Redstone Advisors

Economic and Market Review

First Quarter 2010

> *“Are we not told that, ‘since in the long run we are all dead’, policy should be guided entirely by short-run considerations? I fear that these believers in the principle of après nous le deluge* [after us, the deluge] *may get what they have bargained for sooner than they wish.”*
>
> Freidrich Hayek, Austrian economist, 1940

In 1920-21, the Unites states faced a severe economic crisis known as the **Depression of 1920**. This sharp deflationary recession lasted from January 1920 to July 1921, or approximately 18 months according to the National Bureau of Economic Research. The recession of 1920–21 was characterized by extreme deflation — the largest one-year percentage decline in over 140 years of data. The U.S. Department of Commerce estimates that GNP declined by 6.9% while unemployment rose sharply from 5.2% to 11.7%. The recession also saw an extremely sharp decline in industrial production with automobile production falling by 60% and total industrial production by 30%.

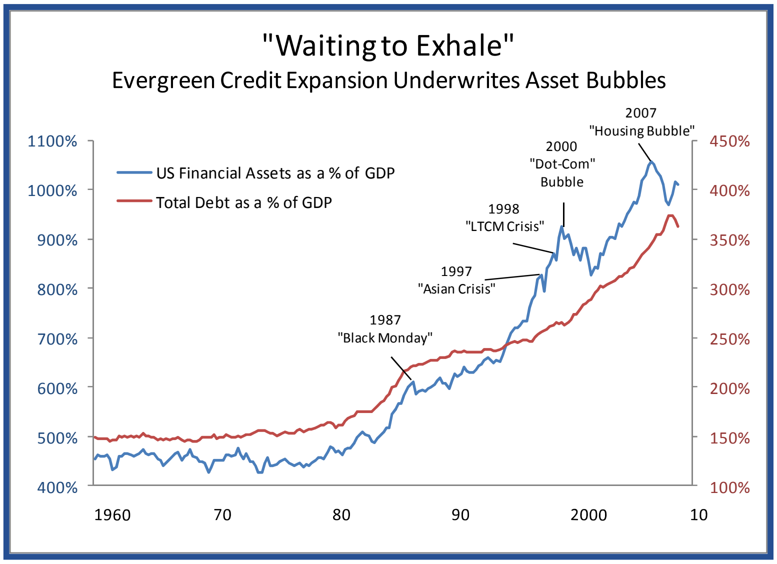
In response, then US president Warren G. Harding told Americans that the bust was the inevitable outcome of the artificial, credit-induced boom of the war years, and no amount of government intervention could overturn the inexorable economic correction. The law of sowing and reaping, as it were, would not be repealed. Addressing this crisis, President Harding said:

> *“The economic mechanism is intricate and its parts interdependent, and has suffered shocks and jars incident to abnormal demands, credit inflations, and price upheavals . . . . We must seek the readjustment with care and courage. Our people must give and take. Prices must reflect the receding fever of war activities . . . . All the penalties will not be light, nor evenly distributed. There is no way of making them so. There is no instant step from disorder to order. We must face a condition of grim reality, charge off our losses and start afresh. It is the oldest lesson of civilization . . . . Any wild experiment will only add to the confusion. Our best assurance lies in efficient administration of our proven system.”*

In the end, the newly enthroned ‘stabilizers’ at the Federal Reserve remained inert, there was no fiscal stimulus, and the government actually reduced its level of spending during the crisis. And what was the result? The Depression of 1920-21 has, for the modern day stabilizer anyway, the nettlesome distinction of having experienced the unique combination of the most severe decline coupled with the most robust recovery of any recession on record. Historian and Austrian economics advocate Thomas Woods has argued that President Harding's pursuit of laissez-faire economic policies during the 1920-21 recession combined with an aggressive policy of government downsizing was the direct cause of the rapid and widespread private-sector recovery. Speaking in 1896 and predating the 1913 creation of the Federal Reserve, Yale professor and classical libertarian William Graham Sumner summed up this minimalist approach to crisis intervention this way: *“No scheme which has ever been devised by them* [government] *has ever made a collapsed boom go up again.”*

Clearly Mr. Sumner, who died in 1910, could not be expected to anticipate the efficacy of a scheme involving a central bank endowed with a monopoly on the creation of money and armed with a technology called a printing press to resurrect a *"collapsed boom."* Messrs. Obama and Bernanke, however, suffer from no such deficiency. The reality is that the stabilizers have been relentlessly expanding the money supply through artificially low interest rates and the expedient use of the printing press for some time. This evergreen expansion of credit has manifest itself in a seemingly never-ending cycle of **boom-bust-boom**, replete with multiple asset bubbles, rampant leveraged speculation, malinvestments, and severe dislocations in the productive structure of the economy. (**Figure 1**) Each time they are faced with the prospect of a debilitating debt deflation as a result of the collapse of yet another credit-induced boom, the stabilizers pursue a **policy of postponement** in an attempt to procure what President Harding said could not be procured, an "*instant step from disorder to order.*" And while to the statist who diligently seeks to *"benevolently manage"* the economy so as to bring about such a desired end, the discovery of such a *"philosophers stone"* would no doubt, present itself as a virtue. Nevertheless, as Ernest Lefever once observed in his book of the same name, *"The irony of virtue is that virtue, when untamed by facts or undisciplined by a sober understanding of man and history, can ultimately lead to disaster."*

