

Contract with America

WHAT FUNDAMENTAL CHANGES ARE NEEDED?



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CONSECUTIVE MONTHS OF OUTPERFORMING THE MARKET: SIX

THE UNDERGROUND

Contract with America

In 1994 Newt Gingrich and the Republicans campaigned on the idea of a Contract with America. They proposed a balanced budget, line item veto, anti-crime measures, welfare reform, UN limits, tort reform, unfunded mandate reform, regulation reduction, eminent domain reform, term limits, and others. Most of the initiatives were implemented, some failed to pass votes in the House or Senate and one was vetoed.



Newt Gingrich

It has been 28 years since the last Contract with America. Many of those reforms have been overturned, diluted or circumvented. Many more changes are needed to regain the freedoms intended by our founding fathers.

Let's try to define what should be included in a new Contract with America. If we start with a series of grievances it will help us make our list. Taxes are high. Our National Debt is High. The Federal Unfunded Liabilities may be as high as \$200 Trillion. Frivolous lawsuits kill business and eliminate options for consumers. Environmental laws are used by the government to control land use and circumvent the bill of rights. How do we alleviate these grievances? Here is a proposed new Contract With America:

- Smaller Government
- Stop Seizures and Fines

- Audit Independent Agencies
- Pass a Taxpayer Bill of Rights (TABOR)
- Pass a Balanced Budget Amendment
- Make Unfunded Mandates “On Budget”
- Simplify the Tax Code
- Reduce Regulation
- Pass a Term Limits Amendment
- Pass the Regulations from the Executive In Need of Scrutiny (REINS) Act
- Stop Iran Nuclear Development
- Market Based Health Care
- Tort Reform
- Welfare Reform
- Eliminate the FISA Court
- Build the Wall

Smaller Government: The Federal government accounts for 30% of our GDP - do they provide 30% of the goods and services you need or want? We need to consider eliminating or combining the Departments of Education, Labor, Commerce, Interior, Agriculture, Transportation, Housing and Urban Development, Health and Human Services, and Energy. We need an Audit of every element of the executive branch to see if it can be reduced, combined or eliminated.

Seizures and Fines: As an example, The Office of Civil Rights can fine businesses without due process if they find a HIPPA violation. The fines fund the operations of the government. The people harmed by the actions or inactions of the business do not receive the proceeds of the fine. Police can seize

Wealth Building



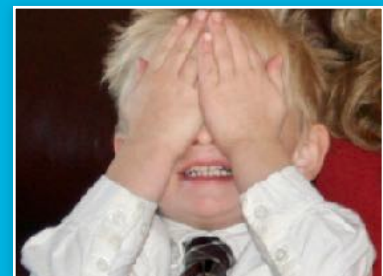
Income > Spending



Do not put all your eggs in one basket



Time in the Market Beats Timing the Market



Do Not Panic

your cash by claiming you are involved in drug crime without due process. In some cases the police will have a trial where it's the government vs the assets - not the owner of the assets. These fines and seizures are clear violations of the Fourth, Fifth and Eighth amendments. An organization that fines us, is not here to help us, and only serves to foster distrust, suspicion and resentment of the government by the people.

Audit of Independent Agencies: Wikipedia lists 33 independent agencies. Many have no boss and very little oversight. All of them need to be audited regularly and most of them could be eliminated. The CFPB, for example, only serves to restrict lending by threatening the banks.

TABOR: The only thing saving Colorado right now is TABOR. TABOR requires that all tax increases must be approved by referendum. Be sure and include all types of taxes and some fees or the politicians will find a way around the amendment.

Balanced Budget: TABOR, without a balanced budget amendment, will not work since the Federal Government will just drive up debt and keep spending more. Politicians will find a way around the balanced budget by saying in times of crisis it can be suspended. The problem with the right to suspend clause is that everything is a crisis.

Unfunded Mandates: Social Security, Medicare and Government Retirement Pensions are promises that will cost us \$169 Trillion. The government has made promises we can't keep. Since these debts are Off Budget very few Americans know about them. They need to be moved on Budget and included in the Balanced Budget / TABOR Amendment.

Tax Code: The tax code and supporting documents are 70,000 pages long. Our tax returns are huge and cost thousands of dollars to file each year. Accountants do not always know how the code really works they just plug the numbers into software and try to make sense of the results. Sometimes promised deductions are not delivered. Some tax breaks do not apply to you because of how you organized your business.

