policy decisions (see How Milton Friedman Changed Economics, Policy and Markets, *The Wall Street Journal*, 17 November 2006).

Paul even more strongly rejects the mainstream (Keynesian) contention that money is inherently a creature of the state, and that sound monetary institutions require central planners acting through a central bank. According to Keynesians, central banks can and do stabilise economies and financial markets. In particular, contend Keynesians, central bankers can smooth booms and busts (which, Keynesians say, are born in the private sector) by expanding the money supply during recessions and decelerating monetary growth during booms. For Keynesians, the state's control of money is a *sine qua non* of its management of the economy, and the state's "steering" of the economy is a necessary condition of its stability and growth. Both Mao Tse-Tung and Keynesians agree that the state's agents are omniscient and omnipotent "helmsmen" who expertly steer the economy between the shoals and into safe waters.

Given what he knows about property, value and money, Ron Paul also knows that the mainstream is flatly and diametrically wrong about gold. Warren Buffett, who epitomises the mainstream's view, reportedly said that gold "gets dug out of the ground in Africa, or someplace. Then we melt it down, dig another hole, bury it again and pay people to stand around guarding it. It has no utility. Anyone watching from Mars would be scratching their head." To assert that "gold has no utility" is, unwittingly or otherwise, to ignore or deny 5,000 years of human history (see also Buffett's Bursting Bubble by Peter Schiff).

Interest

Again following Böhm-Bawerk and Menger, Ron Paul knows that payments of interest reflect the higher value of present goods vis-à-vis future goods. Other things equal, everybody wants to consume sooner rather than later. For this reason, and as an example, the current price of a computer might be $1,000 but the current price of a claim to a computer delivered one year hence would be less – say $900. Also for this reason, an entrepreneur might today invest $900 in labour and raw materials in order to sell a product next year for $1,000. His expected interest of $1,000 - $900 = $100 (and rate of return of $100 ÷ $900 = 11.1%) derives from the fact that today's factors of production represent "claims" on future consumption goods; thus their current price (in this example, $900) is less than their ultimate sale price ($1,000). Obviously – and as Ron Paul has long warned – the government must not interfere with the market interest rate. Not only does the rate reflect the subjective premium individuals place on a marginal present good over a marginal future good; moreover, the government cannot know or foresee this rate any more accurately than the many buyers and sellers in markets. Equally obviously, any interference by the government with the market interest rate will emit false signals and cause actors to make mistakes they would not have committed absent the government interference.

Paul sympathises in some respects with, but nonetheless rejects, the mainstream (Chicago School) idea that payments of interest payments are returns on capital, and that in equilibrium the rate of interest equals the marginal product of capital (among other things, Paul knows that in the real world "equilibrium" doesn't exist). To this strand of the mainstream, the situation with respect to capital is analogous to labour, i.e., in equilibrium the wage rate equals the marginal product of labour. On the margin, say the Chicagoans, consumers prefer to consume sooner rather than later, and an extra unit of invested capital will yield an additional increment of output in the future. That additional increment renders the consumer indifferent between consuming now or waiting an additional unit of time and consuming the higher yield made possible by the productivity of capital. According to a strict rendering of this conception (which is almost always ignored), the government should not meddle with interest rates for the same reasons that it should not meddle with wage rates.

Paul categorically rejects the mainstream (Keynesian) assertion that payments of interest compensate investors for their loss of liquidity when they invest cash a business project or lend it for a certain period. To Keynesians, the rate of interest is the price of liquidity, and interest is an artificial phenomenon. Keynesians recognise the role of expectations (or what might generically be called "confidence in the future"). For example, if the rate of interest rate jumps from 5% to 10%, this does not mean that people have become more oriented towards present consumption: it could simply reflect their heightened anxiety about economic conditions during the next several years. To Keynesians, the government's manipulation of interest is certainly one of several tools needed to smooth economic fluctuations, but by itself (and particularly in the absence of increased spending by the government) it is relatively impotent.