Figure 1

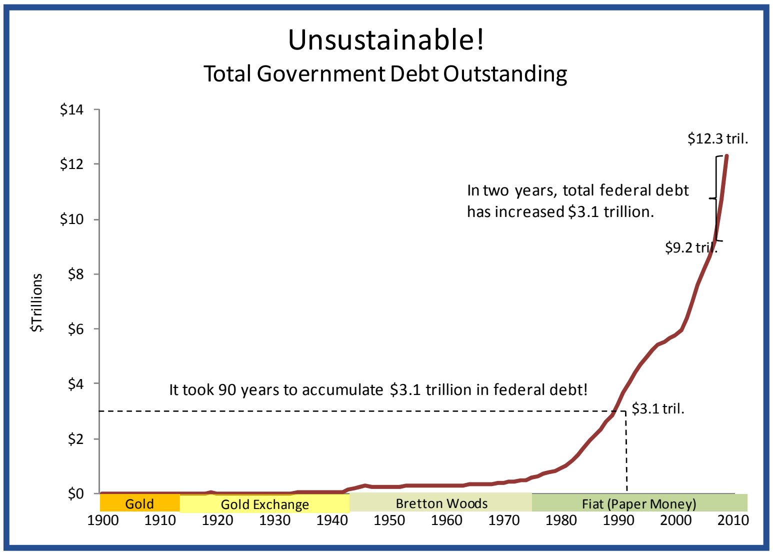


To what facts do we speak? The most important fact in political economy is this: There is no such thing as ***"something for nothing."*** While philosophically, the **monetary sin of the west** is the repudiation of a belief in the immutability of the curse, i.e. the relationship between work and income, in practice it is the ascendancy of the belief in *something for nothing*. But how does such rank heresy become orthodoxy? Through the Keynesian illusion that scarcity can be eliminated by the determined will of the state. As we discussed in our last report, scarcity is the **"natural arbiter"** in determining what satisfactions we may pursue, the consequence of which is that we are forced to prioritize our wants, out of which arise subjective values which become the basis for all **market prices**. In short, scarcity forces us to choose, and it is choice that defines cost. Scarcity determines prices and market prices expressed in **money terms**, become the single most important factor in planning and calculation by all economic actors. The true cost of any chosen alternative is that which we would have taken in its' place. The determination of cost is impossible where there is no *"alternative".* Where no choice is required we give up nothing in *"choosing"* it, and as such, there appears to be *"no cost"*. This however, is merely a money illusion. For to the extent that market prices are not determined by scarcity, but are instead unduly influenced by the unbridled expansion of money and credit, individual wants and societal projects are not prioritized, capital is not rationed, and the structure of production in a market economy will be distorted and riddled with malinvestments. Where once we could only pursue guns ***or*** butter, we are now magically free to pursue guns ***and*** butter. By debauching the integrity of money and credit through its' unlimited emission, scarcity is seemingly overruled and the attainment of that which was once presumed impossible, namely something for nothing, becomes an **entitlement**. Ultimately the Keynesian illusion subsists in nothing more than the chimera that fiat money derives its value, not from the underlying scarcity of the capital that it has a rightful claim upon, but from the official stamp it bears. And that being the case, a determined government may always overrule the niggardly constraint of scarcity with an expedient emission of credit – at least in the short-run. However, as economist Henry Hazlitt observed, *"The art of economics consists in looking not merely at the immediate but at the long-term effects of an act or policy."* And when we do so, the lesson of history is clear. Voter's who desire something for nothing, eventually get stuck with *nothing for something* – they sell their goods and services and receive depreciating paper money and a declining standard of living in return.

Lifting a line from a Loretta Lynn song of the same name, economist Gary North aptly observed that *"everybody wants to go to heaven"* – i.e., everyone wants stable money, rising employment and economic growth – *"but nobody wants to die"* – i.e., nobody wants to walk through the valley of the shadow of a depression. Ironically, the pursuit of short-term economic stability through the perpetual emission of non-self liquidating debt, a pursuit universally hailed as a virtue for its' perceived ability to promote economic nirvana, actually increases the probability of the single-most destabilizing event that a debt-based monetary system can incur, a debt deflation. Why is this so? Because all money in the US is debt. With the sole exception of coins, all money is loaned into existence, either through the banking system via fractional reserve lending or through the open market operations of the Federal Reserve. As such, any permanent reduction in the outstanding level of debt, either through retirement or repudiation, will result in a *contraction* of the money supply and must therefore, be avoided at all costs. This is the **'Achilles heel'** of debt-based monetary systems and is another inconvenient fact confronting the Keynesian economic philosophy of something for nothing – the sole precondition for a debt deflation in a debt-based monetary system, is the massive accumulation of debt.

