January 2014

Wine Country Conference 2014

Hidden in Plain Sight

On May 1st and 2nd 2014, we will gather in beautiful Sonoma, CA for the 2nd annual Wine Country Conference. Like the inaugural gathering, this year's WCC will bring together some of the strongest independent thinkers participating in and analyzing the financial markets today. The intimate setting allows for a high quality dialogue between our featured speakers and our attendees, which are a balance of smart and sophisticated private and professional investors.

Attendees will hear from speakers and participate in conversations about big and important ideas that escape the myopic focus of most market participants. Our speakers bring diverse perspectives built on varied academic backgrounds, business experiences, investment philosophies and processes, and areas of expertise.

The conference will cover a variety of topics likely to include debt, deficits, and demographics, private deleveraging, current economic conditions, market valuations, and the interplay of these with current and future monetary policy. We will delve into different ideas about what we can and should do, as investors, individuals, and citizens to best navigate what lies ahead. We will address the questions of how to protect and grow real wealth, counteract financial repression, and create robustness in our personal and professional endeavors.

In short, we will be addressing big, important issues which are beyond the typical myopic view of mainstream investors, economists, experts, and media sources—issues which are either often missed—or even ignored. We will be discussing that which is *hidden in plain sight*. We will assemble as a diverse group of speakers and attendees with common traits of independent views and objective analyses free from the strongly biased approach taken by the pundits most frequently heard from.

While we will be discussing that which is hidden in plain sight, we will also be raising much needed funds for members of the community who are also often hidden in plain sight. Net proceeds from the conference will be specially designated for high-impact programming on the local level for individuals on the autism spectrum and their families. Individual grant requests will be jointly considered by the Autism Society of America and the Hussman Foundation.

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The conference will be held for a half day on Thursday afternoon May 1, a full day Friday May 2. There will be a screening of Money For Nothing: Inside the Federal Reserve, a feature-length documentary that seeks to unveil America's central bank and its impact on our economy and our society, followed by a Q&A with Director Jim Bruce. There will also be a break-out session with a couple of speakers with one session focusing on building valuation-based investment processes and one session focused on how to make healthy personal financial decisions during periods of extreme change.

Friday night will feature a special VIP speaker's dinner where attendance is limited to 35 paying attendees, speakers and their guests. The dinner will be a chance for some more intimate conversations over world class food and drink in delightful wine country.

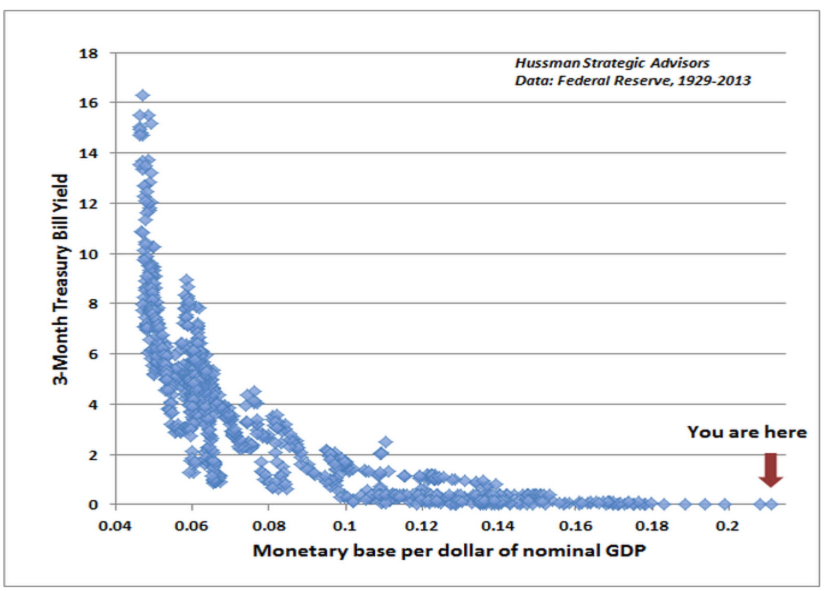
Relentless Pursuits

Each of our featured speakers has demonstrated a strong commitment to uncovering that which may be hidden in plain sight. They have devoted their career to pursuing their vision of the truth, applying that vision in their work, and sharing that vision with clients, readers, and the investment world. You may not always agree with what our speakers share, but you will always learn something from them.

When it comes to sharing insightful analysis of economic and market conditions and an integrated investment process, there may be no more valuable source than **Dr. John Hussman**. His Weekly Market Comment has been diligently published since 2003 and has provided investors with a real-time guide to the markets. John is the president and principal shareholder of Hussman Strategic Advisors, the investment advisory firm that manages the Hussman Funds.

John's Weekly Market Comment shuns the traditional approach of most fund manager commentaries, trading platitudes for empirically tested relationships between various economic and market conditions and subsequent returns. He eagerly takes on the conventional wisdom of the day, challenging common assumptions underlying less robust investment approaches. This has allowed him and his fund shareholders to deftly navigate the two largest bubbles of the last 13 years and avoid the losses that have plagued most investors. A recent example of this is his work on the relationship between quantitative easing and stock prices. In The Grand Superstition, John Hussman recently wrote,

> The reason for the weak relationship between the monetary base and stock prices is simple. Though the monetary base is strongly related to Treasury bill yields, it turns out that Treasury bill yields themselves are only weakly related across history to stock yields. The belief in a close relationship between interest rates and stock yields is actually driven by the strong inflation-deflation cycle from 1970 to about 1998. Outside of this period, stock yields and interest rates have generally been *negatively* correlated.