The Business Cycle and Its Cause

Building upon his knowledge of property, value, money and interest, Ron Paul knows that the artificial expansion of the supply of money – which is caused by fractional reserve commercial banks acting in cahoots with the central bank –suppresses rates of interest below the level that would obtain without government intervention. This reduction causes the spending of consumers and investors artificially to boom. As a result, investors' (including businesses') time horizons begin to lengthen, that is, tilt away from the production of present goods and towards the production of future goods. Meanwhile, consumers' preferences for present versus future goods remain unchanged. As a result, the artificial expansion of the supply of money not only sends false signals (in the form of deceptively low rates of interest): it also dis-coordinates the interactions of producers and consumers in the market.

The government's intervention thus disseminates false information that disrupts and deranges the relationship between saving and investment, and between production and consumption. The dis-coordination in the market eventually reveals that many investments prompted by the artificially low rates of interest are not profitable but instead are "malinvestments" (clusters of errors). Businesses must ultimately liquidate these poor investments; this liquidation (recession) is the visible consequence of the less visible cause – the government's expansion of the supply of money through its manipulation of interest rates. The more pervasive and extended is the meddling, the more egregious are the malinvestments and the more severe is the recession. The business cycle, in short, emerges as a negative unintended consequence of politicians' and bureaucrats' self-interest

Paul thus rejects the mainstream (Friedmanite) contention that the variation of the rate of growth of the money supply from its appropriate trend is the source of the problem. This variation, said Friedman, causes the rate of growth of GDP to deviate from its general trend. Given a constant rate of monetary growth, he added, the economy and its growth will be relatively stable; large variations in the supply of money, on the other hand, cause inflationary booms and deflationary crashes. Paul also rejects the mainstream (Keynesian) notion that excessive optimism, often prompted by technological shifts resulting in speculative frenzies, causes booms. He also rejects the Keynesian contention that deficient total spending causes recessions and that "stimulated" expenditure cures them. Why should total spending become "deficient?" According to Keynesians, if total savings exceeds total investment, then total spending on goods and services falls. This "deficiency" decreases the demand for the labour required to produce these goods. The resultant pessimism among businesspeople and investors begets "insufficient aggregate demand" and economic hard times. The remedy, say Keynesians, is to reverse the insufficiency.

How to Combat a Recession?

Ron Paul's prescription for a recession follows logically from his diagnosis. The recession reveals the underlying dis-coordination and mal-investment that reckless monetary and banking policy caused. Irresponsible (that is, expansionary) monetary policy causes the recession; clearly, then, the cure is to cease the recklessness. Accordingly, "countercyclical" policy – that is, even more aggressively expansionary policy during the recession – is counterproductive at best and severely damaging at worst: it's akin to plying a drunk alcoholic with heavy doses of alcohol in order to delay his hangover after a blinder. Of course, future recessions can and should be prevented by abolishing the monetary system that causes the boom in the first place. Similarly, there's no such thing as a former alcoholic; there are only alcoholics who no longer drink.

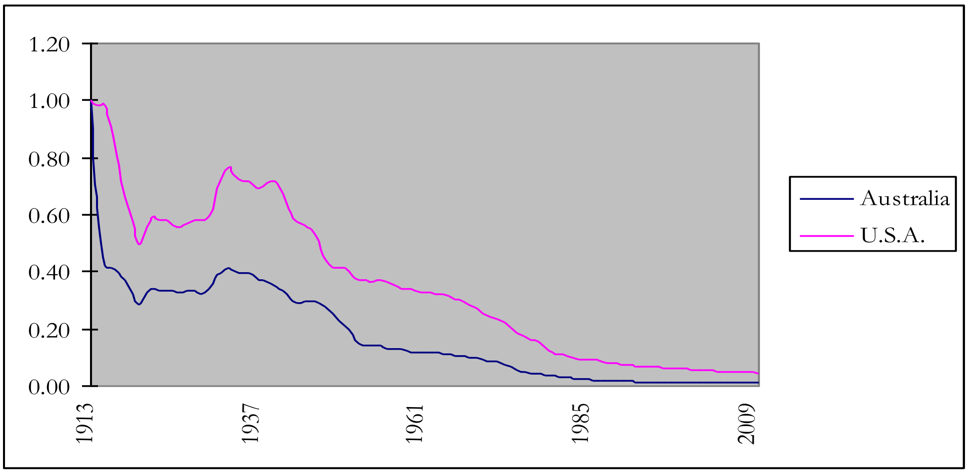
For this reason, Paul categorically rejects the mainstream's claim that the central bank's policy of artificially-low interest rates and the government's policy of deficit spending can "stimulate aggregate demand." Ditto its claim that, once the economy returns to "equilibrium," the central bank can and will permit rates to rise and the government will curtail its spending and repay the debt it incurred in order to defeat the recession. Paul also rejects the contemporary fantasy that, in addition to activist fiscal and monetary measures, it is essential that the government protect the industries that the recession hits particularly severely. Ditto the mainstream's conviction that consumers should not hoard cash; rather, they should spend it. If they can't or won't, then they insist that the government must borrow (or print) money and spend it. Businesses, too, they say, should freely borrow from both banks and the government in order to restore equilibrium.