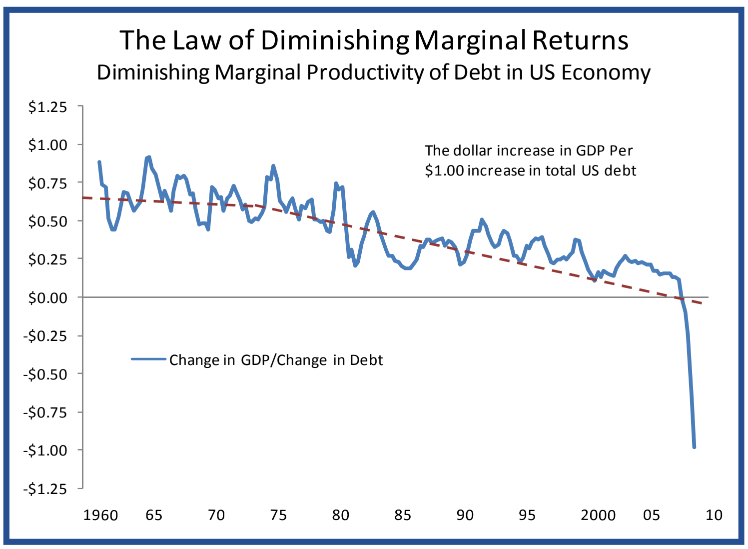
And accumulate we have. It was Marx who famously wrote that the bane of capitalism was its' insatiable proclivity to *"Accumulate! Accumulate!"* However, judging by the *"accumulation"* of government debt as reflected by **Figure 2**, we would have to conclude that *"fetishism with capital"* is not a vice particular to capitalists. Referring to **Figure 2**, we can see that in just the two years since the onset of the Great Recession in 2007, total federal debt has risen from $9.2 trillion to 12.3 trillion, representing an annualized rate of increase of **nearly 16%** over the past two years alone. To put this sum into perspective, consider that this two year increase of **$3.1 trillion** exceeds the total sum of outstanding federal debt accumulated during the **90 year period** between 1900 and 1990! Consider also that during the Bretton Woods monetary era of partial convertibility from the end of WWII until 1970, total federal debt rose from just $258 billion to $390 billion, a total increase of 51% over 25 years for an annualized growth rate of **1.6%.** However, since the 1971 closing of the gold window and the beginning of the *something-for-nothing* fiat-money era, total federal debt has soared **over 30-fold** at an annualized growth rate of **9.3%**. At that rate, outstanding federal debt would double to nearly **$25 trillion** in just 7½ years. Clearly such a trend is **unsustainable** in the long-term. It was Herbert Stein, former chairman of the Council of Economic Advisors for presidents Nixon and Ford who rightly observed, *"if something cannot go on forever, it will stop."*

Figure 2



Why must it stop? First because of the **law of diminishing marginal utility**. As denoted in our opening quote by Friedrich Hayek, the focus of Keynesian economics is solely on the short-run effects of economic and monetary policy. After all, according to Keynes, *"in the long-run we are all dead."* As such, the economic philosophy of John Maynard Keynes was designed primarily to provide intellectual and academic cover for government interventionism on a grand democratic scale (intervene early, intervene often), in order to arrest and reverse the contractionary phase of the business cycle. [And secure perpetual reelection in the process] And quite frankly it must be admitted that to a degree, it works. Lowering the market rate of interest (the price of money), offering to be credibly irresponsible as a lender of last resort, and engaging in massive deficit spending to promote *"dissaving"*, can, in the short-run, partially overcome the contraction associated with the liquidation phase of a typical business cycle. However, in each instance the underlying cause of the crisis is not fully dealt with and as such, some portion of the malinvestments and dislocations caused by the intentional mispricing of credit remain. Across time these residual dislocations accumulate and manifest themselves in a distorted productive structure of the economy. In short, non-productive activities become subsidized, showing up for example, as a secular increase in consumption as a share of GDP, a large and chronic trade deficit, a diminution in personal savings, and an increase in the *"financialization of the economy."* In our opinion, the stabilizers policy of postponement has failed to deal fully and finally with the myriad of financial crisis of the past 35-plus years. Rather, they have been merely papered over, and in so doing, have created the conditions for the potentially more severe crisis that we are facing today.

