

# ASPERA BULLETIN

Intelligent, Independent Investment Management

## Unfun Liabilities

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Well, I guess I've finally reached my breaking point. My handwriting is way too sloppy for picketing, so it looks like my peaceful protest will take the form of a mass e-mail. If you're in my e-mail address book, you're probably getting this (let's just call this payback for all those chain e-mails). I threatened Amy that I would stage a sit-in in our bathroom, but she just dismissed me and muttered, "Don't you do that every day already?" Touché.

Now, there's a lot I don't know. I don't know how an internal combustion engine works. I don't know how to quilt. I don't know why the birds sing so gay. But one thing that I do have a pretty solid grasp of is finance/economics. It's what I studied in school, and it's been the focus of my career. So, I might not be qualified to talk about many things (ok, most things (ok, virtually everything (hey, can I do triple parentheses like this?))), but I'm at least reasonably qualified to talk finance. The good news is that you don't need to be a financial expert to understand what has my knickers in a twist. If you understand the basics of a Ponzi scheme or if you've ever stolen someone's lunch money you're ready to go.

So, let me jump to the punch line. Our country is financially bankrupt. We're broke. We have been for a while, but it has expanded into the realm of the ridiculous. Now, I hope you'll bear with me, because this is likely the most important economic and political issue that will impact you, your children, your grandchildren, and, most importantly, me. I know the topic isn't exciting. I'm sure a bunch of eyeballs have already glazed..... I actually had to take a break right there and lay down for a nap. This could be rough.

The *official* reported national debt of our country is over \$9 TRILLION. That's trillion with a T. That's a big number. It's hard to get your head around 9 trillion bucks, but let's try. \$9 trillion is about 176 times more than Bill Gates is worth. It's about 18 times bigger than the biggest company in the U.S. (Exxon). Or it's about what it would take to fill a Hummer's gas tank. I know - pretty much impossible to comprehend.

With just over 300 million people in the U.S., that \$9 trillion works out to about \$30,000 of debt for every man, woman, and child. That's in today's money. Your share is \$30,000. If you have a 1-yr old daughter, her share is \$30,000. Ok. Now that's atrocious and unconscionable, but that's the good news!

The bad news? Our country isn't really \$9 trillion in debt. <phew> Our country is actually \$87 TRILLION dollars in debt! <gasp> That's \$87,000,000,000,000! Ooops. I think I just broke the zero key on my keyboard. So multiply all those comparisons made above by ten. Your

share isn't \$30,000. It's \$300,000! Your kids each owe \$300,000! Time to loosen up those Child Labor laws and fire up the sweat shops!

Let's look at these numbers. Where does that \$9 trillion *official* debt come from? Year in and year out, the government spends money (expenses) on a swath of special interest programs, welfare programs, defense, interest on the debt, sexy congressional interns, etc., in an amount greatly in excess of how much it receives in various taxes (revenue). **In past years**, expenses have been greater than revenue, so the government has borrowed the difference – to the tune of \$9 trillion, and growing. We pay interest on that \$9 trillion each year, and that interest alone currently amounts to about \$430 billion per year.

So, you're now probably wondering how we jumped from \$9 to \$87 trillion. Good question. To get to the extra \$78 trillion of debt we have to look at what are called unfunded liabilities. Stick with me. For you finance types, that \$78 trillion represents the difference in present value between what the government is projected to spend under current law on all expenditure categories (entitlements, defense, roads, education, and everything else) and what it is projected to receive in taxes across all revenue accounts. In English, this means that the government currently has passed laws that will require it **in the future** to spend \$78 trillion more than it is projected to receive. In cartoon, this means that Shaggy has promised Scooby and Scrappy way more Scooby snacks than Fred and Thelma will be able to afford – even if they sell the Mystery Van and auction off Daphne's harvested organs.

So, that \$78 trillion in unfunded liabilities means the government is obligating itself to spend \$78 trillion in the future without specifying how that spending will be paid for or who will be paying for it. Any U.S. company in a similar position would have to report that \$78 trillion as a liability (debt) on its balance sheet, its stock price would be driven to zero, the company would end up in bankruptcy, and a few senior executives would be sent to the slammer. But the U.S. government permits itself to just report the \$9 trillion as its debt figure. Our government makes the executives at Enron look like the Teletubbies.

So what programs do these unfunded liabilities belong to? Social Security is certainly a well-publicized culprit, but the real problem lies with Medicare – the federal health care program for people aged 65 and over. It accounts for virtually the entire \$78 trillion shortfall. By the way, that \$78 TRILLION is growing by about \$2.5 TRILLION each year. The annual federal budget is only \$2.9 trillion (with a small "t" because \$2.9 trillion is just cute at this point).

Who is ultimately going to be responsible for that \$78 trillion shortfall? Our children. Their children. Their children's children. Their children's.....ok, a lot of kids are getting saddled with this. What right do we have to make them pay for benefits we will receive (and by "we" I really mean my parents since the poop will probably hit the wind oscillator before I get to collect)? Current Medicare recipients are benefitting from the program, but future generations will be picking up the tab for today's recipients, AND future generations will receive far fewer, if any, benefits. This is ethically and morally repugnant! Whatever happened to tarring and feathering? Ah, the good old days.

