

## EXPOSING “COVER STORIES”

People are conditioned to believe most of what they hear without having all the facts. In order for someone to get you to believe a partial truth, they tell you what I call a “Cover Story” and it is used to promote an agenda. This is very common in government and while I always strive to steer clear of political discussions in my articles, I feel at this point in history it is an important topic to explore. In doing so, let me be clear that this writer is indifferent to any individual political affiliations and only seeks the truth. With that said, let’s dig in.

Today I will illustrate three “cover stories” that should sound familiar. It is important to remember that there are five motivating forces that are employed to get people to take an action. They are: Greed, Envy, Fear, Jealousy and Lust. Government typically uses fear, as illustrated in my article last month where I stated it was claimed in the fall of 2008: “*if we don’t pass TARP the economy will collapse.*” A very recent example was fear mongering over the need to raise the debt ceiling. In both cases, you know the result. Fear was broadcast through the media to push the agenda. This article will briefly comment on the following three topics: Deficit Spending, Baseline Budgeting, and Surplus and Deficit Projections.

It is somewhat common to hear people discuss the need for the government to “balance the budget” which only seems logical. Usually this belief is spoken by the common man. If you listen carefully to the politician, he says something a little different. He states, “We need to cut the deficit.” This is the cover story but if you look for the truth in this comment, it implies that deficits are *desired, intended, and will continue*. Look at today for illustration. The Washington Economic Establishment (WEE) just passed legislation heralding the victory that they will cut over \$2 Trillion from the budget over the next ten years. The problem? The government is currently running an *annual* deficit of over \$1.5 Trillion. This means, holding all else equal and ignoring interest expense, that over the next ten years the government would actually add \$13 Trillion to the deficit. Few politicians want a “balanced budget” because that is not in their interest, even though it

is in yours. Please go back to the opening quote in my June 2011 article as a case in point. *Deficit spending causes inflation which erodes the buying power of your savings.* This is just one of the reasons why deficits are desired. The government isn’t paying for all the programs that are put into place – you are. The long-term result is a loss in buying power in the currency.

On August 3<sup>rd</sup>, CNNMoney.com published the headline, “*Spending cuts: Here comes the hard part.*” It is imperative for you to comprehend that the claim of “spending cuts” is only the cover story. Let’s take a look at the truth instead. The government operates using a method known as “baseline budgeting.” This is explained in Wikipedia as, “*a method of developing a budget which uses existing spending levels as the basis for establishing future funding requirements.*” To illustrate, assume one government agency had a budget for one year of \$1,000,000. Due to built-in automatic spending increases the same agency might be allocated a budget of \$1,080,000 (an 8% increase) for the next fiscal year. So what if the government “cuts” that projected budget increase by 50% later in the same year? They would then make the claim they “saved” \$40,000 – by not spending it! That’s like one spouse telling the other they “saved” \$5,000 on a new car purchase by not buying all the upgrades. I’m sorry but unless you can put the money in the bank there are no savings.

How about the claim that President George Bush wasted the “surpluses” from President Bill Clinton’s terms in the White House? When the government makes projections through the White House Office of Management and Budget (OMB) and the Congressional Budget Office (CBO) they are just that – projections. *They don’t exist except for what happened in the current fiscal year.* Therefore, there were no surpluses for President Bush to waste, other than a projection that was written on a piece of paper at one moment in time.

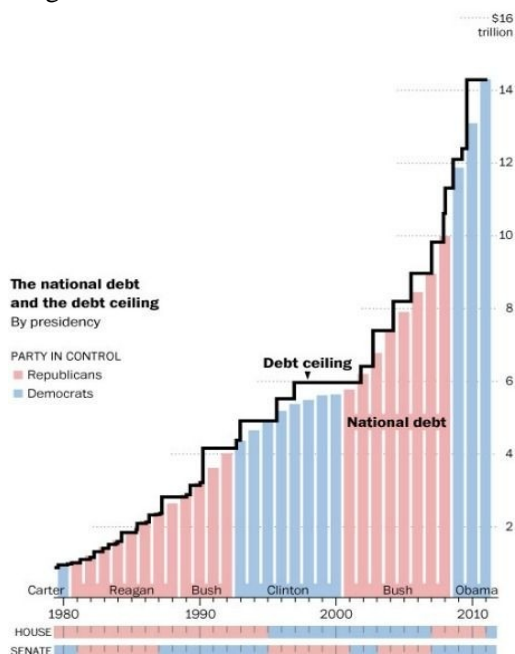
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There is an interesting article called “*The Expected Federal Budget Surplus: How Much Confidence Should the Public and Policymakers Place in the Projections*” from the Federal Reserve Bank of St. Louis written in March/April 2001. This article quotes:

*“In 1998, the federal government recorded its first budget surplus in more than 25 years.”*

*“Under current policies, budget projections show that publicly held government debt, which is currently a little more than \$3.5 trillion, will be eliminated by around 2010 – perhaps earlier if the economy continues to grow faster than anticipated.”*

Did you read that? The cover story at the time was projections that the deficit could be eliminated by 2010. And the truth is that here we are in 2011 with a current deficit of over \$14 trillion. It might be a good thing to keep in mind this fact when you listen to the WEE make claims today that they are going to “cut” the deficit. The truth is if either political party was serious about reducing debt it would be reflected through their work. Look at the graph herein, courtesy of Ezra Klein from the Washington Post:



It is fairly convincing that no matter which political party is in control, spending continues unabated. Deficits are desired and intended and political affiliation is inconsequential.

In summary, I want to say the reason I write these articles is to educate the reader on topics they might not be familiar with to expose the truth for what it is or what we believe it to be. While this article will most likely be the last of its kind I do hope it helps you think more critically in the future. I hope when you hear a news story or read a headline you will stop and ask yourself, “is this the truth or a cover story?”



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