This is what runs through my head as I sit hear waiting on the Steelers vs Patriots. I thought it would be fun to post and get feedback on.

Anyone who follows the financial markets hears it every day. Investors moved the market. Investors didn't like the information released today. Investors are looking forward to the unemployment statistics. According to every and any media outlet, if a market moves, it's due to investors.

Wrong.

When it comes to public markets in particular, I don't know if investors even exist anymore.

We as individuals can do any of 3 things with our money.

1. We can spend it.

2. We can save it in a manner where we have 99 pct certainty our principal cannot decline (Typically a bank)

3. We can decide to accept some level of risk in order to earn a return on the cash or assets we have available to deploy.

If we decide we want some risk in our lives, we have the choice to decide where to put those assets ourself, or hire someone else to do it, or some combination.

At this point the decision is made to speculate or invest.

The difference between the two is very simple. If you spend the money and the only way you can earn a return on that money is by selling whatever it is you have purchased. You are speculating.

If you give your money to a person or company, and that money is used directly to create commerce or to create an asset that will be used in commerce and if there are profits from that commerce that can be returned to you as a result, that is an investment

If you buy a house, rent it out, maintain it and make money from the rent and increase its value through your efforts, that's an investment. If you give money to someone to do the same, that's an investment.

If you give the kids next door 20 bucks to help setup a lemonade stand in exchange for splitting the profits. That's an investment.

If you help fund a startup and you are due your percent of the profits, if any. That's an investment. If that same startup has an exit strategy of going public and the only way you can earn a return is if the company goes public or gets bought, thats speculation.

If you buy a share of stock that doesn't pay dividends that reflect the company'searnings, a baseball card, artwork, a coin or stamp collection, in hopes of making money by selling it at some point in the future. That's speculation.

If you hang that art on the wall. Get excited about having a 1968 proof set, or the history behind First Day Covers. Tha'ts collecting. The price movements are just a bonus.

If you buy acorporate or municipal bond. That's still speculation, butat least you were smart enough to buy something with a "get your money back " schedule.

If you buy stock in an IPO or secondary. If the money goes to the company and is actually used for operations and that company returns earnings to its investors from operations in the form of a dividend. That's an investment. If the only way to get your money back is to sell the stock, that's speculation.

If you give your money to a mutual fund or hedge fund that puts money into public stocks and bonds, that's super speculation.

Why Super Speculation? Because there is a 99 pct certainty that you are 3rd in line to get paid with whatever earnings the fund generates with your money.

First the fund itself has to get paid. They take money off the top.

Then the person who makes the investment decision has to be concerned about keeping their job. You see if the fund doesn't outperform its peers or comp indexes, then the person who is responsible for the fund is out of a job.

Do you think that person cares more about putting a roof over his family's head or you? Which means when push comes to shove, unless there are strict limitations, that fund manager is going to take the chances necessary to outperform his comps. And I can tell you that its par for the course to "go down swinging" than it is to take a called 3rd strike. Meaning, they risk your capital in hopes of keeping their jobs if that's the only way to keep their jobs.

Are you an investor or speculator?

It's not that it's right or wrong to be either, but it does make a huge difference in our economy and national well being.

When money goes to create commerce, that's capitalism at its best. Money going to smart people to do smart things. If it has good results, everyone makes money. The economy grows. Expectations are based on the prosperity of the company, typically over a longer term. New ideas create new wealth. It's not a zero sum game. It can be an everyone wins game.

Speculation isn't a bad thing. It can serve many purposes, but it primarily just results in redistribution of wealth. If I speculate better than you, even if you are investing in apples and me in oranges, then its just a contest to see who does a better job. The winner gets the cash. Across all the different levels of speculation, the trillions of dollars, its a zero sum game.

IMHO, and this is obviously just my opinion, the problem is when the balance between the two shifts from heavy in investing to heavy in speculation.

Speculators invest purely to gain an annualreturn based on the risk they are willing to accept. This has lead to huge businessescompeting to attract speculative money. This has lead the public equity markets to evolve from being primarily a source of capital for growing businesses to primarily a means ofextractingwealth for insiders and speculators. Companies don't go public to grow, they go public so people can get rich.

I'm not saying there is anything wrong with making money anyway you can in the market. There isn't.

I do think it's important to understand the expectation behind money. It can help us understand why irrational exuberance is rational. It can help us understand why bubbles happen. It can help us understand why markets don't react like you would statistically expect them to so often.

When most of the money being ingested into our public markets is speculative, then the competition for returns increases. When the majority of speculative money is deployed by funds, who must compete with each other, and within which fund managers must compete to keep their jobs, the amount of risk acceptable for any given level of return increases.

This only works as long as new money continues to come in. As long as people keep streaming part of their paychecks every payday to mutual funds. When the money stops flowing in, there is no one for the speculators to sell to and the prices start falling and everyone starts freaking out.

On the other hand, when money is invested to create and grow companies, that leads to economic growth and jobs. When returns are based on corporate performance and paid in cash, thats a return on investment.

If we want to see the economy grow faster, eliminate taxes on cash returns paid to investorsfrom operating profits. If someone investsin a business, any profits returned to the investor in a year,up to the amount in profit declared to the IRS and on which taxes are paid by the company, that amount should be tax free. Every year in which they are paid.

HOWEVER, if I sell my investment in that company, I pay taxes on the gain at that point and that tax immunity doesnot travel with the investment. Whoever I sell my shares of lemonade inc to pays taxes on any dividends they receive from the company.

This would be a way to see capital redeployed from speculation to investment. I personally think that we would see a positive impact on the economy as capital would be more readily available for small business startups, and it would make it more patient capital since there would be an incentive to get tax free dividends rather than executing on an "exit strategy"

All of which is a good thing for the long term economic health of the country.

But this is all just my opinion.