How Ron Paul Uses This Framework to Invest

Barron's states that Paul has been "predicting disastrous inflation since President Richard Milhous Nixon took the U.S. off the gold standard in 1971." In two respects, this sentence reflects the mainstream's faulty knowledge of both money and history. First, Nixon removed the last vestiges of the gold-dollar standard associated with the Bretton Woods System. The mainstream (including Ben Bernanke) mistakenly regards them as synonyms; yet the gold-exchange standard was profoundly different from the classical gold standard which Paul champions (for more details, see Murray Rothbard, The Case for a 100 Percent Gold Dollar).

Second, Paul has *correctly predicted* that the state's relentless inflation will continue to cause disasters because for years he has *properly diagnosed* and *accurately observed* it. Paul knows that since its creation in 1913 the Federal Reserve has almost continuously expanded the supply of money. Because (i) it has virtually always inflated since its establishment in 1913, (ii) it has inflated at a frantic pace since 2007, (iii) since then has promised to continue this crazed policy "for the foreseeable future" and (iv) there are no credible grounds to believe that the Fed will cease (never mind reverse) its inflation, Paul's prognosis is quite reasonable: what's occurred for a century, and at an accelerating pace in the more recent past, will continue unabated into the future.

Figure 3: Only a Crazed Partisan of the State Could Call This "Success"
The Federal Reserve, RBA and the Currency's Purchasing Power, 1913-2010[1]



What has been the consequence of central banks' relentless inflation? Figure 3 (reprinted from *The Evil Princes of Martin Place*) plots the purchasing power (PP) of the $US and $A since the formation of the Fed and RBA in 1913. Within a decade of the Fed's birth, the purchasing power of the American currency halved: the basket of consumer goods and services that cost $US1 in December 1913 cost exactly twice as much in March 1920. PP subsequently rose from $US0.50 to $US0.78 by the nadir of the Great Depression in 1933. Since then, however, its slide has been inexorable – to a derisory $US0.0454 in July 2010. That's a virtually total destruction of the cur-

1 Sources of data: U.S. Bureau of Labor Statistics (http://www.bls.gov/cpi/) and Reserve Bank of Australia (http://www.rba.gov.au/calculator/annualPreDecimal.html).