> Still, the rate of monetary growth has been breathtaking in recent years, relative to history, so it's important to understand the mechanism by which QE has exerted its effects more recently. Simply put, quantitative easing impacts stock prices by creating a mountain of zero-interest cash that must be held by someone at each point in time. The hope

and mechanism behind QE is to force those cash holders to feel so distressed that they reach for yield in speculative assets they would otherwise choose not to hold. The process ends at the point where investors are indifferent between holding zero-interest cash and more speculative securities such as long-term bonds or stocks. At this point, every speculative security is priced to achieve the lowest possible risk premium that investors are willing to accept. And here we are.

What's important here is that in any environment where savers and investors actually desire relatively safe assets as part of their portfolios, quantitative easing is likely to be wholly ineffective in supporting stock prices. Recall that stock prices collapsed by half in 2000-2002 and again in 2007-2009 despite aggressive monetary easing. A friendly Fed doesn't help stocks to advance except in environments where investors are *already* inclined to accept risk. To believe that QE makes stocks go up because "it just does" is superstition.

At last year's conference John proclaimed that despite all the negative feelings that he and others have toward economic and market systems in their current state, he believes there indeed is "virtue in finance." This virtue undoubtedly includes the ability of those like John to dedicate substantial resources to important endeavors like medical research, education, and direct aid to vulnerable individuals having urgent needs or significant disabilities, through his tireless work as Director of the John P. Hussman Foundation. The Foundation provided a key $100,000 matching grant to the inaugural Wine Country Conference beneficiary, the research program of the Les Turner ALS Foundation.

In a recent note, John invoked Flannery O'Connor who reminds us that "the truth does not change according to our ability to stomach it." Our next featured speaker needs no such reminder. **David A. Stockman** has built a hard earned reputation in Washington and on Wall Street for calling it how he sees it, regardless of how many popularity contests it may have lost him.

David is an accomplished businessman, author, and former politician. Serving as a U.S. Representative from the state of Michigan, he also served as Director of the Office of Management and Budget (OMB) under President Reagan. He is the author of The Great Deformation: The Corruption of Capitalism in America and The Triumph of Politics: Why the Reagan Revolution Failed. In these books and in a host of op-eds and interviews, David pledges no allegiance to any one political party, consortium, or agenda. Instead, he draws our attention to the various economic imbalances in place and their often policy-driven origins, current political protectors, and potential sources of resolution.

David Stockman has undertaken the herculean task of connecting the dots between liberal Keynesian spenders, republican tax-cutters, and monetary policy in bloating the welfare state, perpetuating the military-industrial-financial complex, and the hijacking of the economy by crony capitalists at the expense of workers and savers. In his work he shows where

the Main Street economy is failing while Washington is piling a soaring debt burden on our descendants, unable to rein in either the warfare state or the welfare state or raise the taxes needed to pay the nation's bills. By default, the Fed has resorted to a radical, uncharted spree of money printing. But the flood of liquidity, instead of spurring banks to lend and corporations to spend, has stayed trapped in the canyons of Wall Street, where it is inflating yet another unsustainable bubble.

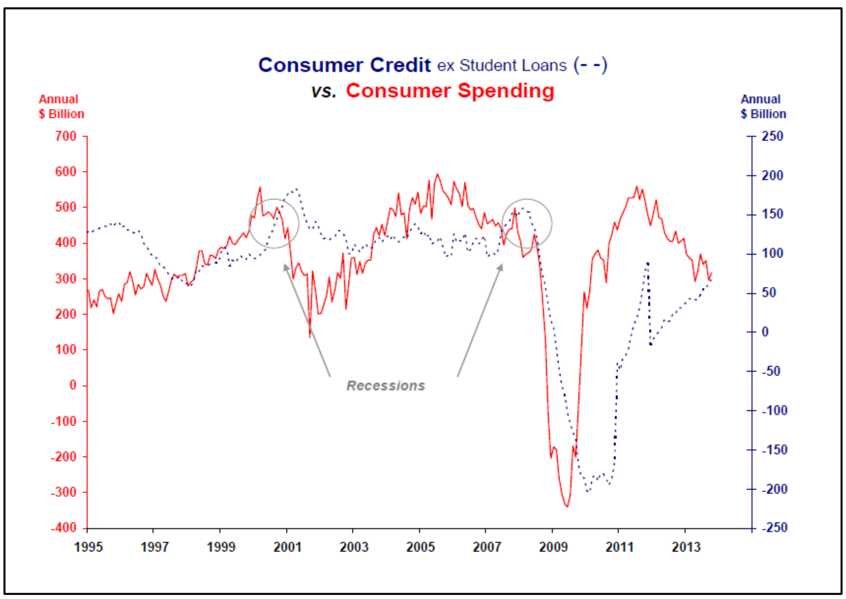
Having worked on Wall Street and in Washington, David is in a unique position to give insight into the true workings of a heavily state-influenced economy. His perspective will be invaluable to investors of all political persuasions.