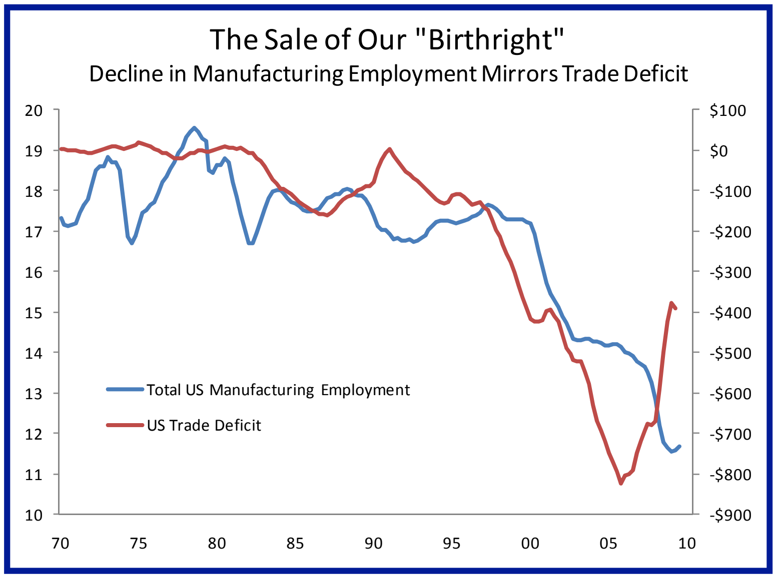
Figure 3



This **law of diminishing marginal returns** can be clearly seen in **Figure 3**. The chart is comprised of the ratio of the annual change in nominal GDP divided by the annual change in total debt. What it illustrates is how much additional productivity is gained by infusing an additional $1 of debt into our debt-based monetary system. As we can see, the marginal increase in the contribution to output (GDP) for each additional $1 in debt, has been falling steadily since the abandonment of the last vestiges of the gold standard in 1971. For every dollar of debt put in place, the dollar increase in economic output has been declining from about $0.75 per dollar of debt, to effectively zero. The interpretation of the chart is simple. Just as the classical economist David Ricardo predicted, as more debt enters the system the productivity gained by each dollar of new debt diminishes. In our opinion, this reflects the cumulative effects of perpetually subsidizing marginally productive activity, i.e., excessive speculation on rising home prices or a permanent increase in personal consumption, both of which are effectively **capital consuming activities**. However, the most ominous aspect of this chart is the recent collapse of the marginal productivity of debt into negative territory, suggesting the massive amount of debt put in place to postpone the Great Recession may actually be reducing output. While clearly there will be a rebound as the recent decline is equally affected by the contraction in GDP as well as the increase in debt, nevertheless, the trend has been approaching zero for some time, and this **"debt saturation"** threshold will very shortly, be permanently breached. Quoting Marc Faber, *"When debt growth exceeds nominal GDP growth, sooner or later something will have to give."*

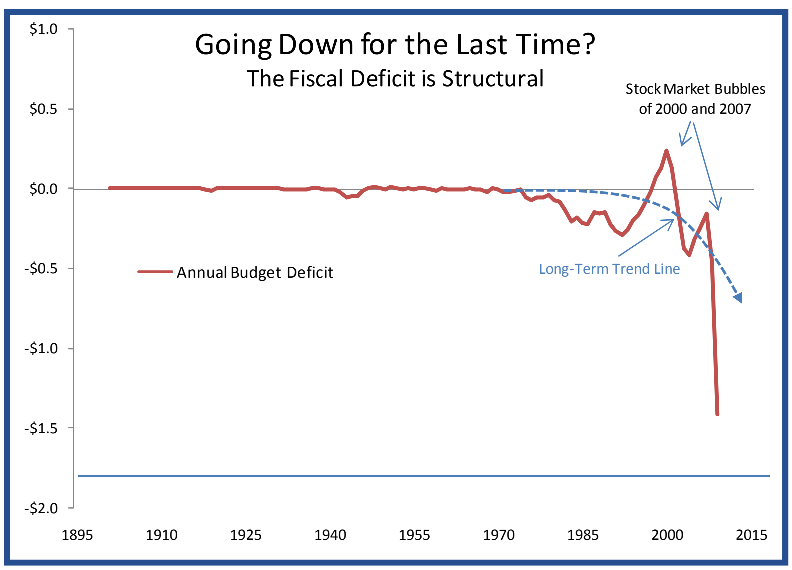
And that something will either be the unsustainable trajectory of government deficit spending [and by extension the so-called recovery] or taxes. In our opinion, yet another reason that the current trend in federal debt is unsustainable is that the increased **level of taxation** implied by the projected massive increase in government borrowing is economically untenable. Referring to **Figure 4**, we can see the massive and growing gap between US federal expenditures and receipts that has developed as a result of the Great Recession. As of year-end 2009, that gap stands at just over **$1.4 trillion**. As should be clear from **Figure 4** which presents data annually from 1900, with the sole exception of a three year demobilization period between 1946 and 1948, during which time expenditures returned to trend following the massive buildup for WWII, annual federal expenditures have never and will never fall. Government never voluntarily downsizes. As was correctly observed by Austrian economist Guido Hülsmann, *"Governments inflate the money supply because they gain revenue from inflation."*