Regulations: Have you ever considered opening a business? Have you ever considered what you might need to be in compliance with all the government

expectations? You will need a business license, get a federal tax id, create an entity with the secretary of state, get a sales tax license, get a zoning permit, get a professional license, get multiple types of insurance, health permits, fire permits, environment permits, a building permit, have your construction inspected, a sign permit, an alcohol permit, a firearms license, get a federal lease approved, an import permit, export permit, occupancy permit, elevator inspection, back flow preventer inspection and several others depending on what you want to do. Then each of those places that issued you a license or permit will have you in their database. They will tax you and inspect you without a warrant or probable cause. A large business can afford an office of lawyers and administrators but a small business cannot. These regulations serve as a barrier to entry for small businesses. The people want more Mom and Pop but will never get it if these regulations are not reduced.

Term Limits: Isn't 12 years as a Senator and 12 years as a Congressman enough? At least 23 Senators and 33 Congressmen have been in office for more than 20 years. If you can't get it done in 20 years, you are doing it wrong.

REINS Act: The executive branch writes policies and those policies have the force of law. The REINS Act will require congressional approval for any regulation that has a \$100M economic impact before the regulation can be implemented.

Iran Nukes: Iran is developing nuclear weapons and has missiles that can reach half of Europe. What will prevent them from using those weapons?

Health Care: Healthcare paperwork is enormous. Insurance companies have to create large difficult processes to account for all the government mandated requirement. Doctors don't work for you, they work for the insurance check and to avoid government fines. If all healthcare were like cosmetic surgery, LASIK surgery, Mental health, medical marijuana, or chiropractic it would be affordable. The quality would go up as the price goes down.

Tort Reform: Loser pays. If the loser had to pay for the legal bills there would be a lot fewer frivolous lawsuits. Frivolous lawsuits drive up the cost of legal defense. It was a lawsuit in 1985 that eliminate Burt Rutan from the kit plane market. He won the case but his insurance went so high he couldn't continue.

We can't build kit planes because some drunk guy crashed his plane and the wife was pushed into suing Burt? What gives?

Welfare: There are too many welfare programs: Earned Income Tax Credit, Child Tax Credit, FHA Loans, Student Loans, Pell Grant, Temp Assistance for Needy Families, Lifeline Phones, Low Income Heating Assistance, Public Housing, Section 8, SNAP, WIC, Medicaid, Childrens Health Insurance Program, Affordable Care Act Medicaid Benefit, Unemployment Insurance, Social Security Disability Insurance, Supplemental Security Income, Social Security Program Rates of return are different based on Income and Several State and Local Programs. That's a lot of bureaucracy. It cost a lot of money to maintain that bureaucracy. People that work in those bureaus are not doing anything that produces any goods or services people are willing to pay for. These welfare organizations are targets for fraud, costs billions to administer and wastes the labor of everyone working there. These programs needs to be made simple.

A foundational problem with these welfare programs is that they are underfunded, poorly managed and unfair. You might qualify for section 8 housing but you won't get it until someone who has been on the program for decades leaves the program. What's fair about that? As a landlord, section 8, fails in processing costing months of income.

Another foundational problem with welfare is you have to stay poor to qualify for the programs. Why would the government want to encourage us to stay poor? You know why. People will choose to limit their income out of fear of losing government assistance. The replacement system must eliminate the fear of losing the assistance.

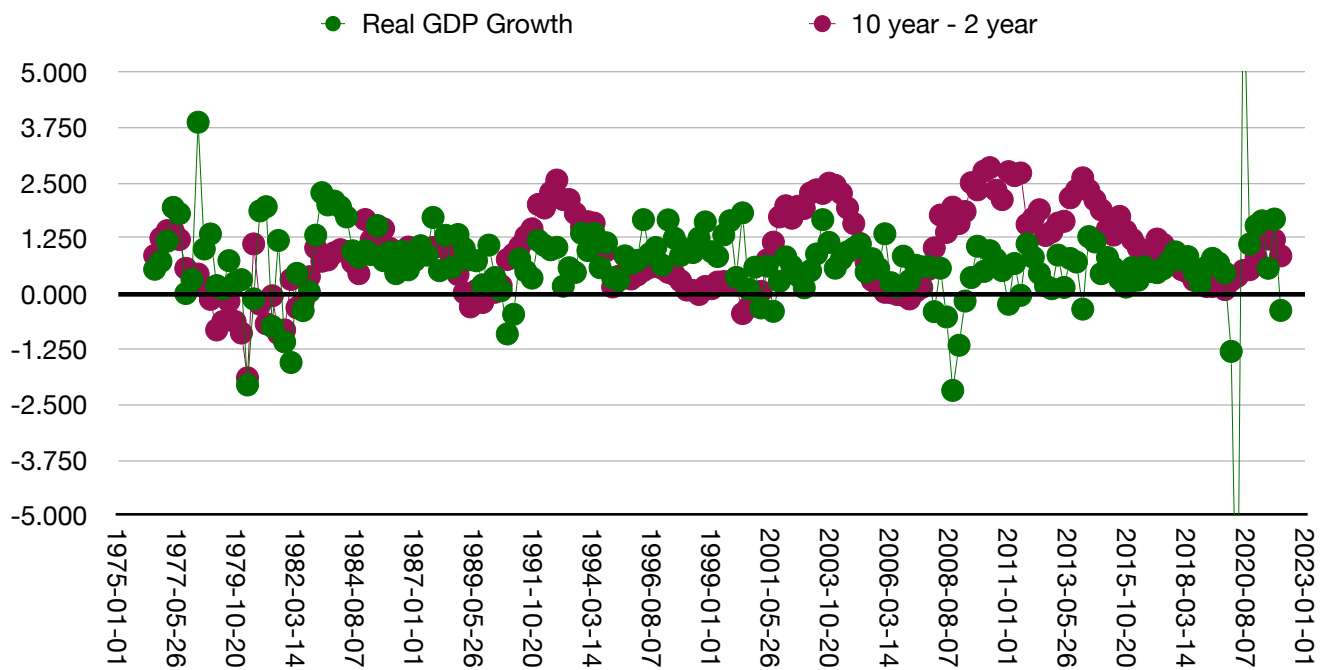
FISA: FISA Court allows the government to violate the civil rights of Americans with no legal defense. It's unconstitutional.

