



The Road to Serfdom

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Ibiajara, Brazil

July, 2025 – Hello from the Tropic of Capricorn in sunny Brazil. The people are great, the fruit is sweet, and the sun is strong (even in winter). Brazil is one of the most eclectic and vibrant countries on earth: you can witness first world international glamour on Paulista avenue in Sao Paulo all the way to third world slum life in the favelas of rural Bahia. And socialism dominates these poorer, rural areas. You can see it in the simple day to day things we take so much for granted: Air conditioning, paved roads, roadside restaurants, clean bathrooms, state-of-the-art hospitals, efficient air travel, efficient airports, two lane highways, on and off ramps, ice makers, water pressure, and of course, Chick-Fil-A. I could go on, but you get the drift. Like everything in life, there is a tradeoff.

The family life here reminds one of the 1950s in the US, when families lived closer and cousins were your childhood playmates. God still mattered and people seemed to really care for their neighbors. No one had tattoos on their face, purple hair, or piercings all over their body. The contrast is stark.

Given all the differences and the apparent backwardness of a second or third world environment contrasted to our own ultra-modern society, one wonders who is the happier. Quite frankly, there is no contest. All one needs to do is examine the America's Generation Z. They are suffering.

“Mental health challenges are widespread among Gen Z, with nearly half (46%) having already received a formal diagnosis and more than a third (37%) believing they have an undiagnosed condition. Anxiety leads as the most common diagnosis, followed by depression and ADHD.”¹

Have you recently had a conversation with a member of Gen Z? Or indeed, asked them to solve a basic math problem? They, as a generalization, are ill equipped to take over the economy. I believe many industries will suffer, not unlike what we've seen recently with the airline industry. I imagine myself in my dotage, depending on a Gen Z'er for my personal care. A scary thought, indeed. Already this group is clamoring for more socialism. This does not bode well for the future of our country.

I'm not picking on this generation in particular as it seems that the competency of all of the generations since Gen X have withered thanks to "No Child Left Behind" which left them all behind. I thank the universe that I escaped the indoctrination—though I got plenty of doses of the Fabians' medicine. If you've never heard of the Fabians, then you have your homework cut out for you.

You see, these newer generations are clearly on the road to serfdom. This expression is borrowed from arguably one of the most influential and eloquent books on economics, *The Road to Serfdom*, written by arguably one of the most influential and eloquent authors on economics. I certainly think so.

Friedrich Hayek's *The Road to Serfdom*, published in 1944, warns against the dangers of government control over economic decision-making. Hayek argues that such central planning leads to tyranny and the loss of individual freedoms. He believes that socialism, while promising equality, ultimately results in oppression and servitude.

Hayek contends that centralized economic planning is inherently undemocratic. It requires a small minority to impose their will on the majority, undermining individual freedoms. A sufficient amount of time spent in socialist countries will certainly settle the matter—for I have seen it time and again.

In the US, our central bank was introduced in 1913 in order to bail out banks when there was a run—meaning everyone wanted to withdrawal their money when it didn't really exist. That's how central banks work in a fiat currency environment. They actually create money by lending it out, and they lend out a lot more than they actually have. When things go south, someone as to be the lender of last resort. That's where you come in!

Now they don't actually go into your account and take your money—their system is far more insidious. Instead, they print copies of the money in your account, that look, feel, and spend exactly the same way. No one would know the difference between your money and the newly created Fed money.

But there IS a huge difference. Your money had to be earned through work or investment. It took time and effort, not easily duplicated or replicated. You likely had to pay taxes on it, and to invest it, you had to take a risk—and sometimes you lost some. In short, it was earned though YOUR labor and capital.