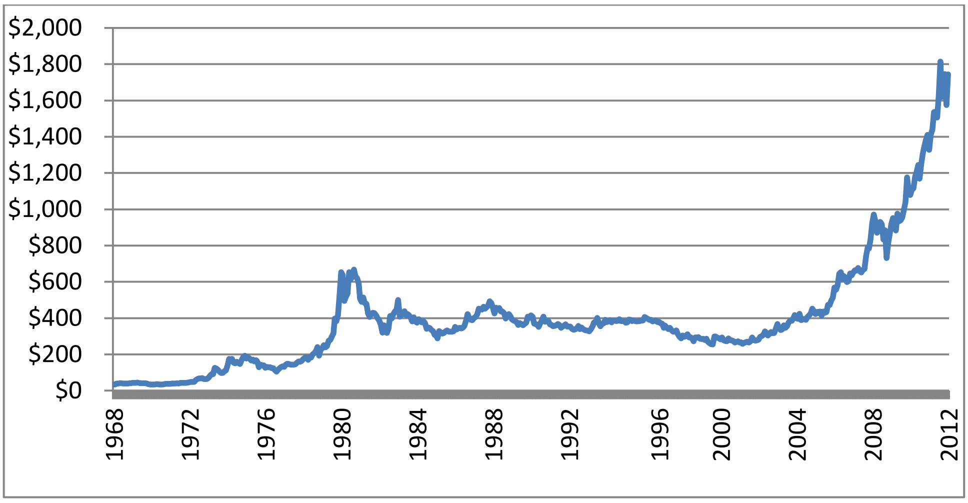
rency during the last century. The consumer goods and services that cost $US1.00 at the beginning of 1913 thus cost $US22.02 in mid-2010. That's a total rise of consumer prices of no less than 2,102% during the past 97 years. Who in his right mind – unless, of course, his intention is to trash the $US – calls that "success?" The U.S. has enjoyed many things since 1913, but a stable (in terms of its PP) currency simply hasn't been among them. The PP of the $A has collapsed even more comprehensively.

Ron Paul knows that it's likely – not least because it's said so – that the Fed will continue to "print" $US at a frenzied pace. He also knows that it cannot print gold, and that throughout history – as well as today – people impute value to gold. Over time, the quantity of $US has thus risen drastically relative to the quantity of gold. Under these conditions, Paul has long known that the price of gold (expressed in $US, and once it was decontrolled) would eventually rise – probably greatly – over time. Knowing that value is subjective, he did not expect that the rise of its price would be steady and that its exact timing was predictable. But no matter: its price would eventually reward his (and others') patience. Bill Bonner knew these things, too. As *MoneyWeek* (Gold – the Trade of the Decade, 15 December 2009) recounted:

> Back in 2000, Bill Bonner announced his trade of the decade. It was a simple one: sell dollars, buy gold. It turned out to be a good plan. In 2000, you could buy an ounce of gold for $280 (the average price over the year). Now, it will cost you $1,125. At the time, Bonner saw what most others did not. He saw the US not as an economy carefully and cleverly managed by then Federal Reserve chairman Alan Greenspan and his passion for low interest rates, but as a massive credit bubble waiting to burst.
>
> He also saw the massive and growing national debt, the trade and budget deficits, and fast growth in the money supply as factors that would naturally debase the dollar over the long term. He also saw the credit bubble as global rather than peculiar to America. So it made sense to him to hold the only non-paper currency there is – gold. Bonner had a good decade, making returns of 400% plus.

Does Figure 4 vindicate Paul and Bonner, or the mainstream?

Figure 4: The Price of Gold ($US per ounce), 1968-2012



What Has Sir Francis Galton to Do with Ron Paul's Portfolio?

As *Barron's* noted, in a blog in 2010 Ron Paul discussed the consequences of central banks' constant, massive and cumulatively ruinous inflation (see also Is Inflation about General Increases in Prices? By Frank Shostak). This inflation "guts the savings and earnings of the people, who have very limited options for protecting themselves against these ravages. One option is to convert their fiat currency into something out of reach of central banks and government spending, such as gold or silver." In reply, *Barron's* sniffed: "but if he's wrong, bullion prices likely will pull back as the born-again gold bugs rush to take profits. Gold-mining shares would pull back even more if history is any guide, taking a lot of the glitter of Ron Paul's gains."

Barron's implicitly raises (but of course does not attempt to answer) two important questions. On what basis could Ron Paul have decided a decade or more ago that gold was cheap relative to (say) stocks? Today, does the mainstream have grounds to assert (and often to gloat) that the price of gold has become a "bubble" which, like the housing, Internet and other bubbles, is bound at some point to collapse? I don't know how Ron Paul answered the first question a decade ago, or how he'd answer the second one today. I do know, however, how I answered the first question more than a decade ago, and how I answer the second one today; further, I suspect that my answers (if not my methods and reasoning) corroborate Paul's.