Wall: Legal immigration is ok but illegal immigration contributes to the rising crime in America.

Please submit your proposals for additions, deletions or changes to this list. Publish this Contract With America as widely as possible.

Economic Statistics

We are introducing the Yield Curve to our dashboard this month. One way to measure the yield curve is to capture the yield on the 10 and 2 year treasury notes and find the difference. In general, investors expect to get a higher rate of return when locked in for a longer period of time. The yield curve is said to be inverted when the rate of return on the 10 year is less than the rate of return on the 2 year. Since the prices are set by auction it reflects the beliefs of the investors. An inverted yield curve should only happen when investors believe rates will fall in the future and America is headed to difficult economic times.



Our chart shows an inverted yield curve at five periods in the past.

1978-1982: In August 1978 the curve inverted but the recession didn't come until 1980. The 1980 recession was because Congress put off the Regan tax cuts so economic spending was postponed creating the recession. We believe this was a time when the the inversion was technically incorrect but the 1970s were a difficult economic time throughout.

1988-1990: In December 1988 the curve inverted with the recession beginning October 1990.

1998-2001: The May 1998 inversion recovered and reemerged before the recession hit in January 2001.

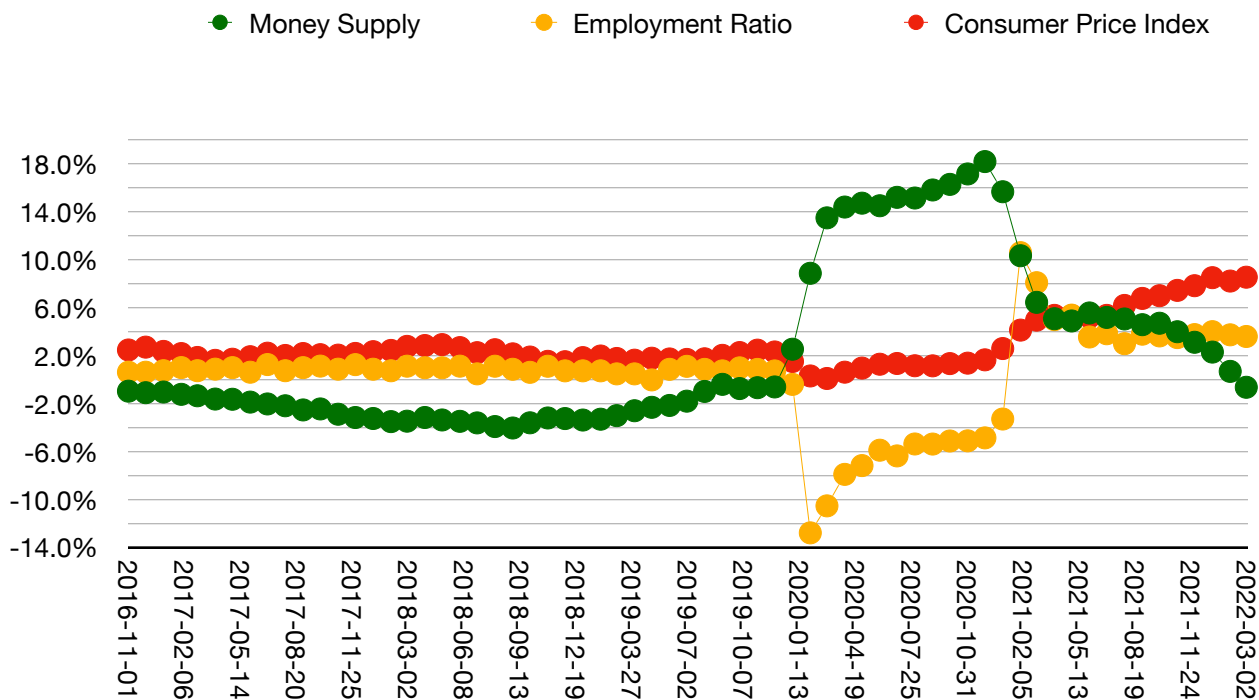
2005-2007: Another inversion occurred in December 2005 and recovered before the recession in 2008. The recovery in the yield curve was a direct result of the Federal Reserve driving the short term rate to under 2%. The recession was very large and the recovery was anemic due to the creation of the CFPB and its role in preventing new business loans.