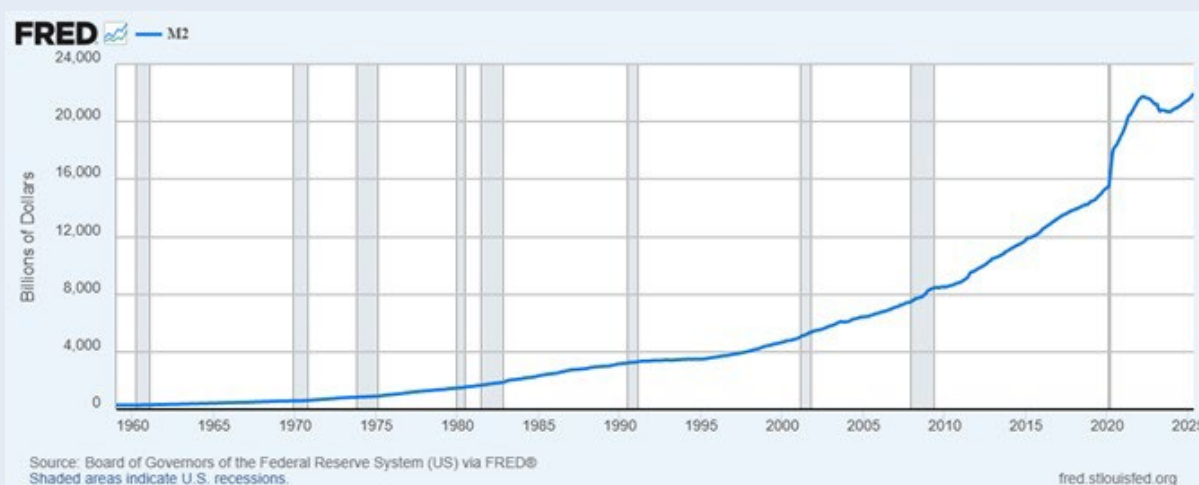
The Fed's money—on the other hand—is created with ease from nothing without the need of labor or capital. The newly created money, once it's released into the economy, actually "steals" the value you have earned, thus reducing your value, negating the efforts of your labor and capital.

Of course, they will never tell you any of this and they will certainly not admit it—it's all for your own well-being, don't you know? Just read their website.

There is no democratic process behind this—we are simply powerless pawns. People around the world are finally waking up to the fact that one's own government is at the top of the list of one's enemies. No one has the power to ruin your life like your own government—led by the central bank.

Just look what they've done to our money. In 1965, a postage stamp cost 5 cents, today no one really even knows what they cost because it increases so often. Some quick research reveals that they are going up again as of July 13, from 73 to 78 cents. Were you even aware of that? Pennies are so worthless that we are no longer going to make them. Nickel is too expensive to use in nickels. They got rid of silver back in '66 and gold in '33. Since hard assets can't be created at will, they've got to go.

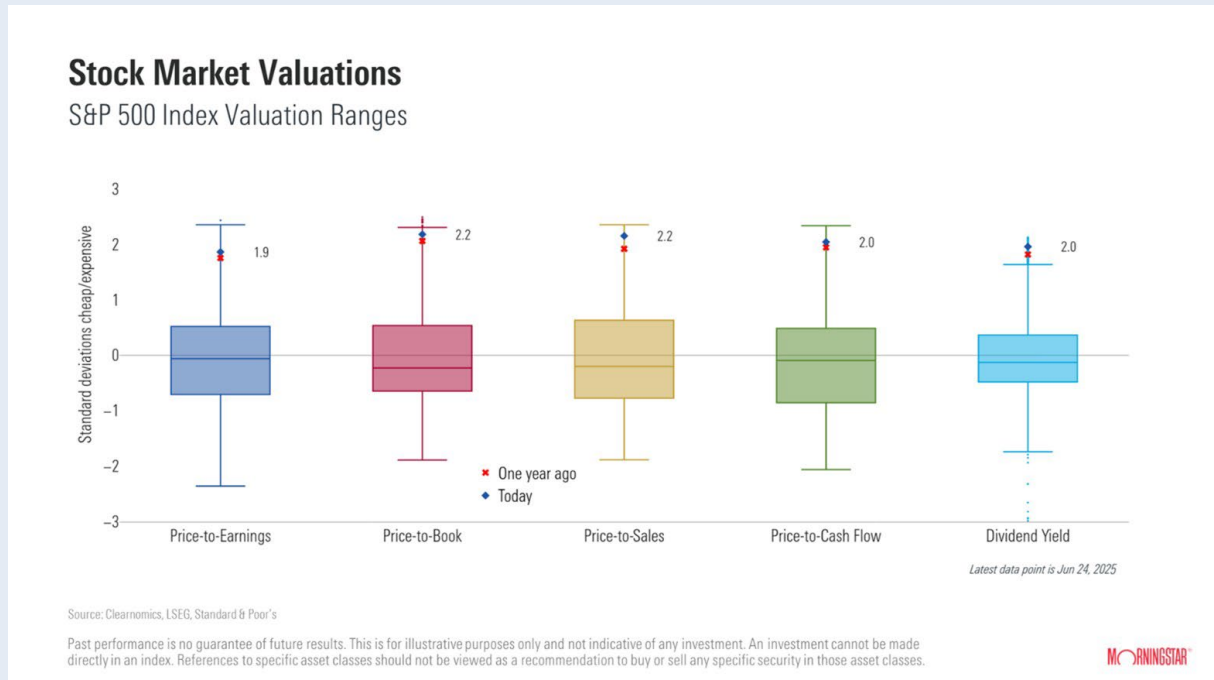
The chart below represents newly created money since 1960. You can see that since 2008, and especially since 2020, it has really taken off. There is your inflation—clear as can be.