Sir Francis Galton (1822-1911), a cousin of Charles Darwin, was keenly interested in heredity and not at all in business and finance. Yet his studies of "the average ancestral type" uncovered a regularity that provides a basis for sensible investing. In an analysis of the heights of parents and their children, Sir Francis found that tall parents (that is, parents who were taller than the average parent) tended to bear tall children (that is, taller-than-average kids who tended to become taller-than-average adults) and that short parents tended to breed short children. Heredity, he found, clearly matters. But it matters in a somewhat counterintuitive way: on average, the offspring of very tall parents were taller than the average person but not as tall as their folks; and the offspring of very short parents were shorter than average but not as short as their folks.

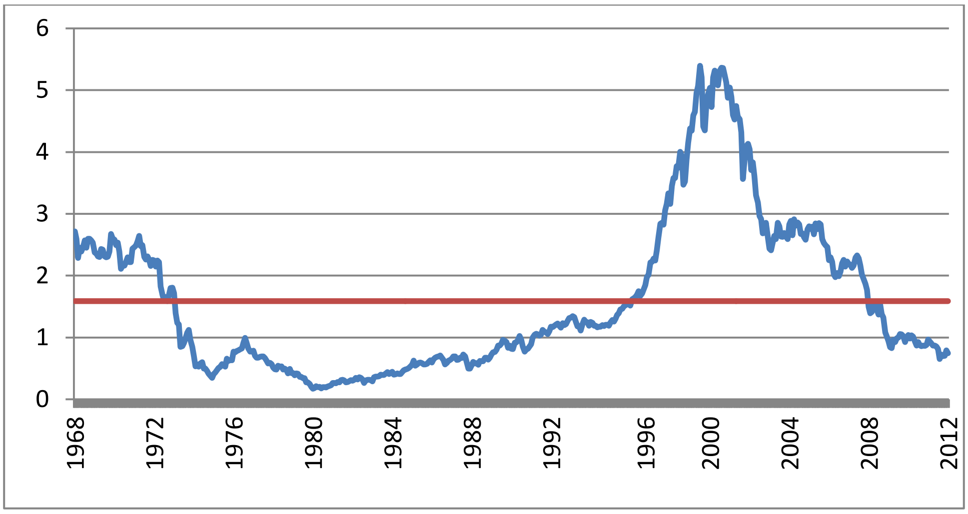
These and other experiments led Sir Francis to describe a principle that has become known as reversion (or regression) to the mean. According to Galton, "reversion is the tendency of the ideal mean filial type to depart from the parental type, reverting to what may be roughly and perhaps fairly described as the average ancestral type." Simply, what goes up (say, a man's height compared to his father) tends to come down (say, the height of this man's son). If this tendency did not exist then the world would eventually comprise nought but midgets and giants. Mean regression is vitally important to investors because it anchors financial markets. If people are unduly optimistic or pessimistic about (say) a particular company's securities, and if that company's fundamentals remain unchanged, then after some decent interval their stance is likely to reverse. "Hot" stocks, market segments – and markets as a whole – eventually fall from grace, and highly unfashionable (or undervalued) ones, like the Phoenix, rise from the ashes.

But today's bulls (including and especially the MSM!), like all enthusiasts at all times, care nothing about history's "base rate" and everything about today's "case rate." They believe either that (a) because they're happening now, Good Things must continue to occur; or (b) because they haven't happened in a very long time, Bad Things can't possibly recur. Speculators, in other words, extrapolate, whereas investors, following Galton, regress to the mean.

