



Randy L. Flink, Principal ❖ Christopher M. Gregory, Principal
Robert I. Kramer, M.D., Medical Advisor

May 31, 2009

In past commentaries, we have stressed that our government's debt and deficit mentality is at the root of our current set of economic problems. The chronic buildup of debts and deficits has unleashed a cyclical pattern of deflation and inflation that will be with us for a long time. This pattern can destroy the nominal value of assets as well as the purchasing power of assets.

DEATH BY A THOUSAND CUTS

A changing economy has many inflection points. For clues, look no further than your morning paper, not at the actual news stories that chronicle the job losses, bankruptcies, bailouts and such, but at the subscription cost of the paper.

Recently, we received a renewal invoice for our *Dallas Morning News* subscription. A year ago, we paid \$19.00/mo for daily delivery. Today, we are being asked to fork out \$30.00/mo, an increase of 58%. That is \$1.00/day for the news. At this price, we suspect that the daily paper is fast becoming a luxury item for many Americans. It is perhaps one of a thousand examples of how our lives are changing at the margin due to the failed economic experiments that have been conducted over the better part of 3 generations. Let's call this one a "paper cut".

We founded *DocOnomics* out of deep concern that the aging Baby Boomer's growing demand for healthcare services could not possibly be met if physicians were being forced out of medicine by shrinking reimbursement rates, rising costs and poor wealth management practices. Alas, we are now face to face with an administration in Washington that is intent on slashing healthcare costs by scrutinizing what physicians can charge and collect for their services. Let's call this one a "pay cut".

We also have been forewarned that those of us that take home a decent-sized paycheck will be corralled into a higher tax bracket. If you are in the upper strata of the job market, more of your future income will go to support government spending programs. Let's call this one an "upper cut".

We could go on and on but will "cut to the chase". Debts and deficits have their consequences and those consequences are here and now. Hoping for a return to the wonder years of 1985-2005 is not a wealth management strategy anymore than it was for those in 1931 that prayed openly for a return to the Roaring Twenties. Over the ensuing 20 years, these prayers were answered but with outcomes that were beyond anyone's worst nightmare. In hindsight, the 1920s represented an aberration but few were able to properly interpret those seemingly prosperous times.

In order to avoid repeating mistakes of years past, we must emotionally detach from the recent past and use original and logical thought processes to defend our wealth against the two-headed monster of deflation and inflation. Let's call this one the "cord to be cut".

Here is a simplified asset allocation model that will get you started:

Deflation

1. Cash equivalents
2. Indexed annuities (offering a guaranteed return with complete protection of principal)

Inflation

1. Diversified commodities and natural resources, including countries that export these items
2. Foreign currencies (i.e., likely to benefit from a devalued US Dollar)
3. Infrastructure and clean technology (i.e., sectors likely to benefit from government stimulus)
4. Precious metals

We at ***DocOnomics*** never grow tired of reminding readers that the essence of wealth management is to methodically incorporate the principles of **accumulate**, **allocate**, **react** and **protect**. Those who stray from this path will be prone to becoming victims of desperate policies enacted by those that were instrumental in creating the original set of problems. Premature hair loss is one thing but an unwanted “hair cut” is quite another.