Figure 4



At the same time, referring to **Figure 5**, which graphs the annual federal deficit across the same time period, it should be equally clear that the US federal deficit is **structural**, not cyclical in nature. By structural we mean that the deficit remains across the business cycle as the general level of government spending is too high for the prevailing tax structure. As such, in the absence of immediate corrective action such as a permanent reduction in spending (impossible), or an increase in taxes (the increase required is implausible), we can expect these deficits to persist even during a cyclical recovery. This is borne out by the fact that the size of the annual gap between government expenditures and receipts has been consistently deteriorating over the past 35-plus years. (See long-term trend line) Interestingly, the only reversals occurred during the 2000 and 2007 stock market bubbles when tax receipts soared in response to the increase in capital gains taxes. However, as is equally clear, subsequent to the collapse of both bubbles, tax receipts declined precipitously. We believe this underscores both the relative importance of and the stabilizers increasing dependence on, the formation and perpetuation of asset bubbles for pursuing a policy of perpetual postponement. For, if taxes were increased in accordance with the exponential rise in government spending, economic growth would be completely eviscerated by the *"heavy hand of government"*. And in addition, to the extent that rising stock prices betoken

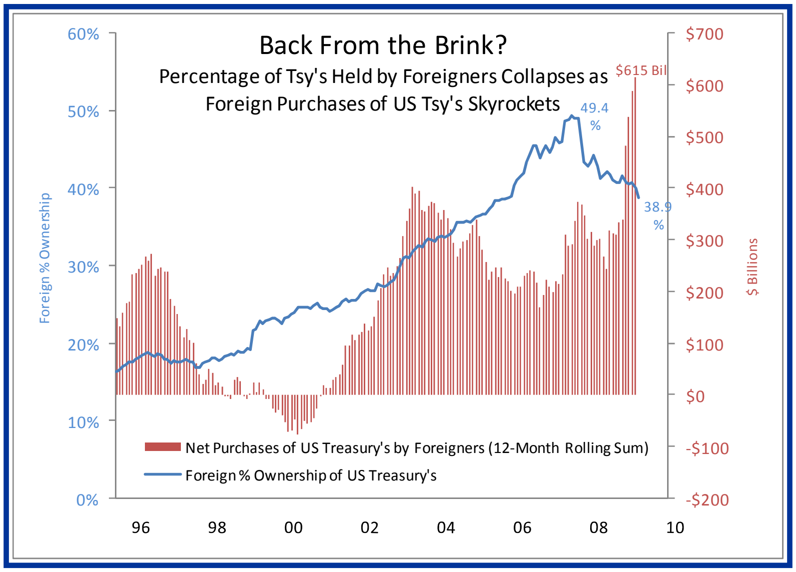
Figure 5



capital gain taxes, the absolute level of Treasury bond issuance is mitigated, reducing supply-related pressure on long-term interest rates, a critical factor in the stabilizers' ability to pursue their policy of **"extend and pretend"**. So while Messrs. Greenspan and Bernanke have adamantly maintained that a central banker is unable to identify the formation of an asset bubble, they are ironically enough, overly dependent on their existence. As such, any sustained downturn in the stock market would be **fiscally catastrophic**. And while we remain confident that determined central planners unfettered by the constraints of either scarcity or the constitution, will, unlike President Harding, pursue every means available to secure *order from disorder*, Harvard economist Kenneth Rogoff reminds us that *"when an accident is waiting to happen, it usually does".*

Kenneth Rogoff along with Carmen Reinhart of the University of Maryland, recently completed a comprehensive study of such **financial accidents** entitled: This Time is Different: A Panoramic View of Eight Centuries of Financial Crises. In their review of financial folly, they demonstrate that **sovereign debt defaults** are far from isolated events. Instead, they show that over the longer sweep of history, episodes of sovereign governments resorting to default or restructuring of their debts, has been all to regular. By their count, over 40 percent of countries did so in the aftermath of the Great Depression of the 1930's and over 30 percent followed suit in the aftermath of the 1980-82 global recession. As such, the **"This Time is Different"** aspect of their title was in fact, a sarcastic rebuke to the *"bleating of the sheep"* who insist with great solemnity, that given our increased level of sophistication coupled with our willingness to embrace a *"technology called a printing press"*, such a thing could never happen again. Nevertheless, we are reminded by Alexis de Tocqueville that *"events can move from the impossible to the inevitable without ever stopping at the probable."* [Greek debt anyone?]

