

THE MAIN ADVISORY

Piecing It All Together

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Prices on the Rise

Subconsciously, I am in constant search of topics that may interest the readers of our newsletter. The light bulb may go off while standing in the morning coffee line at Starbucks or strolling the aisles of the grocery store. Then, there are those times when no matter how often I “flip the switch,” there isn’t even a glimmer of light. This quarter was shaping up to fall into the latter category until I received an email from a dear client, Betty, who asked a few economic questions and suggested that there may be others asking the same things. So, I’ll veer off a bit from our usual format and attempt to offer some simple answers to complex subjects.

I, like Betty, frequently read articles and hear commentators mention that the improving economy could offer merchants and manufacturers the opportunity to raise prices. The question is “why should prices increase” followed by “do they need to”? This speaks directly to the topic of inflation.

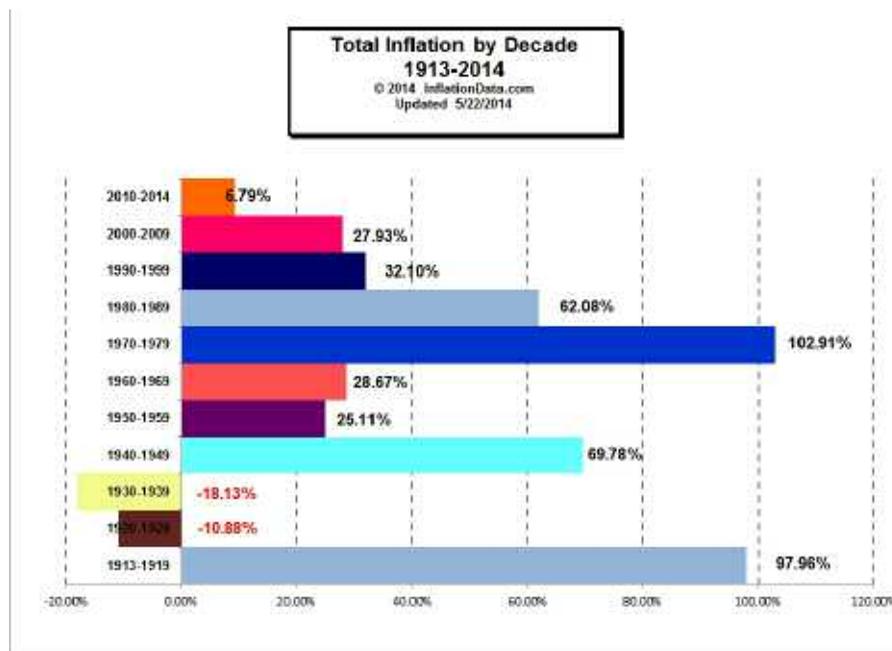
The financial crisis of 2008 resulted in many individuals losing their jobs as housing prices collapsed, mortgage foreclosures increased, and credit tightened. Unemployment soared to 10.2% in 2009, the highest in 26 years. Families were forced to rein in spending. The latest unemployment figure released in March reported a rate of 5.5%. More people employed can result in more disposable income to spend.

There is another dimension to a 5.5% unemployment rate. In economic terms, a 5.5% unemployment rate can be defined as

full employment. There are always approximately 2-7% of people in between jobs or unemployed on a temporary basis. As the pool of qualified job seekers shrinks, employers may be forced to offer higher wages to entice someone to leave a current job to fill an open position. Pressure can mount forcing

employers to raise wages to retain their employees.

Wages are paid from revenue derived from manufacturing a product or selling goods and services. Most often, other costs rise with wages such as insurance and taxes. Businesses can’t remain open too long without being profitable, so prices go up to cover rising employment costs. It becomes a spiraling effect.



The basic principles of supply and demand also impact prices. If supply is low and demand high, the price will rise due to the bidding war. If supply is plentiful and demand low, “fire sale” pricing ensues. With a growing supply of disposable income due to full employment, pricing pressure builds if supply doesn’t keep pace.

The long-term average inflation rate in the United States, dating back to 1913, is 3.2% annually. This is an average; there have been many instances when it has been exponentially higher. A 3.2% inflation rate doesn’t sound that bad until you consider prices will double every 20 years. Today, inflation is running in the range of 2.2%.

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Assembling your financial puzzle one piece at a time.

The Irony of Debt

Betty may have posed the most difficult question of all when she asked, “If the Bible says usury is wrong, when did Christians begin thinking it was an okay method to raise money”? I’ve been a long time student of the Bible and find that there is always a new revelation each time I read a passage. From time to time, I’ve heard sermons on the subject of usury, or debt, but I was unable to provide an answer to Betty’s question confidently without some research.