In February 2012, S&P 500 averaged 1,301 and gold sold for an average of $US1,744 per ounce. Their ratio was thus 1,301 ÷ 1,744 = 0.75. If the S&P 500 were a corporation, then the price of one share of "S&P 500 Corp." would be 0.75 ounces of gold. The greater (lower) is the ratio, the larger (smaller) the amount (ounces) needed to buy one share. Hence the greater is the ratio, the dearer is the share compared to gold; and the lower is the ratio, the cheaper is gold compared to the share. In any transaction, we seek to exchange the minimum amount of the goods and services we possess for the maximum quantity of a good or service we desire; as investors, we seek to buy a security or other investment cheap and sell it dear. In principle, then, the greater is the ratio the more sense it makes to sell shares of "S&P Corp." and use the proceeds to buy gold; and the lower is the ratio, the more sensible it is to sell gold and buy the S&P 500.

Figure 5 plots the S&P 500-to-gold ratio since 1968. (Before 1968, major central banks fixed the price of gold at $US35 per ounce. In that year, the "gold pool," which included the U.S and major Western European nations, and which dominated the world's supply, stopped selling gold on the London market. The cessation of their intervention allowed the price of gold to emerge in something bearing a rough facsimile to a free market.) Since 1968 the ratio has averaged 1.59. It fell steadily from January 1968 (2.71) until January 1980 (0.17); that is, during the 1970s gold became much dearer relative to the S&P 500. Indeed, during this interval gold increased from $35 to $653 per ounce, and the S&P 500 was virtually stagnant (it rose from 95 to 111). The ratio then rose steadily until December 1995, when it reached 1.59. During that 15-year interval, gold became much cheaper relative to the S&P 500. Indeed, from January 1980 ($653) to December 1995 ($400) the price of gold fell by almost 40%; in sharp contrast, the S&P 500 zoomed more than five-fold (to 615).

Figure 5: The S&P 500-to-Gold Ratio, 1968-2012



Between 1996 and 2001 the ratio rose dramatically – to above 5.0 in 2000-2001. During that half-decade, the S&P 500 became extremely expensive relative to gold: indeed, neither before nor since have stocks been anywhere near so dear. In May 2000, gold fell to $272 per ounce; and by August 2000, the S&P 500 rose to 1,485. At the time, a small number of investors (who richly deserved the title) recognised the prices of many stocks had risen to a level described as a "bubble." Robert Shiller coined the term "irrational exuberance" (which was popularised by Alan Greenspan) in order to describe the dangerous heights to which stocks rose during these years. Today, the mainstream concedes that stocks formed a bubble during these years;[2] interestingly, however, the cause of the bubble – namely central banks' policy of relentless crazed inflation –

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2 See in particular Charles Kindleberger, *Manias, Panics, and Crashes: A History of Financial Crises* (5th ed., John Wiley & Sons, 2005); Roger Lowenstein, *Origins of the Crash: The Great Bubble and Its Undoing.* (Penguin Books, 2004); and Robert Shiller, *Irrational Exuberance* (1st ed., Broadway, 2001).

continues to elude them. Further, then or now few people (apart from Ron Paul and Bill Bonner) saw the other side of the coin – namely that gold became extremely cheap relative to the S&P 500, and that they would profit handsomely by ditching stocks and accumulating gold.

Since 2001 the ratio has fallen equally dramatically. In 2008, the ratio fell below its overall mean of 1.59, and by August 2011 fell further to 0.65. During the past decade, gold has become much more expensive relative to the S&P 500. During these years, the S&P 500 stagnated (it fell to 1,325 in August 2011) and gold skyrocketed (to $1,815 per ounce). The question therefore arises: is it true, as several in the mainstream have claimed and even gloated, that the price of gold has become a bubble?

To answer this question, let's assume (as many in the mainstream have conceded) that in 2000-2001 stocks (our proxy is the S&P 500) had risen into "bubble" territory. More specifically, let's assume that in those years the S&P reached a bubble vis-à-vis gold. If an S&P-to-gold ratio of 5.0 is our quantitative measure of stocks' bubble vis-à-vis gold, then its inverse (i.e., 1 ÷ 5.0 = 0.20) is our measure of gold's bubble vis-à-vis stocks. Today, the ratio stands at 0.75. The ratio is 3.75 times 0.20. Clearly, then, given these assumptions the price of gold hasn't reached "bubble" territory – indeed, it's not remotely close. Gold is somewhat but not particularly dear relative to stocks; and stocks are somewhat but not particularly cheap relative to gold.