Figure 6



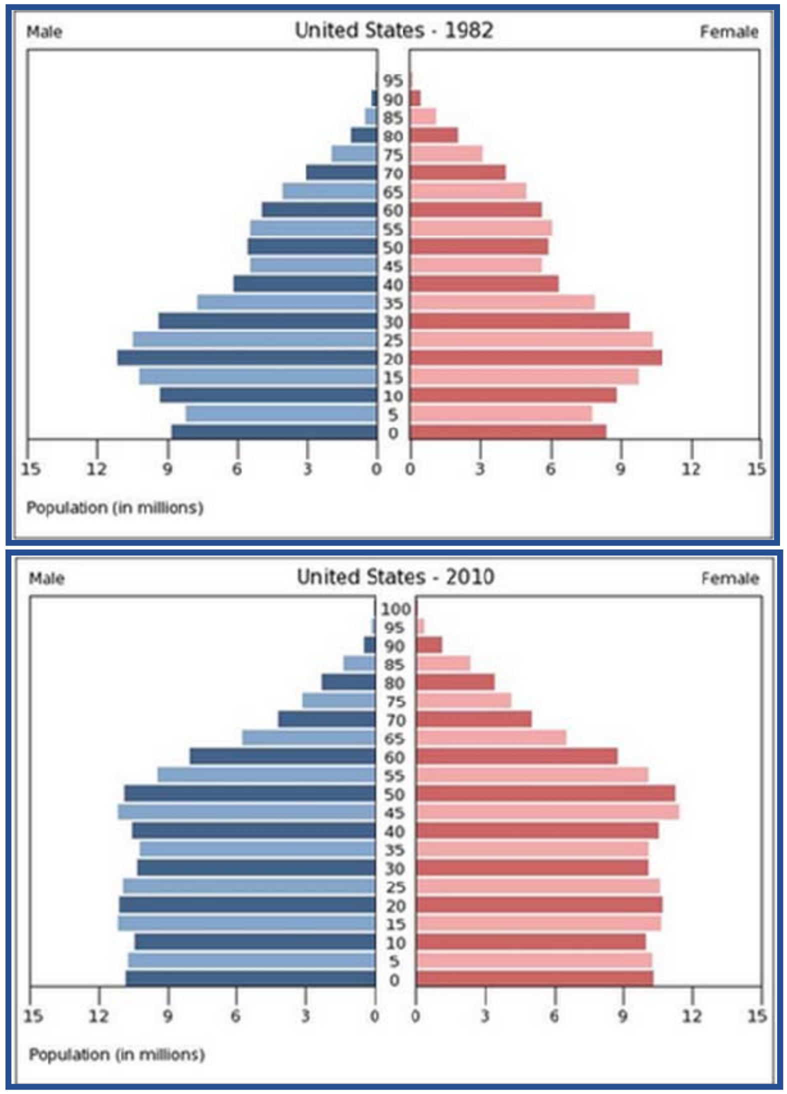
One of the findings of Rogoff and Reinhart that was closely correlated with the *"inevitable"* was that those countries most at risk of defaulting on their government debts were those that were **overly dependent on foreign capital flows** to finance their financial profligacy. Referring to **Figure 6**, we can see that the percentage of US Treasury's held by foreigners had risen steadily to nearly **50 percent** as of June 2008. However, the percentage of foreign ownership has since declined to approximately **39 percent**. And while some may be quick to hail this as an encouraging new trend, reflecting our ability to somehow reduce our reliance on the kindness of strangers and so *step back from the brink* as it were, we would point out that this decline in foreign ownership has occurred at the same time that the **annual net purchases** of US Treasury's by foreigners has **nearly doubled** to an all-time high of **$615 billion**. The reason for the apparent conundrum between the increase in foreign purchases of US Treasury's and the concomitant decline in the percentage of foreign ownership of US Treasury's is due to two effects, one of which is seen and another that is not. That which is seen is a fiscal deficit that has increased from **$300 billion** to **$1.4 trillion** over the last two years, representing a **tenfold increase**. However, while foreigners have increased their purchases of Treasury's substantially, they have not increased them tenfold. That leaves only domestic investors to make up the difference. And that brings us to one particular domestic investor that has remained effectively unseen – the Federal Reserve.

As we have discussed in previous reports, as part of their emergency intervention program, the Federal Reserve embarked on program of **quantitative easing** or QE, in late 2008. Under this QE program, the Fed publicly committed to purchasing **$1.75 trillion** in securities outright, with the purchases to be broken down into $1.25 trillion in mortgage-backed securities, $300 billion in Treasury's and $200 billion in agency securities. The Fed completed their direct purchase of $300 billion in Treasury's under their QE program in November of 2009. Adding this $300 billion from the Fed's QE program to the approximately $500 billion increase in foreign purchases of Treasury's would account for a total of around $800 billion in US Treasury issuance in 2009. However, given that the level of marketable US Treasury debt outstanding increased by approximately $1.4 trillion in 2009, that still leaves a significant gap of $600 billion in Treasury purchases unaccounted for. Who was the marginally buyer of this $600 billion in US Treasury's? The Federal Reserve, but they did not buy them directly.