Nowhere is the "public-private partnership" of state-sponsored crony capitalism more impactful, pervasive and inescapable than in the setting of monetary policy by the Federal Reserve. Starting with the Bernanke-led Fed and now taken even further with the Yellen-led Fed, a new era of "transparency" and a heavily reliance on data models by these Ph.Ds. means that understanding macro-economic drivers will be essential. Fortunately, our next featured speaker, **Stephanie Pomboy** has made a career of straight-shooting macroeconomic analysis.

Stephanie is the founder of MacroMavens, providing macroeconomic research and commentary to the institutional investment community. MacroMavens endeavors in striving to identify major economic trends early while avoiding the typical overemphasis on short-term swings. Unlike many of our other speakers, Stephanie's work is not widely disseminated or available to the general public. This will make her appearance at the Wine Country Conference in 2014 a truly unique opportunity for most attendees who have never had the pleasure of seeing Stephanie's work.

Stephanie's research at MacroMavens covers everything from drivers of consumer spending and corporate profits, to employment data and labor market conditions, to asset and credit markets and their reflexive relationship to the economy. Stephanie covers much of this ground in a few recent pieces "The Dog Ate My Homework" and "Could I Be Wrong" excerpted below:

> It's a fascinating but all-too familiar phenomenon. **The higher stocks climb, the less rigorous investors become in analyzing the fundamentals.** I mean, *study?? Why bother?!* You don't need to be a genius to figure out that everything's great. Higher stock prices are the ultimate proof of that. With each new record high, investors feel gleefully discharged from doing more unnecessary homework. **Until eventually, like now, investing becomes a perfunctory exercise in 'putting cash to work' with no care for (clearly nonexistent) risk.**
>
> At such times, your humble MacroMaven is thrown into an existential tailspin. How could I be so stupid as to center my career around identifying risks that no one wants, or can afford, to acknowledge?! If only I could bring myself to lighten-up a bit and just go with the flow. But **history is littered with the carcasses of those who ignored the fundamentals.** And, just my luck, I'd capitulate precisely when they began to matter. ☺ That prospect seems particularly high *now* since the fundamentals, you might be surprised to learn, aren't good. While cool kids are cutting class confident that they've got this thing nailed, **the engine of US economic growth –consumer spending – continues to slow.**

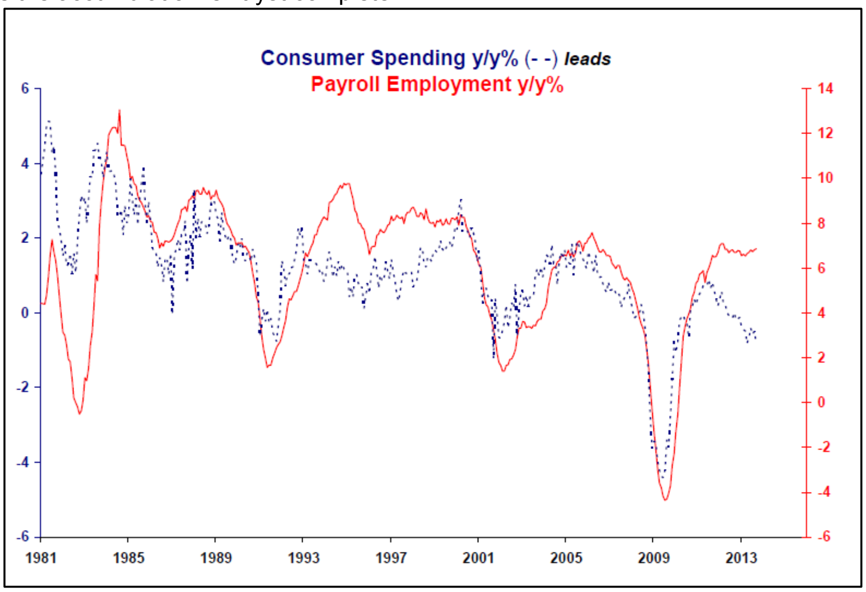


> **It's rather amazing that so many are turning so bullish despite what has been uniformly negative spending data.** *I mean, it's only 70% of the economy!!!* **After a disappointing Back-to-School season, Black Friday sales came in softer than expected as well and the trend in weekly sales stats since shows no improvement.** Quite the contrary, ICSC Weekly Chain Store Sales (reported each Tuesday) declined -1.6% this week after being down -2.8% last. And ShopperTrak just reported that store traffic declined -10.5% post-Thanksgiving (versus a *gain* of +2.3% last year). As an aside, this marks the 19th decline in traffic in the last 25 weeks. Meanwhile, you've probably seen as many forecast upgrades from Wall Street economists over the same stretch! *But back to the point…*
>
> As you can see, **over the last few months consumer borrowing (ex-student loans) has accelerated, yet spending growth has slowed.** The inescapable conclusion is that **more consumers are being forced to borrow to sustain**

their present lifestyle. Not surprisingly, **the last two times we witnessed that pattern (circled above) we were on the eve of recession.**

So, putting it all together, **we've got an economy in which activity is humming everywhere *except for the ultimate source of demand*.** Sure sounds like your **classic inventory head-fake** to me… **inventories are now about as far afield from consumer demand as they have ever been.** Not surprisingly, this usually sees activity slow SHARPLY in response. Indeed, as I noted when the revision to GDP was released last week, ***"the last time we saw an inventory build anywhere close to this magnitude, in Jun-Sep 2010, it led to our first negative GDP print since the great recession. Even the less modest accumulation in 4q 2011 saw growth slow from 4.9% to 1.2% by mid-2012."***

While bulls might like to imagine that it will be different this time, if anything, the slowdown could be more dramatic. Not only is the inventory overhang larger than those episodes, but the fact that the industrial indicators continue to accelerate suggests the accumulation isn't yet complete!