You can see at the tail end there we were trying to bring it down, but have apparently since given up. Hayek was exactly right: nothing is more undemocratic than a central bank, and those injured the most are the poor, those living on fixed income, and savers. It is no wonder that Generation Z is distressed—how can one even save for a first home when prices rise faster than you can work three jobs, none of which provide healthcare or retirement benefits?

Monetary expansion, which is what we're calling money printing, does not just affect prices at the grocery store and everywhere else, it also creates bubbles in stock prices. Just as there is ever more money chasing the same goods and services, there is ever more money buying stocks, and driving up prices artificially. This is where we are now.

Historical stock prices do not justify the current stock prices as measured by all the typical formulas that we have used since the early twentieth century—the type of formulas that made Warren Buffett a household name.



You've seen the graphic above before. The colored boxes represent the average (or mean) of each one of the stock valuation indicators, from left to right:

1. Price-to-Earnings, the price of a share vis-à-vis the earnings of a company per share.
2. Price-to-Book, the market share price compared to the value of the shares on the books. Every company knows their book value.
3. Price-to-Sales, the company sales per share compared to the price of each share.
4. Price-to-Cash Flow, the share price compared to the company's profits per share after all the inventory, expenses, wages, healthcare, and taxes have been paid.
5. Dividend Yield, the current dividend percentage compared to historical rates.

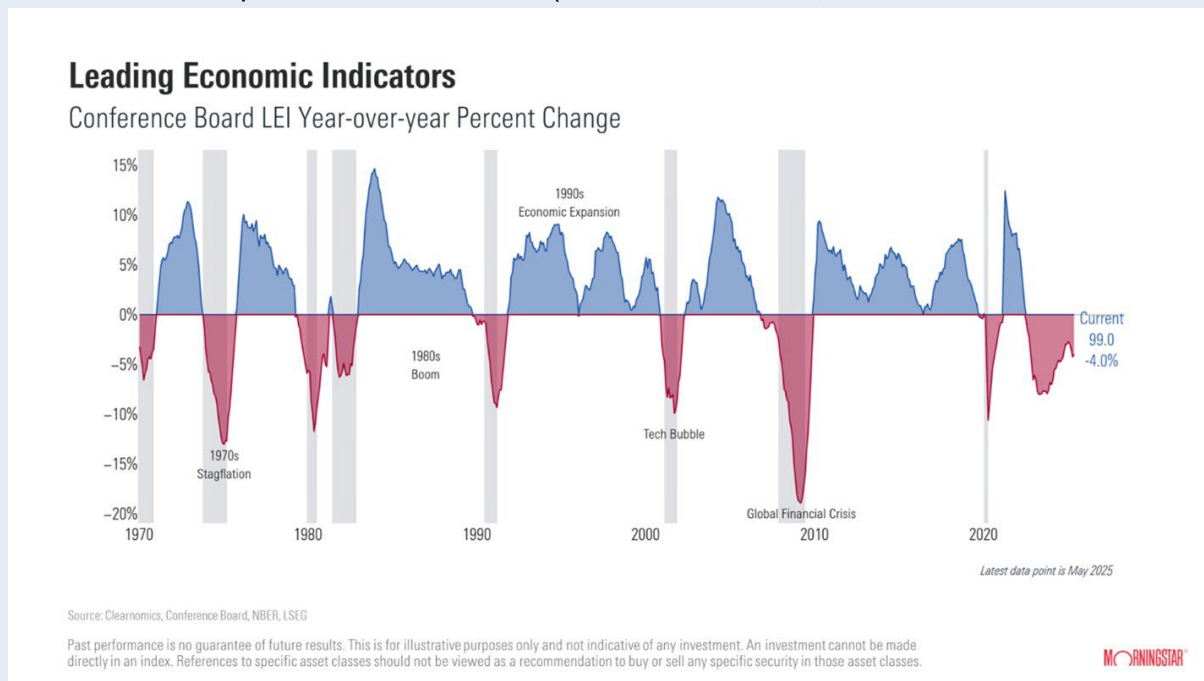
The blue dots indicate where we are today (as of June 24), and the red boxes indicate where we were a year ago. In every single instance, you can see we are about two deviations ABOVE the mean. This dropped a bit back in March, when the tariff talk sent stocks into a tariff tantrum, but they have since recovered, and we are back to roughly where we were a year ago.