According to the Federal Reserve's own Flow of Funds report, *"households"* purchased **$531 billion** of the $600 billion of missing US Treasury's during 2009, a level nearly **four times** what they purchased in 2008. Curiously, in the same report, *"households"* were a net seller of mortgage-backed securities to the tune of **$620 billion**, a level equal to **six times** as many as they had purchased in 2008. Why were *"households"* so keen on dumping mortgage-backed securities and buying Treasury's in 2009? Because not all *"households"* are, well, households, i.e., mom and pop investors. Instead the category labeled *"households"* is a default or catch-all category the Fed uses to balance the report. What is included in the *"households"* sector are certain **institutional investors** including **hedge funds**. So as the Fed was executing its QE program and purchasing **$1 trillion** in mortgage-backed securities (a level equal to 100 percent of all mortgage issuance in 2009 by the way), certain institutional investors, including hedge funds, have been unloading their mortgage-backed securities to the Fed at above market bid levels and purchasing other securities including Treasury's in a **"shadow QE program."** As we pointed out in our third quarter 2009 report, the Federal Reserve has become ***the bid*** for the entire mortgage market, and by doing so, they have effectively freed up investors to buy everything else, from stocks to Treasury's. This is why we have adamantly stated that despite their rhetoric to the contrary, *"Atlas cannot shrug"* and withdraw from their commitment to the mortgage market. For if the Fed stops purchasing mortgage securities, then the rest of the world has to allocate **$1 trillion** away from purchasing other securities, including Treasury's, toward the purchase of mortgages. Given that **$1 trillion-plus federal deficits** are projected to continue for the foreseeable future, under such a scenario the mortgage market would collapse in a heap and the true underlying condition of our massive *something for nothing* fiscal deficits would rapidly move from the *"impossible to the inevitable."* In the process, long-term interest rates would spike, potentially triggering that *"instant step from order to disorder"* the stabilizers have thus far been able to postpone. So even though the market has seemingly been able to absorb the massive level of new Treasury issuance required to pursue their **policy of postponement** without spiking interest rates, we would suggest that things are not always as they appear to be. Or as former coaching great John Wooden once cautioned, *"Never mistake activity for achievement."*

As problematic as the deterioration in the US fiscal condition is, and by extension, the sustainability of the stabilizers policy of postponement, our discussion thus far has not included the impact of the coming escalation in age-related spending on social programs. Given the demographic profile of the US, the ratio of old-age population to working-age population is projected to rise sharply. This is graphically reflected in **Figure 7** which contains two charts contrasting the breakdown of the US population by five-year age segments at two time periods, 1982 and 2010. As we can see, the 1982 chart resembles a pyramid with a relatively small elderly population at the top supported by a much larger working-age population at the bottom. However, by 2010 the pyramid had shifted upward and become top-heavy, reflecting the irreversible transition of the baby boom generation into retirement age while being supported by a much smaller worker-to-retiree ratio. Adding to the effects of population ageing is the problem posed by rising per capita health care costs, particularly in light of the recently passed health care legislation. Currently, we are right on the cusp of this transition.