Of course, it may be that **newly sanguine soothsayers (and investors chasing stocks higher) expect the suddenly fabulous employment backdrop will find consumers snapping up all this merch.** Here again, history suggests otherwise. As you can see, consumer spending generally leads employment – by persuading companies to step-up production and hiring—not the other way around. And the already-long odds that it's different this time strike me as only further diminished by the consumer's steadfast refusal to accelerate spending despite the boom in asset prices.

It will be a real treat to hear from Stephanie where the economy stands in May of 2014, to what degree the fundamentals have mattered between now and then, and to discuss some economic guideposts of what is to come. Speaking of economic guideposts, another economist speaker, **Steen Jakobsen** not only follows them and details them for readers, but recommends actionable trading ideas based on them, in real-time.

Steen is the Chief Economist and Chief Investment Officer of Saxo Bank. He blogs trading ideas and macro analysis at Tradingfloor.com. His work covers big ideas like his recently released "Outrageous Predictions" regarding the consequences of an EU wealth tax, an anti-EU political alliance, creative destruction in the technology space, intragovernmental debt dismissal in developed countries, an expansion of QE, and widespread deflation among others. Always focused on actionable ideas, Steen converts real-time economic analysis into real-time trades. These have recently included currency positions, bets on various global interest rates (bond prices), and the impact of changes to global trade on various stock markets.

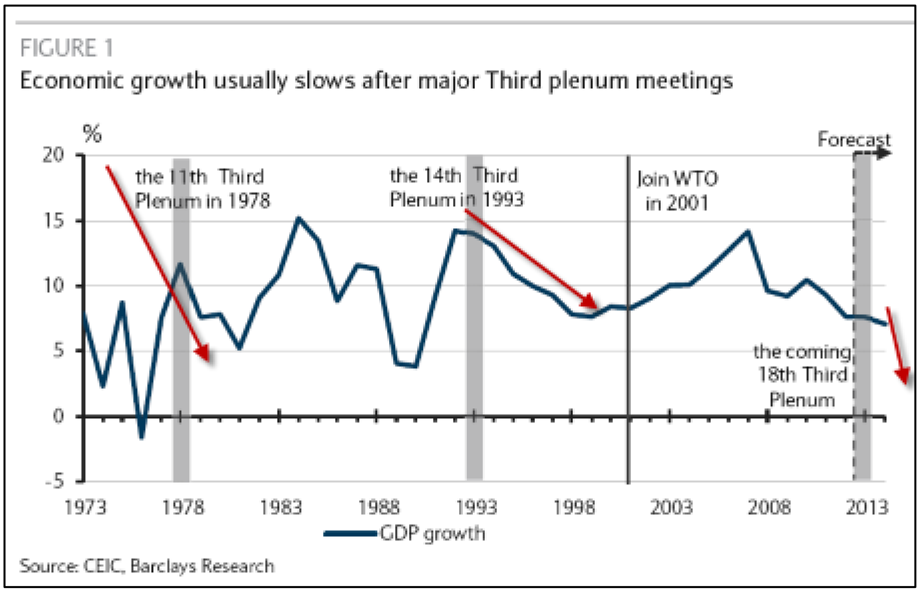
In a recent example, Steen recommended shorting the French stock market on slower Chinese growth:

France and its stock market "own" the luxury goods market. According to **Bain & Co**. it controls 25 percent of the world market for these sought-after products. The problem with this "luxury" is of course that emerging market growth overall, and Chinese growth in particular, is slowing dramatically under the headline "quality growth instead of nominal growth".

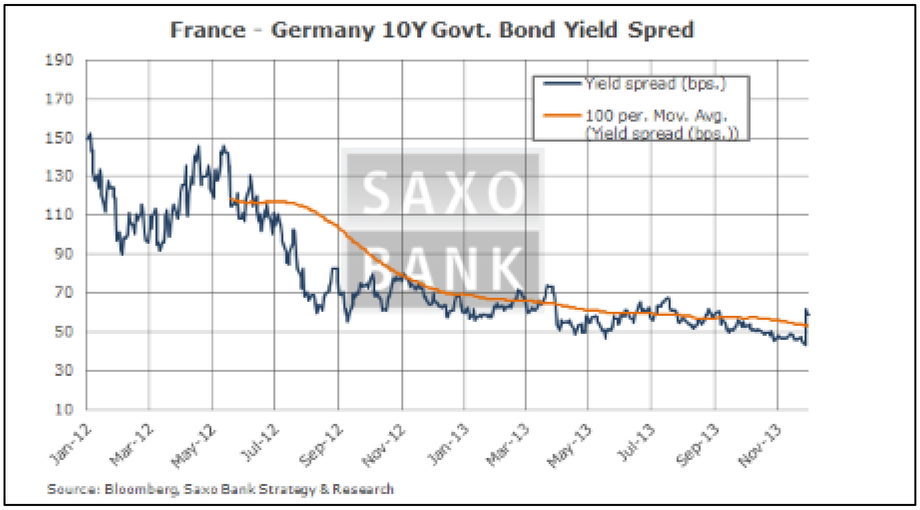
I have just been to several of these luxury markets: Hong Kong, Singapore, Indonesia, Brazil and Dubai and except for the latter, all of them are in a deliberate slowdown move. This process is often engineered by the relevant governments as either current account deficits (Indonesia and Brazil) or misallocation (China, Hong Kong) of free floating capital has created bubble-like economies, chiefly in housing and investments.