2018-2020: Do you remember the news in December 2018 January 2019? It was a year before covid and the yield curve was near 0. Some measures called it an inversion. There was a recession in 2020 but this recession was entirely because of the government overreaction to COVID-19. This was really a false indicator.

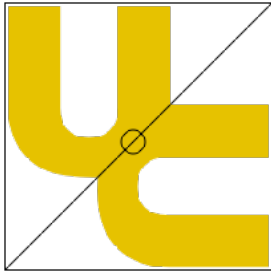
2022: We just has an inversion in April and negative real GDP growth last quarter. You may have noticed that the Stock market dropped significantly last month. Where are we headed from here? If past is prologue we expect continuing declining economic conditions until the government reverses their current policies.

Economic Dashboard

The change in Money Supply went negative. More contraction is needed before inflation can decline. Inflation dipped in April but returned to new highs in May.



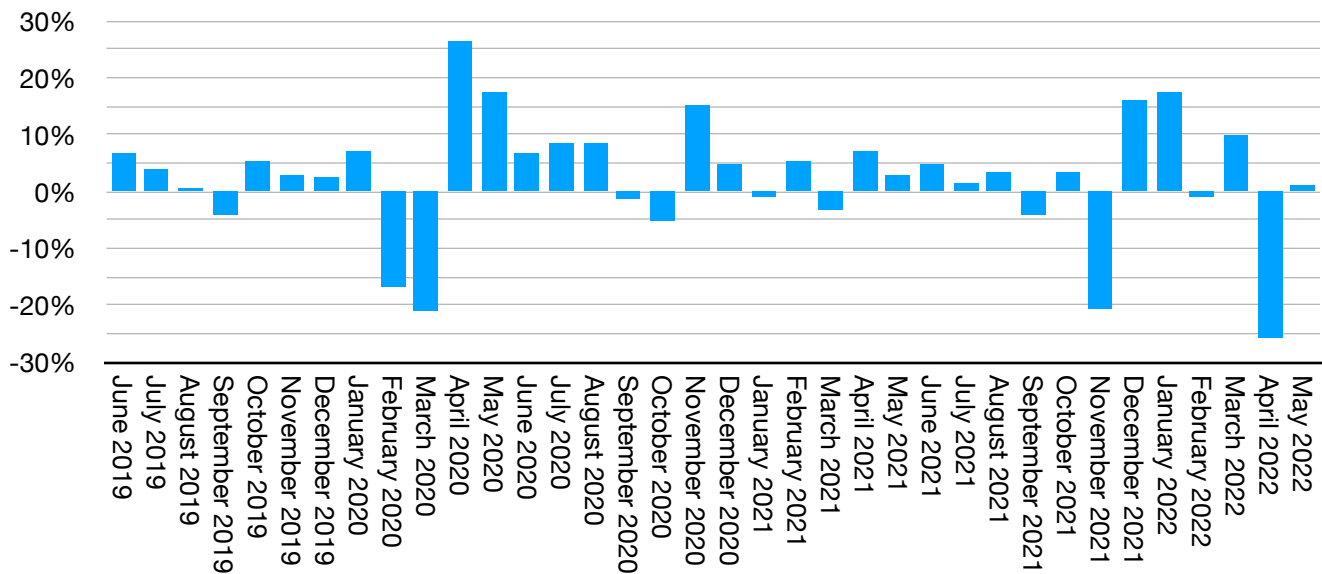
Historic Returns



In May 2022 TQQQ dropped from \$36.53 to \$33.53, an 8.2% loss. Despite the loss in TQQQ we received a positive return: 1.26% gain. Our gain came from buying TQQQ as it fell to the minimum price of \$24.93. We have sold some shares for a gain and continue to hold significant shares of TQQQ

This bounce off the bottom highlights that we should all make additional investments when a market drops like it did in April.

Was the market at a bottom last week? We do not know. If we were guessing we would expect TQQQ to bounce up and down near these prices until inflation decreases or the government begins to take some rational actions such as approving oil leases.



Imparts

Underground Capitalist is very interested in your contributions, questions and suggestions. Please contact us at admin@undergroundcapitalist.com.