What would constitute a bubble of gold vis-à-vis stocks? Either the S&P must remain constant and the price of gold must rise to $1,750 · 3.75 ≈ $6,500 per ounce, or the price of gold remains steady and the S&P 500 collapse to 1,300 ÷ 3.75 ≈350. If one or the other or some combination of these two events occurs, then the MSM can talk sensibly about gold entering bubble territory; but until then, let it spare us its gibberish and mindless anti-gold diatribes. Indeed, until the West abandons its failed economic policies – i.e., stops printing trillions of dollars of funny-money and stops running budget deficits that in the U.S. alone exceed $1.5 trillion – and starts running massive budget surpluses, repay debt and above all adopt a sound currency, it makes perfect sense that Ron Paul should continue to own the stocks of gold mining companies.

Conclusion #1: Distrust the Mainstream Media

Its treatment of Ron Paul provides yet another reason (we already had plenty!) to distrust the MSM. Should journalists "challenge 'facts' that are asserted by newsmakers they write about"? It's astounding that anybody should ask this question; and it's drearily predictable, but no less disappointing, that a leading light at *The New York Times* did so. As Glenn Greenwald (Arthur Brisbane and Selective Stenography, *Salon*, 13 January 2012), put it, "that's basically the equivalent of pondering in a medical journal whether doctors should treat diseases, or asking in a law review article whether lawyers should defend the legal interests of their clients, etc.: reporting facts that conflict with public claims (what Brisbane tellingly demeaned as being "truth vigilantes") is one of the defining functions of journalism, at least in theory." Greenwald continues:

> That most reporters faithfully follow the stenographer model – uncritically writing down what people say and then leaving it at that – is so obvious that it's hardly worth the effort to demonstrate it. There are important exceptions to this practice … But by and large, most establishment news coverage consists of announcing that someone or other has made some claim, then (at most) adding that someone else has made a conflicting claim, and then walking away. This isn't merely the practice of journalists; rather, it's virtually their religion. They simply do not believe that reporting facts is what they should be doing. Recall David Gregory's impassioned defence of the media's behaviour in the lead-up to the

> Iraq War, when he rejected complaints that journalists failed to document falsehoods from Bush officials because "*it's not our role*" and then sneered that only an ideologue would want them to do so (shortly thereafter, NBC named Gregory the new host of *Meet the Press*).

By their own admission, the MSM are docile scribes and strident shills for the welfare-warfare state. In Stephen Colbert's words, uttered at the White House Correspondents' Dinner in 2006: "let's review the rules. Here's how it works. The President makes decisions. He's the decider. The press secretary announces those decisions, and you people of the press type those decisions down. Make, announce, type. Just put 'em through a spell check and go home." The state routinely lies, and its clerks dutifully disseminate its lies. So distrust the regime's stenographers and propagandists, and assume that everything they say is false. Greenwald concludes:

> Literally every day, one finds major news stories that consist of little more than the uncritical conveying of official claims, often protected by journalists not only from critical scrutiny but – thanks to the shield of anonymity they subserviently extend – from all forms of accountability. Every day one can find prominent news articles that are shaped entirely by the following template: *A, B and C are true, say anonymous American officials*; government claims drive the entire article and shape its narrative, with "officials say" tacked on as an afterthought, an unnoticed formality. In the realm of reporting on the government, this practice encourages and enables government lies; … it incentivises candidates to lie freely.
>
> But there is one important caveat that needs to be added here. This stenographic treatment by journalists is not available to everyone. Only those who wield power within America's political and financial systems are entitled to receive this treatment. For everyone else – those who are viewed as ordinary, marginalised, or scorned by America's political establishment – the exact opposite rules apply: their statements are subjected to extreme levels of scepticism in those rare instances when they're heard at all. … This stenographic model is the primary means by which media outlets turn themselves into eager spokespeople and servants for the most powerful factions: the very opposite of the function they claim, with increasing absurdity, to perform.