China's President Xi Jinping has over the last few days indicated that 7.5 percent growth is no longer feasible. A Xinhua news story ran the headline: **Xi says environment for economic development isn't optismistic**. This is being interpreted by "official" China to mean a new growth target for 2014 of 7.0 percent (down from 7.5 percent recently).

I have pointed out before (using a Barclay chart) that every Third Plenum has a "growth tax" of roughly 200-400 basis points of growth:



France, the country, remains the elephant in the room in Europe. It is certainly part of core Europe but is now trailing its other core partners in growth, productivity but also on its ability to create a mandate for change. This is overdue. Even the EU is now getting concerned about France (and that takes a very negative outlook): **EU issues warning to France over 2014 budge**t.



Source: Bloomberg, Saxo Bank Strategy & Research

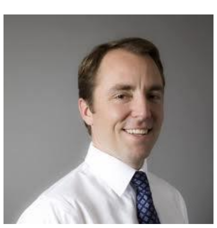
Finally, Paul Polman, CEO of Anglo-Dutch consumer goods multinational Unilever, pointed out that even on the company level, emerging markets data looks vulnerable (Unilever is *the* emerging markets company).

"Paul Polman said the economic slowdown in emerging markets is here to stay as many countries need to enact structural reforms to adjust to new conditions after the boom of recent years."

A catalyst for the short position is that we broke 100-day moving average on the close yesterday:

Source: Bloomberg

While Steen is focused on actionable trading ideas, another Wine Country Conference speaker, **Mebane Faber**, is focused on actionable long-term investment strategies.



Meb hit the scene with a white-paper entitled "A Quantitative Approach to Tactical Asset Allocation," and the World Beta Blog and AlphaClone websites. While each project was a little different, the common thread was empirically testable investment strategies based on fundamental ideas of what drives future returns. This work continues at the excellent mebanefaber.com, in two books: Shareholder Yield: A Better Approach to Dividend Investing and The Ivy Portfolio: How to Invest Like the Top Endowments and Avoid Bear Markets, and as manager of Cambria's Global Tactical ETF (GTAA), the Shareholder Yield ETF (SYLD), and separate accounts and private investment funds.

Meb's work is useful to anybody trying to either build or evaluate a successful investment strategy. He takes a hard look at various drivers of future returns, including various valuation measures, various fundamental factors like quality and yield, and measures like relative strength and momentum. The work always tries to take an intellectually-honest approach to the question of what are some of the ways investors can earn good returns while minimizing risk of significant drawdowns. He works with quantitative models but keeps in mind that investors must "be aware of the benefits, as well as the drawbacks of using any investment model. Too many people follow their models and opinions with religious like zeal, much to the detriment of their portfolios." Like John Hussman, he's done a lot of work on normalized earnings and subsequent returns.

This table produced by Meb shows the 2013 returns for individual country stock markets with high and low Cyclically Adjusted P/E (CAPE) multiples. Across the sample, investing in the 5 cheapest markets produced +21% returns while investing in the 5 most expensive markets led to losses of -18%. The notable exceptions included the U.S. stock market which produced strong gains despite being one of the more overvalued markets and the Russian stock market which produced losses despite being one of the cheaper markets.

Country	cape on Dec 31, 2012	ETF	2013 RETURNS		
Greece	2.6	GREK	24.91%	20.74%	BOTTOM 5 CAPE
Ireland	5.0	EIRL	45.58%	21.11%	BOTTOM 10 CAPE
Argentina	5.2	ARGT	15.04%		
Russia	7.2	ERUS	-0.88%	<<<< OUTLIER	
Italy	7.4	EWI	19.07%		
Austria	8.4	EWO	11.48%		
Spain	8.5	EWP	31.91%		
Portugal	9.5	PGAL			
Belgium	10.3	EWK	24.60%		
Israel	11.1	EIS	18.30%		
Canada	18.3	EWC	5.31%		
SouthAfrica	18.5	EZA	-7.47%		
India	19.3	INDY	-3.99%		
Malaysia	20.1	EWM	7.84%		
USA	21.1	VTI	33.45%	<<<< OUTLIER	
Chile	21.2	ECH	-23.90%		
Mexico	21.2	EWW	-1.58%		
Indonesia	24.7	EIDO	-23.14%		
Colombia	33.5	GXG	-15.01%	-5.39%	TOP 10 CAPE
Peru	33.7	EPU	-25.42%	-17.81%	TOP 5 CAPE

Meb was an attendee of the inaugural Wine Country Conference and so we are excited to have him back, this time as a speaker. We are sure to hear where the risks and opportunities reside in global markets and how to incorporate these into a robust investment process.