Our dilemma is that we want to buy stocks at a discount, and not a premium—which is where they undoubtedly are now. Can they go higher? Sure, but the downward pressure is still much greater than the upward momentum. Just look at the volatility caused by recent geopolitical economic events. Stock investors are living on day-to-day news. Today, a tariff announcement. Tomorrow, a delay in tariffs. Today, a new tariff deadline; tomorrow, the deadline is extended.

What we are looking for, essentially, is a general drop in stock prices where all those dots come much closer to the mean—the colored boxes. In particular, we are looking for a drop in the last indicator, dividend yield. A lower number there means that dividend-paying stocks (our ultimate destination) are paying the same dividend (or perhaps even greater), but the share price is lower. This means that the dividend yield has increased.

We are currently looking at a dividend yield of about 4.11% for the value stocks on our shopping list. We want that yield to rise to above 4.50%. Then, even if stock prices drop more, those companies will have enough free cash flow to buy back their own stock—an incredibly prudent thing to do, and profitable for shareholders in the longer term.

At some point they should have the opportunity as leading economic indicators have been negative for some time now, and in every single instance where they've been this deep and wide, we have experienced a recession (at least since 1970, as shown in the chart below).



We can't expect too much help from the Fed—they've got their own problems, and boy do they. They have lost all control of the bond market. Last September, when the Fed lowered rates by 50 basis points (1/2 of 1%), interest rates actually went up. Mortgage rates jumped up to 7%, close to where they remain today. This happened not just to mortgage securities, but to Treasury notes and bonds, corporate bonds of all maturities and credit quality, and municipal bonds of every state in the union! Remember, this was BEFORE the election.

The Fed lives in fear (though no one dare mention it) that further rate cuts will exacerbate this apparent powerlessness of the Fed over bond yields. It's hard to emphasize how dire this situation is for the Fed, but essentially, they have been neutered by the bond market. I seriously doubt they will attempt any more rate cuts this year, as they are in no hurry to further advertise their impotence after failing so dramatically on inflation. We'll see.

In any event, we are monitoring the situation every day, and looking for changes in the economic environment that would warrant some purchases. Any investments that we make now will be for the longer-term—ten years or more. The central theme is stocks that consistently increase their dividends over time.

We've got some exciting things happening at Magellan this year, and we look forward to sharing more with you as the months unfold. Stay tuned.

As always, we appreciate having you as a client and a member of our family. If you have any questions or concerns, please take a moment to reach out to me at kevin@magellanplanning.com or 404-257-8811. I always love to hear from you even if it's just to say, "Hey I read your letter and I think you're crazy." Have a safe and happy summer and we'll see you soon.

Very truly yours,

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The return and principal value of bonds fluctuate with changes in market conditions. If bonds are not held to maturity, they may be worth more or less than their original value.

¹<https://www.harmonyhit.com/state-of-gen-z-mental-health/>