Wikipedia defines USURY as “the practice of making unethical or immoral monetary loans that unfairly enrich the lender. A loan may be considered usurious because of excessive or abusive interest rates or other factors.”



However, according to several dictionaries, simply charging any interest at all would be considered usury. Someone who practices usury can be called a *usurer*, but the more common term in English is loan shark.

Interestingly, the Bible actually offers seemingly contradictory instructions regarding usury. The Law of Moses per Exodus 22:25 says, “If you lend money to one of my people among you who is needy, do not be like a moneylender; charge him no interest.” Flipping a little deeper into Deuteronomy 23:19-20, it reads, “Do not charge your brother interest, whether on money or food or anything else that may earn interest. You may charge a *foreigner* interest, but not a brother Israelite...” The prophets Jeremiah and Ezekiel condemned the taking of interest as a heinous sin.

The New Testament offers a glimpse into the practice of receiving interest in two parables—of the ten minas (approximately three weeks wages) in Luke 19:23 and the talents in Matthew 25. In both instances, a man who was entrusted to oversee the master’s property in his absence was harshly judged for not placing the money on deposit with the bankers so that when the master returned, he would have received it back with **interest**.

Many religions throughout history, including Buddhism, Christianity, and Islam, have condemned the practice of lending and borrowing regardless of the interest rate. In some cases, governments prohibited the practice also. The first debate and proclamation for the Christian faith on the matter came out of the Council of Nicaea in 325 A.D. The Roman Catholic Church has amended and confirmed its stance repeatedly throughout the ages. Today, most religions, with perhaps the exception being Islam, have interpreted “usury” to mean the excessive charging of interest. So, provided the interest rate is reasonable, borrowing or lending is acceptable.



Darla D. Main, CFP®

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I discovered a piece of history that adds an interesting twist to this topic. Johannes Gutenberg is credited for inventing the printing press circa 1448 and launching a monstrous project to print the first Bible. The invention of the printing press is said to have spread the Christian faith exponentially.

Johannes Gutenberg was an entrepreneur on steroids. He was a man of many trades, but made his mark with the printing press. One writer said, “Gutenberg’s business dealings show that he had a great potential to motivate investors and co-



workers for a project and to initiate financially successful ventures.” The term investor seems a little generous since there are numerous records indicating he funded most of his ideas with loans. On October 17, 1448, he received a loan from his brother-in-law, Arnold Gelthus, and the funds were used either to establish his printing shop or to keep it afloat. There is no documentation for its use, but three and a half years later, the massive project of printing the Bible was tackled.

Gutenberg convinced a wealthy merchant and moneylender, Johannes Fust, to also grant credit for the Bible project. Fust offered his first loan of 800 florins in 1449 to prepare the printing equipment. In the years 1452 and 1453, Fust gave Gutenberg another 800 florins. The two loans totaled the equivalent of 10 years’ wages in the day. As is the case with most partnership relationships, a dispute broke out, and Fust demanded repayment of his money including all interest and accused Gutenberg of embezzling the funds. The matter was settled in court with Fust winning and Gutenberg sentenced to turn over the Bible printing workshop and half of all printed Bibles. Never to be defeated, Gutenberg left the city of Mainz and con-

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The Irony of Debt *(continued from page 2)*

tinued printing Bibles in the city of Bamberg.

Gutenberg's life story is colorful. He was taken to court more than once for failure to pay his debts. He was also sued for breach of promise of marriage, but the case was settled by his making the woman his wife.

Bringing this back to the question of "when did Christians proclaim borrowing or lending as being acceptable," I



can only conclude that the doctrine forbidding the practice was slowly watered down through the centuries like many other sacred doctrines. But, isn't it amazing that the Bible was printed

and Christianity was spread through the genius of one of the greatest debtors of the 15th century? ■

Prices on the Rise *(continued from Front Cover)*

Inflation can also rise when the money supply increases because governments print money. Governments have been known to turn up the printing presses to fund wars or cover deficit spending rather than tax their citizens. If the money supply increases faster than the supply of goods increases, prices can rise rapidly. This can lead to another deteriorating situation.

Once consumers recognize that the prices of goods and services are increasing, they spend faster rather than delay. Fear takes over and buying frenzies follow. Demand outstrips supply causing prices to rise even further. This is known as hyperinflation.

This leads to another question posed by Betty—"Is there historical evidence of the result of stagnant wages and inflation?" The answer is a resounding yes and not just one example but many. However, I will highlight one very famous situation that occurred in the not so distant past.

