When is return OF your money more important than the return ON your money?

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Might be a good item to evaluate how well funded the bank or mutual fund you have is so you can increase the likelihood that you can get all your money back in the future (including allowing for the real inflation rate). Here in Ecuador where I am traveling right now two banks failed this month, and it is not clear when the depositors will get their money back or what percentage of their savings they will receive. In the Argentinian banking crisis of 2001 many middle class savers could not access their bank accounts for 5 months and lost 75% of the balances.

And if you have not diversified your investments into different banks, assets, currencies and other countries now would be a good time to do that to the extend you think prudent as "insurance" against future financial crisis.

Time to Focus on 'Return of Capital'

Reflections on the day after the election
by Adam Taggart

> I am more concerned with the return ***of*** my money than the return ***on*** my money.
>
> *- unknown (often attributed to Mark Twain or Will Rogers)*

The U.S. Presidential race is now behind us. And this morning the world woke up and realized that all the issues the election postponed now lie before us.

In his victory speech, President Obama focused on moving 'forward':

> **Obama's re-election puts 'forward' to the test**
>
> "You elected us to focus on your jobs, not ours. And in the coming weeks and months, I am looking forward to reaching out and working with leaders of both parties to meet the challenges we can only solve together. Reducing our deficit. Reforming our tax code. Fixing our immigration system. Freeing ourselves from foreign oil. We've got more work to do."

That's not a bad list of several of the bigger challenges we face: perniciously high and persistent unemployment, trillion dollar annual deficits, a complex and unequal tax code, overdependence on fossil fuels (domestic as well as foreign, I would add), and population management. These are truly prodigious issues that our nation is struggling with, in many cases for decades without resolving.

But that list of woes is not near complete. Add to it our national over **indebtedness and insolvency**, our eroded manufacturing base, **escalating costs** of food/fuel/health care, our outdated infrastructure, our failing educational system, accelerating **global depletion** of and competition for key resources, an aging population, the most dramatic wealth gap in our country's history, and an **unsustainable monetary system**. For certain, there are also many other competing problems that can be further added to this 'worry list'.

The hard truth is that these problems are not going to be resolved in the next four years, irrespective of whoever won the election last night.

In fact, as Chris so often states, many of these are not problems; they are *predicaments*. Problems have solutions. ***Predicaments* have only outcomes**. Outcomes that need to be managed. And if you're jawboning about 'solving' a predicament (which our politicians have made a full-contact sport out of), you're wasting precious time.

So, the big question is: *what approach exactly are we going to use to move 'forward' from here?* From what we're seeing so far, the best I can tell is **we are going to continue to throw money at these problems/predicaments** – **until it's clear to all that won't work anymore**.

The Bush and Obama administrations have seen exploding debt and deficit levels accompanied by staggering issuance of new money by the Federal Reserve. There is little to indicate that this policy is going to change as long as our economic malaise continues. In this way, the government is taking future wealth from our children's pockets.

And it seems increasingly clear that the government will take more of the current wealth from ours, too. Rather than take the pain of reigning in spending, government demonstrates, time and again, its preference to raise revenues via taxation.

PIMCO's Bill Gross predicts the same:

> **Gross: Fixing 'Cliff' Will Mean 'High, Higher' Taxes**
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> A newly re-elected President Barack Obama will push for higher taxes -- including a dividend-tax hike that will cause a substantial drop in stocks, Pimco's Bill Gross told CNBC Wednesday.
>
> Obama will get little time to enjoy his election victory Tuesday, as he will have to get to work quickly with Congress to avoid the nation's "fiscal cliff" of looming mandated tax increases and spending cuts.
>
> One likely remedy for revenue-raising will be to take the current dividend tax rate of 15 percent and hike it five to 10 percentage points, said Gross, co-CEO at the firm that runs the largest bond fund in the world and has $1.8 trillion assets under management.
>
> "Obama ran on a higher-tax agenda," Gross said during a "Squawk Box" interview. "Marginal income taxes go from 35 to 40 (percent), capital gains from 15 to 20, dividends from 15 to who knows what...so they could go high, high and higher."
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> Risk-averse investors prefer dividend stocks, which are common in pensions and mutual funds even though they've largely underperformed other market indexes over the past four years. Consequently, Gross said, higher dividend taxes would make those companies less attractive and thus take the stock market down 5 to 10 percent.
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> That's "the ultimate danger here for the stock market," he said. "Dividends are sheltered in 401(k)s, they're sheltered in pension funds. At the margins investors pay dividend tax rates. To the extent that you raise them from 15 to, say, 25 (percent), that implies in terms of equaling after tax rates another 5 to 10 percent down in terms of stock prices. We've been very spoiled for the last 10 years."

Last night, California passed Proposition 30, which approved an increase in the income taxes for 'wealthy' Californians (those with income >$250K). Education is by far the state's top expenditure, yet it ranks at or near the bottom of the nation on most school performance ratings. But rather than tackle the difficult work of determining how to spend their existing budget more effectively, it's far easier for Sacramento to address shortfalls by increasing taxes. Which is why Governor Jerry Brown crafted and championed Prop 30. Pity the Californian taxpayer, who already suffers the highest state income taxes in the U.S.

This is likely a preview of what's to come in future years. As we bump (or slam) into the hard limits of our predicaments, our political leaders will throw greater amounts of our current and future wealth at them. Like a drowning man frantically reaching out for anything that can possibly keep him from going under, our federal and state governments will grab for sources of revenue with equal desperation as they drown under their debts.

The markets are certainly concerned today. The Dow is down over 330 points as I write this. We are entering the era of investing where the risks are increasingly disproportionate to the downside. The prudent investor should be much more concerned these days with return OF capital, versus return ON capital.

Though, more accurately, the priority should be return of *purchasing power*. It does no good to get your dollars back if they've been devalued in the interim.

The following steps have become 'no-brainers' at this point:

- Find yourself a trustworthy financial adviser who will invest your paper capital with these risks in mind (we endorse several).
- Own some gold and silver as insurance against a currency crisis.

- Diversify into other hard assets if you're able to, particularly those with potential to produce primary wealth (timber, livestock, vegetables/grain, minerals, energy, etc.).
- Assess your employment situation – how vulnerable is your income? Invest in ways to make yourself more valuable to your employer, add additional source(s) of income, and/or create your own business.
- Invest in increasing your personal resiliency (homestead investments, skill-building, physical & emotional health, and community)

Welcome to the future.

From http://www.peakprosperity.com/blog/79994/time-focus-return-capital