Robustness is what **Dr. Chris Martenson** is all about. Chris is an independent thinker, educator, and author of a popular website, PeakProsperity.com . His book, The Crash Course, and video series explores the intertwining significance of the "three E's"—the economy, energy, and environment and offers articulate, dynamic insight into the workings of our monetary system.

His background as an educator helps him animate complex material with wisdom and humor. Chris' work transcends the typical financial analyses we undertake in order to create robustness in our portfolios in order to empower others to create broader resiliency in their lives. This focus on real wealth preservation is a useful guide for professional and private investors alike who want to extend their defense against financial repression beyond their portfolios. The issues Chris focuses on are the most important things we are not paying attention to—or hidden in plain sight. Chris also spoke at the inaugural Wine Country Conference where one attendee called his presentation "the most thought provoking, at a deeply fundamental level."

Chris does a great job of taking a more traditional economic analysis and providing deeper context. For example, in a recent note to his clients, Chris opined on the Japanese monetary experiment, “good” inflation vs. “bad” inflation, and the sustainability of stimulus:

> The Achilles heel of every over-leveraged sector – but especially the sovereign sector – is interest rates. Specifically, **high** interest rates.
>
> For example, it's estimated that if Japan's average borrowing rate rose to a mere 2%, then 100% of all tax receipts would be consumed by the interest payments alone. Now, Japan is a long way from that threshold, as even its 30-year bond is safely below 2%, its two-year paper yields a measly 0.09%, and its ten-year paper goes at 0.69%.

JAPAN GOVERNMENT BOND YIELDS

Name	Yield
JGB 2 Year Yield	0.09%
JGB 5 Year Yield	0.21%
JGB 10 Year Yield	0.69%
JGB 30 Year Yield	1.69%

(**Source**)

> Can you imagine that? Parking $100,000 with the Japanese government for ten years and receiving a paltry $690 dollars back each year?
>
> Not only does this not compensate you for the extraordinary risks that the Japanese government under Abe is taking with its never-before-tried monetary policy – one that specifically seeks to devalue the yen, hopefully in an orderly fashion (*but maybe not* is the point), so that your money is officially losing value faster than 0.69% per year. Why would any sane investor want to do this?
>
> With inflation in Japan running at 1.5% and climbing higher and faster than expected, your $100,000 is losing $1,500 per year in purchasing power. Of course, *actual* inflation is likely to be far higher than official statistics, because Japan plays the same games as the U.S. in terms of substitution, hedonics, and weightings.
>
> The idea here is that Japan is seeking what they call 'good inflation,' which is the kind that magically keeps the credit and monetary markets growing at the proper exponential clip to keep the banking system stable and happy.
>
> The problem is that Japan is experiencing what I call the 'bad' kind of inflation. Its price pressures are mainly being driven by the falling value of the yen, which drives up import prices. This then gets measured as 'inflation.'
>
> In relation to the dollar, the yen has fallen from 1.25 in November of 2012 to a current new low of just 0.95. This reflects a decline of nearly 25% in just a little over a year.
>
> Here's the yen's recent action.

The reasons why rising prices created by a currency decline result in 'bad inflation' are easy to grasp. Japan is a resource-deprived nation that has fashioned itself as a manufacturing center, which it is extremely good at.

But the way such a country makes its living is by capturing the spread between the price of the imported raw resources – especially the energy component – and the exported sales price. The wider that spread, the more value Japan captures, which it can use internally however it likes.

However, if the yen falls far enough, then that value disappears. The total cost of imported goods exceeds that of exported goods, and Japan then finds that value is being steadily exported rather than retained.

So, Japan is now showing the way forward for those countries that are bent on devaluing their currency as a useful economic policy. It rarely produced consequence-free results and, worse, carries the risk of morphing into a genuine crisis.

In my mind, anything that has to be artificially maintained is not sustainable.

Chris is also a talented interviewer and his website in chocked full of regular podcast interviews with various thought-provoking guests, including Wine Country Conference sponsor, **Mike "Mish" Shedlock.**

Like our other speakers who thrive at sharing their unique vision of the truth with others, Sitka Pacific colleague and economics blogger, Mike "Mish" Shedlock has been on the forefront of non-traditional media in the investment and economics world. Having been named one of the best business blogs, Mish's Global Economic Analysis, is a daily feed of insightful commentary and analysis. Mike used the platform of his blog and its wide readership to raise over $500,000 between a raffle and the inaugural Wine Country Conference for the benefit of ALS research, the disease that took his wife's life in 2012.

Mike is never afraid to take a stand or call it how he sees it; you might not always agree with Mish, but you will certainly learn something from listening to him. His willingness to look deeper into the numbers combined with his tireless inquiry into a broad range of topics has enabled his often prescient calls on the economy and markets.