Now, I have very strong personal views about Medicare, Social Security, "Mork & Mindy", foreign aid, and energy subsidies, but the point of this isn't to debate whether these programs should exist. The point is that there needs to be an honest discussion in this country about the true cost of these programs and how they will be funded before we start adding any new or expanded programs/benefits/spending. Nobody wants to see grandma selling off her doilies and garden gnomes on Ebay to pay for her insulin, but the program as it currently exists is 100% unsustainable.

What are the options for dealing with this crushing debt? The only way to pay this \$78 trillion tab is for the government to slash all discretionary spending, significantly raise taxes, reduce benefits, and/or print money at a rate that would lead to massive inflation and a host of other significant economic problems. This is why it's so hard to find an honest politician. Who wants to run on that platform?! "Vote for me! I promise to tell you just how screwed we really are!" Now kiss the baby, and slap an IOU on its diaper.

I hope you'll remember our country's financial predicament when you read about "The First Tee" program which was added to the defense budget "to impact the lives of young people by providing learning facilities

and educational programs that promote character development and life-enhancing values through the game of golf.” Wha...??!! Golf? Defense budget? That’s your money!

Or how about that “Bridge to Nowhere” which proposed to connect the town of Ketchikan, Alaska (population 8,900) with its airport on the Island of Gravina (population 50) at a cost to federal taxpayers (you) of \$320 million! That works out to about a \$36,000 benefit for each of those 9,000 people! By the way, what idiot put the airport on an island in the first place? Can’t someone plow a strip of snow on the mainland for a couple hundred bucks?

Then there’s Representative Ralph Regula of Ohio who wants taxpayers (you) to fork over \$130,000 for the Mary A. Regula Library. The library is to be named after his wife who felt strongly that it needed to be created as a center for information on presidential First Ladies. Oh yeah, the director of the “library” is their daughter. I was just thinking, it sure would be nice if I could travel to OHIO to check out a nice pop-up book on Lucretia Garfield. You know, that Smithsonian and the internet are so “yesterday.”

I think you get the point. We keep electing these clowns (Republicans AND Democrats) who are wasting our money on current-day projects while making ridiculous promises of future spending to secure votes to be re-elected so they can waste more of our money on current-day projects while making ridiculous promises of future.....Zoiks! It’s like the movie Groundhog Day!

What can you do?

1. Curl up in the fetal position, rock back and forth, and cry softly.
2. Ring your property with barbed wire, dig a moat, and attempt to secede.
3. Complain about this incessantly to your spouse until ~~any~~ she learns how to sleep with her eyes open.
4. Start saving some money, and don’t keep it all in U.S. dollars! Remember, you’re going to end up with some combination of higher taxes, higher inflation, and fewer benefits. Be conservative and start increasing your savings now!
5. Be outraged! Are you angry yet?! Unless you’re over 65 and hate children, you should be! If not, pretend that I’ve been using a lot more exclamation marks!!!!!!!
6. Be an informed voter. Demand more from your elected officials. Demand balanced budgets. Demand that any new spending be fully funded. Don’t just listen to a candidate’s words. Check out his/her voting record. Then go and vote.
7. Take a look at Ron Paul (not to be confused with RuPaul – unless that’s your “thing”). I’m not telling you to vote for him. Many people still aren’t familiar with the man, his track record or his platform, and the mainstream media has been trying its best to marginalize and ignore him. He’s a 10-term congressman from Texas. He has never voted to raise taxes, he has never voted for an unbalanced budget, and he wants to significantly shrink the size and scope of the federal government. The guy has been shockingly consistent in his views and his voting record throughout his career, and, in my view, he is the only candidate who has shown a clear understanding of the economy, the business cycle, and also the destructive role that government has played in the economy. If you like him, vote for him. If you don’t like him, don’t vote at all. Just kidding! (No, really, you might as well not even vote. It’ll probably be cold outside and there could be a line.) For what it’s worth, I’ve always been registered as an Independent, and I think the Republican Party and Democratic Party are equally destructive and virtually indistinguishable anymore. Buy me a beer, and I’ll tell you what I really think!

If you’ve made it this far, thank you. The simple act of writing this treatise has probably saved me thousands of dollars and many years worth of therapy. If you’d like to be excluded from future ~~parts e-~~

mails simply peruse the following website (<http://www.uglydress.com>), and then forward this e-mail to everyone you know instructing them to send me \$20.

Have a great 2008!

Ken Bell

p.s. House leaders and Bush just agreed on a \$150 billion “economic stimulus plan.” What a nice, friendly, proactive, positive name for a bill! Wait a sec. Huh? What’s that? They’re not cutting \$150 billion from somewhere else in the budget to pay for it? Really? Shocking. Tack on another \$150 billion of debt that we’ll be passing along to our kids (that’s another \$5.6 billion in interest every year). Deep breath, Ken. Count to ten. 1.....2.....3.....4.....idiots.

Best,

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President  
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