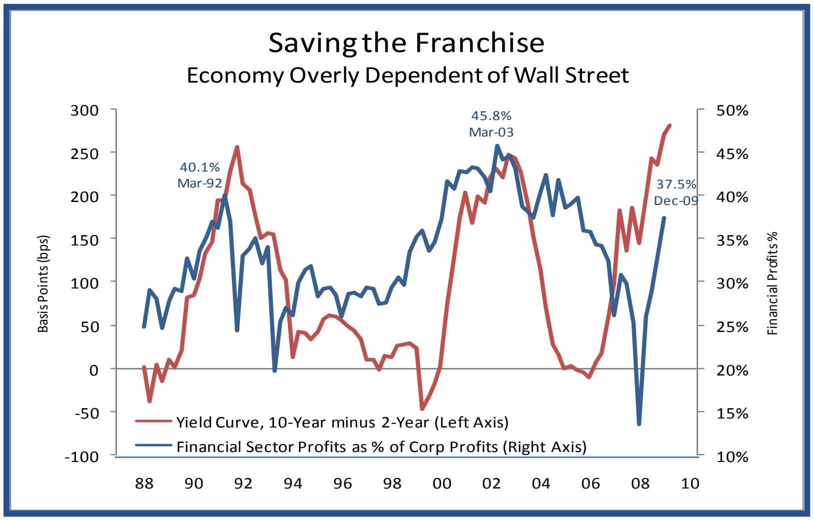
Figure 7



This leads to the obvious conclusion that any current assessment of the US' fiscal situation based on a short-term perspective is incomplete and as such, is misleading. This is particularly true in light of the fact that the massive increase in the level of age-related spending is **largely unfunded**. Existing studies report that the magnitude of the long-term fiscal imbalance including the **present value of unfunded liabilities** arising from ageing is very large. According to a study by the Bank for International Settlements (BIS) completed in March 2010, unless the stance of US fiscal policy changes markedly, or unless draconian cuts are made to age-related spending, the primary deficit to GDP ratio in the US will rise to **10 percent** by 2020. Using current GDP projections that equates to an annual fiscal deficit in excess of **$2 trillion** in just 10 years! As a result, the federal debt to GDP ratio would soar to over **150 percent**. Clearly this is a path, which as we suggested earlier, is ultimately unsustainable. It is a direct outcome of perpetually pursuing a short-term goal of **stability,** i.e., everyone wants to go to heaven, while ignoring the long-term consequences that sooner or later, everybody has to die. Economist Hyman Minsky once observed, ***"stability begets instability."*** As we discussed earlier in this report, by attempting to overturn scarcity, the stabilizers interfere with the feedback loop that exists in a free market between volatility and prices. And in much the same way that "*pain*" is a warning to the body so volatility is to prices. Medication to anesthetize and render the patient insensible to pain offers palliative care and while perhaps virtuous, does nothing to address the underlying systemic condition of the disease. The end result for a terminal condition is a form of euthanasia. Speaking along these lines, economist Gary North recently remarked, *"kicking the can is what people do before they kick the bucket."*

One of the most important tools the stabilizers have used to *"kick the can"* down the road, has been the creation of a historically steep yield curve. The yield curve, as measured by the spread between the 10-year and the 2-year Treasury yield, is currently at its' steepest ever. This is the result of the Federal Reserve artificially pegging short-term interest rates at zero for an *"extended period of time."* The primary reason for doing so has been to save the banking franchise and *"encourage"* risk taking by driving funds back into risky assets and re-establishing the profitability of the leveraged carry trade. After all, this is the almost exclusive province of both banking and Wall Street – borrowing short and lending or investing long. Referring to **Figure 8**, we can see that as we have discussed in previous reports, over time, a **financialization** of the US economy has taken place. By financialization we mean that the US economy has become overly dependent on the financial sector and financial speculation. This is borne out in the chart by the high degree of correlation between the steepness of the yield curve and financial sector profits as a percentage of total corporate profits. In 2003 and 2003, over 45 percent of all corporate profits came from the financial sector. By keeping short-term rates at zero for as long as possible, the Fed is allowing the banking sector to **rebuild its capital base** through profits derived from leveraged speculation. However, it also has the unintended consequence of distorting the evaluation of the **price of risk**, pushing all investors further out on both the risk and yield curve in search of return. This is showing up as *"green shoots"* in rising stock prices and collapsing risk spreads on bonds. Dr. Edward Yardeni recently summed up the pressure on investors to extend by observing that *"the alternative to stocks is to earn zero in the money market."*

Figure 8



In our opinion, the perceived improvements in the financial markets and the economy are due primarily to the massive level of liquidity injections and economic intervention by the stabilizers. And while we concede that we will experience the best statistical recovery that $13 trillion in intervention can buy, we stubbornly maintain there has been no organic recovery to date. As such, we continue to reiterate our version of the **"Financial Shema"** – *the problem and the solution, they are one*. The stabilizers' policy of perpetual postponement has placed the US on the ***"road to serfdom".*** Nevertheless, we remain confident that the **law of inevitability** will eventually discredit the Keynesian policy of *something for nothing*. And as their policy of postponement emphasizes short-run considerations to the exclusion of long-run considerations, we believe the US will come into proximity with this law sooner rather than later. Our primary criticism of the stabilizers extend and pretend policy as it relates to investing continues to be the inability to discern what the deterministic outcomes will be from their policy choices. Therefore, when it comes to the construction of fixed income portfolios, we will continue to abide by another law, the **law of uncertainty**, which stipulates that for decisions made under a condition of uncertainty, *the decision should be driven by the severity of the outcome, not the probability of occurrence*. Echoing these sentiments, Nassim Taleb, author of the book 'The Black Swan' remarked, *"Managers who spend most of their time on normal day-to-day price changes and ignore tail events have it exactly backwards."*

So who are we to believe? The warnings of dour Cassandra's like President Harding and the Austrian economists, or the frenzied exaltations of the something for nothing crowd? When forced to make a similar life or death choice, Thomas More, the former chancellor of England under Henry VIII, is reported to have offered a rhetorical question in response: *"Some men think the earth is round, other think it flat; it is a matter capable of question. But if it is flat, will the king's command make it round? And if it is round, will the king's command fatten it?"* In our opinion, the answer is incapable of doubt.