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As the battle rages over sweeping healthcare reform, we at *DocOnomics* contend that this battle is just part of a much a bigger war. That war is centered on the preservation of trust in and among institutions that are familiar to all of us. It is being fought on many domestic and global fronts and it is going badly.

In this commentary, we shall attempt to bring this larger struggle into sharper focus and link its ramifications to the pursuit, maintenance and preservation of individual wealth. That wealth - your wealth - is under siege and it is important for all of our readers to grasp the significance of this trend. Deep within the framework of our AARP approach to wealth management--Accumulate, Allocate, React and Protect--this war touches all of the bases.

### OUR LUST FOR TRUST

During the past 10 years, the world's most significant casualty has been trust. The concept of trust casts a very wide net that includes (1) trust among national governments, (2) trust among citizens and their governments, (3) trust among citizens and big business, (4) trust among big business and governments and (5) trust among big businesses. The widespread erosion of trust is a precursor to many things. Among them are isolationist economic policies and declining global trade, lifestyle adjustments borne out of fewer choices and wars, both of the economic and military variety. At *DocOnomics*, we do not take lightly the potential for these wars. The main catalyst of any war is a near total absence of trust between governments or factions of a society. Lost trust never can be restored quickly; it is a laborious process. An age in which the restoration of trust becomes an important objective will witness the demolition of familiar but corrupted guidelines, measures, rules, systems and traditions. We may well be at the dawn of this age and it explains why consensus predictions are inaccurate to the point of being completely useless. The consensus cannot fathom what lies ahead as it cannot comprehend the implications of lost trust on a grandiose scale.

The healthcare reform issue perfectly illustrates the lesson of lost trust. What is being reported in the media and playing out on town hall stages is not so much a discourse on healthcare reform per se. Although we believe that people genuinely are angry about real (and imagined) threats to their healthcare, they are equally if not more fearful of government interference with long-held expectations and freedoms of choice. In short, there is a generations-old social contract that is in danger of being torn up. Perhaps it was

an unrealistic contract from its various points of inception, but contracts are cornerstones in the overall edifice of trust. While the essence of a contract is “to do everything that you have agreed to do”, we suspect that any social contract written during an era when savings were coveted, debts were manageable and money was sound will not hold up during an era when profligate deficit spending and unmanageable debts have been the order of the day.

In this country, there exists a shadow society of government and big business in which politicians with personal agendas feed from the financial troughs of self-serving, avaricious corporations. These nefarious sorts have rigged the capitalist game to the point where its survival is being put to the test. On the national healthcare platform, we at **DocOnomics** suspect that the shadow society is responsible for the wide dissemination of patently false information and the disruption of peaceful forums for public discussion and debate via paid shills and rabble-rousers whose only purpose is to cut off the much-needed flow of unbiased information. This is yet another wake-up call reminding us that the American way is to resist and ultimately reject change. There simply is too much greed and self-interest woven into the DNA of American society. Meanwhile, Rome burns and the nation fiddles. It is great theatre that has managed to bypass Hollywood screen writers, producers and casts. Sadly, there is a terminal point to all of this. Due to the unsustainable debts playing in the background of our healthcare system, draconian change will be forcibly thrust upon us either by dictatorial decree or total chaos. Let us hope for the benevolent dictator.

Again, the healthcare reform battle has not instigated a loss of trust but is a grand reflection of it. It is part of a bigger war in which key buildings are being bombed and critical bridges are being blown up. As individuals, we must take some responsibility for this destructive conflict and its resolution. After all, it happened on our watch. The first step in rebuilding trust is attempted compromise and reconciliation. As Americans, we must acknowledge that much of the last 80 years was erected on the twin sands of human error and greed and that the future must be built on more substantive scientific and moral footings. The current generations are the swing generations. We are the ones being called upon to serve. We must pave the way for much needed and hopefully lasting reforms in government, business, entitlements and living standards. Otherwise, the war of lost trust will escalate into something much worse.

An important underpinning of lost trust has been the emergence of moral hazards linked to unsound levels of deficits and debts in both the public and private sectors. At **DocOnomics**, we strongly believe that cycles of deflation and inflation have been unleashed by this phenomenon. This can be likened to the origin of potentially deadly flu viruses, not only unpredictable in their paths but both expensive and challenging to contain.

Today we appear to be in a cycle of deflation, the telltale signs of which are widespread declines in job income, mounting bankruptcies and debt defaults, debt contraction and falling asset values. Nevertheless, we must be alert for an ensuing cycle of inflation. This will rear its ugly head as the excessive money creation policies designed to revive the slumping economy meet with some success. As we enter the inflation cycle, prices of goods and services that are relatively fixed or in tight supply will surge, just as they did during the first half of 2008. Our primary defensive allocation themes designed to safeguard wealth during each of these cycles are as follows:

## Deflation

- Cash equivalents (despite almost non-existent current yields)
- Indexed annuities (offering a guaranteed return with complete protection of principal)

## Inflation

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

While our attention is being riveted upon a current skirmish in the war on trust, let us not forget that wars are typically waged one battle at a time. We should face the facts regarding the health care imbroglio which plays out daily. This current maelstrom and the continuing destruction of trust is merely the tip of an iceberg that is coming into increasingly greater view.

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