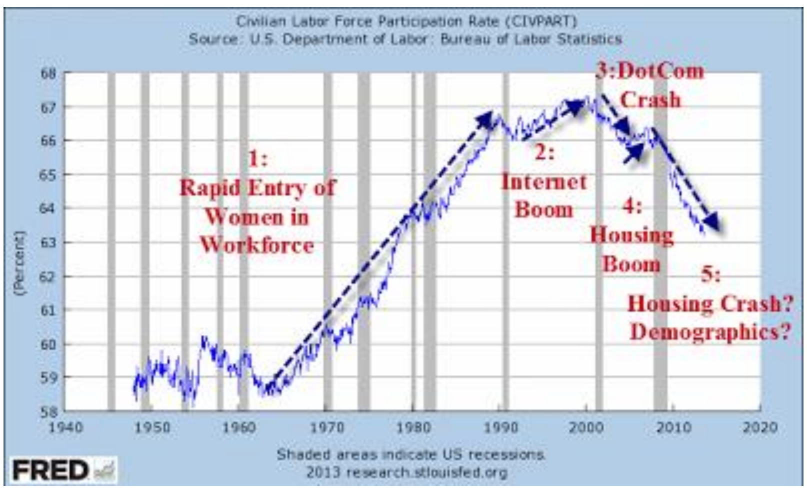
For example, while Fed officials are now talking about declining labor force participation and the limits of counting on lower unemployment rates as a signpost of a healthy economy, consistent readers of Mish's have been in the know for some time. Having chronicled the effect of changing demographics and their effect on normalized unemployment rates, Mish has shown why any improvements in the actual reported unemployment rates are likely to be unsatisfactory to policy makers and investors alike. Take the case below from September of 2013 when the BLS reported a drop in the unemployment rate to 7.3%. Mish demonstrated why the rate was actually 10.9%

Grossly Distorted Statistics

Were it not for people dropping out of the labor force, the unemployment rate would be over 9%. In addition, there are 7,911,000 people who are working part-time but want full-time work.

Digging under the surface, much of the drop in the unemployment rate over the past two years is nothing but a statistical mirage coupled with a massive increase in part-time jobs starting in October 2012 as a result of Obamacare legislation.

Civilian Labor Force Participation Rate



The participation rate is the "labor force as a percent of the civilian non-institutional population."

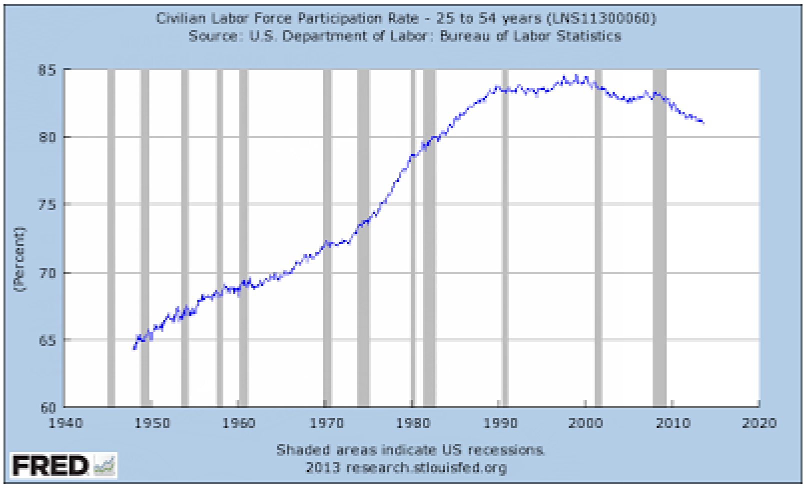
Explaining the Graph

1. Women entered the labor force in huge numbers as two-wage earners per household became the norm
2. An internet boom provided ample jobs for those who looked for jobs (and you have to look for a job to be a part of the labor force)
3. A dotcom crash followed
4. In response to the dotcom crash, the Fed blew the biggest housing and credit bubbles the world has ever seen, but the effect on the participation rate was small
5. The housing boom turned to bust, but even in the recovery, the participation rate continued to decline

It's Not Demographics

Many people believe demographics explain the decline in the workforce. However, that's not the case. To prove the point, let's focus in on an age group that is generally not retired and historically not in school.

Civilian Labor Force Participation Rate - 25 to 54 years



Notice how the participation rate of those 25 to 54 has been in steady decline since the year 2000 except for a slight uptick in the housing boom years.

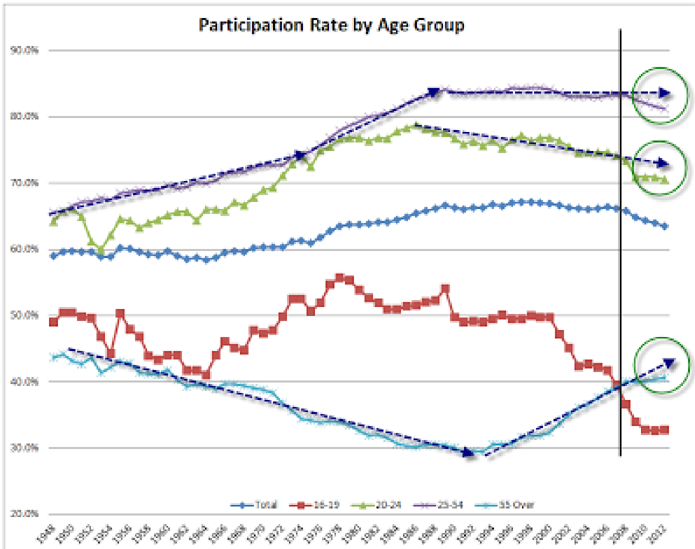
Allowing 6-7 years after high school for college education, most of those 25 should be looking for a job or have a job. Yet the trend is unmistakable. Rick Newman, writing for Yahoo Finance posted the following table in **Here Are the Real Labor Force Dropouts**.