In July 1920, forty German marks were worth one U.S. dollar, but it took more than 4 TRILLION marks to be worth one dollar by November 1923. People discovered that their life savings were not enough to buy a pack of cigarettes. Germany basically stole the life savings of its citizens by keeping more

than 1,700 printing presses running day and night, printing money. During the worst of this time, around October 1923, prices rose 41% per day. Workers were paid twice per day, and some were allowed time off in the middle of the day to run to the stores to buy things before the prices rose even higher. The economic chaos that this created has some theorizing this set the stage for the rise of Adolf Hitler and the Nazis.

The citizens of the U.S. have never experienced the devastating effects of hyperinflation like that in Germany. Today, we continue to monitor closely the actions of the Federal Reserve Bank. Hopefully, the leadership will exercise prudence and resolve as they unwind the large increase in the money supply resulting from the quantitative easing stimulus program instituted to revive the economy from the ashes of the 2008 crisis. A failure in the "unwinding" process could change history. ■

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We are pleased to announce the launch of our new website!

The project commenced in March 2014 and took hours of labor, discussion, rewrites, editing, and a few headaches. One year later, the website is live!

The pages will now launch on a mobile device as well as a desktop, laptop or iPad. We urge you to check it out at www.MainAdvisory.com. Access to accounts held at Pershing or consolidated investment reports can be located in the Clients tab. Our quarterly newsletter is also featured under this tab.

Friends and referrals can be directed to the website for more information, including a video, about Main Advisory and the team. Your feedback is welcomed.



STAFF NEWS

Darla Main - President, Main Advisory, Inc.



My father-in-law, age 92, has been a genealogist for decades. He has so many resources and ideas. His work resulted in the accumulation of approximately 32,000 names and lineages for the Main family. He updates the family tree before the new babies leave the birthing room at the hospital. I recently asked him to tackle my family name, Sturm. It has been so fun to learn of his discoveries. He was able to trace my family all the way back to the Bavarian region of Germany and even identified the boat that brought the first Sturm from my family to America. My mother-in-law says she knows he has found good stuff when he emerges from his office with a big grin on his face. I am so looking forward to an upcoming drive to Baltimore where we can sit together and continue the exploration. There will be no loss for conversation as we dig deep into his findings. I keep telling him to uncover my long lost birthright to a castle or royalty in Europe. Thus far, he only confirms that I come from the working class. Hard work was definitely demonstrated in the lives of my great grandfather, grandfather, uncle, and my dad, so he must be right! ■

Suzanne Campanella - Client Services



It is rare to discover a book--dedicated to spelling, punctuation, and usage--which is engaging, personal, and downright delightful. *Between You and Me: Confessions of a Comma Queen* is written by Mary Norris, a copy editor for *The New Yorker* magazine whose career spans three decades. She devotes ten chapters to the study of comma's, the "who-whom" controversy, her preference of dictionaries and love of No.1 pencils, and the dilemma of using (or not) a dash, a semicolon, and a colon. She also highlights writers, such as Melville, Dickinson, and James, who chose to use punctuation in unorthodox ways. After Norris bravely rewrites select passages with proper punctuation, we come away with heads bowed, acknowledging these writers' creativity and aplomb. Norris eloquently writes, "Each little piece of punctuation is calibrated for its effect and pressed into the service of an exquisite sensibility." Recommended for aspiring writers, English majors, and grammarians! ■

JOURNEYS & TRAVELS

... to Singapore



One of our clients writes, "I recently enjoyed a trip to Asia and visited Singapore for the first time. Singapore is an amazing, small country at the southern tip of the Malay peninsula between the South China Sea and the Indian Ocean. Approximately 5.5M people live in Singapore, and they are known for living in harmony with zero tolerance for racism. The population of Singapore is made up of four primary races: Chinese, Indian, Malay and other or "blended."

Singapore is one of the cleanest places you will ever visit. It offers all the modern conveniences and efficiencies you would experience visiting New York City. There is an amazing harbor in center city that offers a spectacular view from many of the modern skyscrapers. Singapore is considered the banking and financial center of south-

east Asia. I also toured the infamous Marina Bay Sands hotel which has three hotel towers and a ship on the roof. It's an incredible piece of architecture and is something you would expect to see in Las Vegas. For the best views of the city, it is definitely worth going to the Sands' rooftop.

In late March at the age of 91, Singapore lost their beloved Prime Minister, Lee Kuan Yew, or LKY as he was known locally. Under LKY's years of leadership which began in 1959, Singapore developed into one of the cleanest, safest, and most economically prosperous cities in Asia. 2015 marks the 50th anniversary of Singapore's independence from British rule. The locals are very proud of their country and are most welcoming. The food is delicious; seafood is plentiful, fresh, and very tasty. It's a long way from home, but if you are headed to Asia, I highly recommend you consider a stop in Singapore." ■