Conclusion #2: Heed Ron Paul

About one thing the MSM is quite correct: Ron Paul's ideas are "out of the mainstream." The trouble, of course, lies not with Paul's ideas; it lies with the American mainstream's. In 1944, at the height of the Second World War, John T. Flynn wrote in *As We Go Marching*:

> The test of fascism is not one's rage against the Italian and German war lords. The test is how many of the essential principles of fascism do you accept and to what extent are you prepared to apply those fascist ideas to American social and economic life? When you can put your finger on the men or the groups that urge for America the debt-supported state, the state bent on the socialisation of investment and the bureaucratic government of industry and society, the establishment of the institution of militarism as the great glamorous public-works project of the nation and the institution of imperialism under which it proposes to regulate and rule the world and, along with this, proposes to alter the forms of our government to approach as closely as possible the unrestrained, absolute government. Then you will know you have located the authentic fascist.

Long ago the mainstream became precisely what today it laughably pretends to oppose. America's approved political spectrum – stretching from Mitt Romney to Barack Obama – in effect if not in name advocates fascism. The same special-interest and predatory élites that supported Mussolini and Hitler now underwrite the welfare-warfare state. Today's Europeans, too, worship at the fascist altar. You think I exaggerate? "The most serious financial problem for the Nazi State," wrote Günter Reimann in *The Vampire Economy: Doing Business Under Fascism* (1939),

> is not the danger of a breakdown of the currency and banking system, but the growing illiquidity of banks, insurance companies, saving institutions, etc. … Germany's financial organisations are again in a situation where their assets which should be kept liquid have become "frozen" … But the totalitarian State can tighten its control over the whole financial system and appropriate for itself all private funds … [and] the institutions which still exist as private enterprises are not allowed to go bankrupt. For an artificial belief in credits and financial obligations has to be maintained in open conflict with realities.

That's an eerily accurate description of the EU's trials and tribulations today. The Establishment in countries like Australia and Canada, of course, is every bit as bad – but its craven subservience makes it far more comical. As Mises and others have demonstrated, fascism and communism are peas in a pod. In "Bailout Marks Karl Marx's Comeback" (*The Financial Post*, 20 September 2008), Martin Masse reminded us that the Communist Manifesto demanded the "centralisation of credit in the banks of the state, by means of a national bank with state capital and an exclusive monopoly." Doesn't Karl Marx's demand now epitomise monetary policy throughout the West?

In diametric contrast, Ron Paul advocates liberty, property, peace and sound money. He doesn't lie, cheat, steal or kill. And that, frankly, is what's "weird" about him. It's startling – indeed, unnerving – to encounter an honest and consistent politician. It's astounding that he doesn't make profligate and idiotic promises that he cannot possibly keep; nor does he bribe electors with their own money. It's astonishing to hear him utter the painful truth rather than a mishmash of babble, vague threats and blatant lies. It's surreal that an intelligent, compassionate and honest man should speak truth to power – and to possess a voting record that proves every word of it.

"It isn't that simple," insists the mainstream. "It isn't that simple" is what people say when they're too stubborn to admit they're wrong – or are profiting handsomely from a game that's rigged massively to favour them. Whatever the mainstream's stupid or loaded question, the answer is simple: property, liberty, peace and sound money. I'm sick of uninformed people with vested interests calling Dr Paul "weird." *He* hasn't destroyed the currency and the banking system, exploded America's debt, gravely weakened its civil liberties, murdered tens of thousands and impoverished millions. His policies haven't wrought this grievous damage: the mainstream's have. The Establishment cannot abide the fact that he correctly warned about the stock market and housing bubbles, as well as the insane monetary policies that inflated them. To all of the dangers that Paul identified, the mainstream was as alert as Mister Magoo. Paul's anti-statist warnings have been vindicated; for this reason, the statist mainstream ignores and smears him. He knows what it hysterically denies: although it enriches a privileged few insiders, interventionism always and inevitably impoverishes the mass of outsiders. If Ron Paul is "crazy" then America and the Western world as a whole desperately need more "crazy" people. Ron Paul in 2012!

Chris Leithner