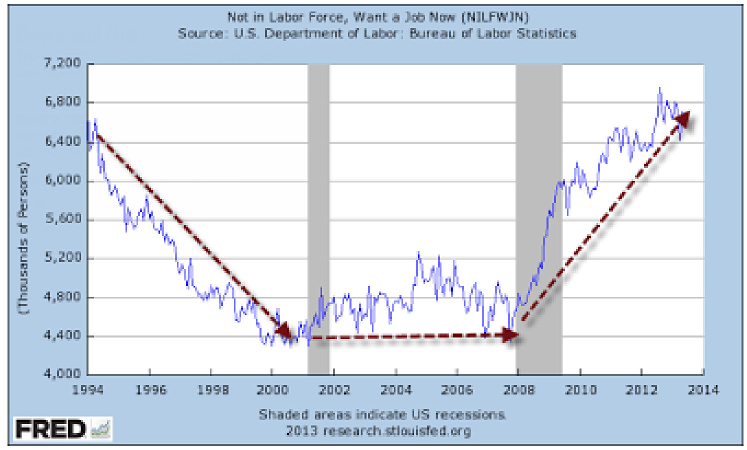
LABOR FORCE PARTICIPATION RATES (PERCENTAGES)

	January 1990	January 2000	August 2013	Change from 1990 to 2013	Change from 2000 to 2013
All, 16 years and older	66.8	67.3	63.2	-3.6	-4.1
Men 16 and older	76.7	75.0	69.5	-7.2	-5.5
Men between 16 and 24	72.3	69.0	56.2	-16.1	-12.8
Men between 25 and 34	94.9	93.7	89.3	-5.6	-4.4
Men between 35 and 44	94.8	93.4	90.5	-4.3	-2.9
Men between 45 and 54	91.0	88.8	85.5	-5.5	-3.3
Men 55 and older	39.7	40.2	46.5	6.8	6.3
Women 16 and older	57.7	60.1	57.3	-0.4	-2.8
Women between 16 and 24	63.3	63.1	53.3	-10.0	-9.8
Women betweem 25 and 34	73.8	76.5	73.3	-0.5	-3.2
Women between 35 and 44	76.6	77.5	74.6	-2.0	-2.9
Women betweem 45 and 54	71.0	77.0	74.0	3.0	-3.0
Women 55 and older (NO DATA)					

Here is a chart I posted previously in [**Normalized Unemployment Rates; Cyclical vs. Secular Forces**]()

Participation Rate by Age Group **Not in Labor Force Want a Job**





To be in the labor force you have to want a job and look for a job. To be "unemployed" you have to be in the labor force. At the start of the recession, there were 4,648,000 people who wanted a job but were not considered unemployed. There are now 6,285,000 people who want a job now but do not have one. That is an increase of 1,637,000.

Adding just the increase back would raise the labor force to 157,123,000 from 155,486,000. It would raise the number of unemployed to 12,953,000 from 11,316,000. And it would raise the unemployment rate to 8.2%. But why stop there?

It's All InThe Definition

The definition of "unemployed" is what it is (for political reasons), but by my more practical definition "*you are unemployed if you want a job and do not have one*", the corresponding numbers would be as follows:

- Labor Force: 155,486,000 + 6,285,000 = 161,771,000
- Unemployed: 11,316,000 + 6,285,000 = 17,601,000
- Unemployment Rate: 17,601,000 / 161,771,000 = 10.9%

So What's the Real Unemployment Rate?

If you use my definition, "*you are unemployed if you want a job and do not have one*" then the starting point is 10.9%.

Sure enough, despite a fall in the headline unemployment rate to 7% in December 2013, on its way to the previously communicated rate-raising-threshold of 6.5%, the Fed has communicated via their press release and [Bernanke's press conference](), that the "current near-zero range for the federal funds rate target likely will remain appropriate well past the time that the unemployment rate declines below 6½ percent…" owing in large part to "ongoing declines in labor force participation, which likely reflect not only longer-term influences, such as the aging of the population, but also discouragement on the part of potential workers." In short, by paying attention to Mish, who has been digging beneath the surface, one would have better insight into what the true employment picture looks like and the consequences for monetary policy.

Bringing It All Home

The Wine Country Conference is a unique event, with uncommon access to speakers who are eager and willing to do the work to find the truly important revelations which are often *hiding in plain sight*. We will all gather in beautiful wine country during a spectacular time of year to share ideas in order to learn and grow and be better equipped to handle whatever the future will bring. And in doing so, we will raise funds for a group of individuals and families also *hiding in plain sight*—those living life on the autism spectrum.

For more information and to register please visit www.winecountryconference.com

Sincerely,

JJAbodeely

JJ Abodeely, CFA, CAIA

ssr@sitkapacific.com

Sitka Pacific Capital Management, LLC