

# ***Market Musings***

*February 26, 2015*

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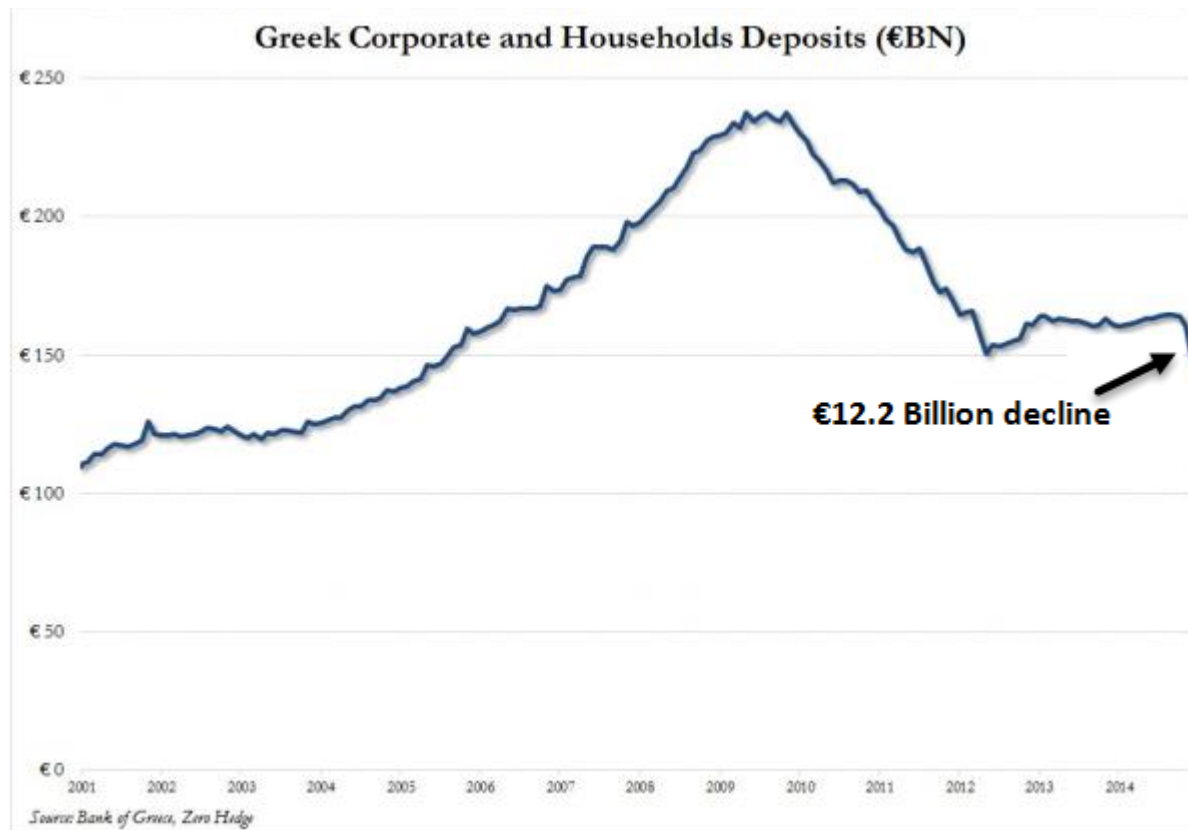
## ***Greece blinks in standoff with EU***



- *The Greek Syriza government was elected a few weeks ago, promising to re-negotiate their debt deal*
  - *They also promised a **non austerity** solution*
    - *The talk was tough*
    - *Syriza went into negotiations demanding:*
      - *A 4 month bridge agreement*
  - *That the EU recognize the non-viability of the debt*
    - *No austerity*
  - *and an immediate new round of across-the-board negotiations*
- *But on Friday, they blinked & their bluff was called*

- *Now the Syriza government has accepted an extension which includes:*
  - *The Tranche that Syriza previously stated it did not want*
    - *The Troika will continue to 'supervise' Greece*
  - *That Greece "reiterate their unequivocal commitment to honour their financial obligations to all their creditors fully and timely"*
- *So any hope for 'hair cuts' or 'debt reduction' seem to have vaporized*
- *This extension was simply another round of kicking the can down the road*
- *In 4 months, Greece will be in the headlines once again*

- ▶ For anyone who thinks that the Greeks are not very nervous, check out this chart
- ▶ January saw the biggest **bank run** in Greek history



# ***Deflation, not inflation is the dominant force***



- *We keep hearing and reading analysts calling for hyper-inflation to dominate soon*
- *The Reuters commodity index tells a much different story*





- *Oil has collapsed over 50% in 6 months*
- *Most analysts say the bottom is in for oil prices*
- *We disagree!*



- *So far oil has not been able to rally above \$55*
- *Anyone buying oil & gas stocks here needs to be very aware of the **debt to cash flow** ratio for these companies*
- *Many of these producers have massive debt & if low oil prices remain, these companies will see the banks come after them*
- *Do not rule out sub **\$40** oil prices, even down to, or below, the previous low of **\$32***

🟢 *We have also seen agriculture decline **22%** since April*



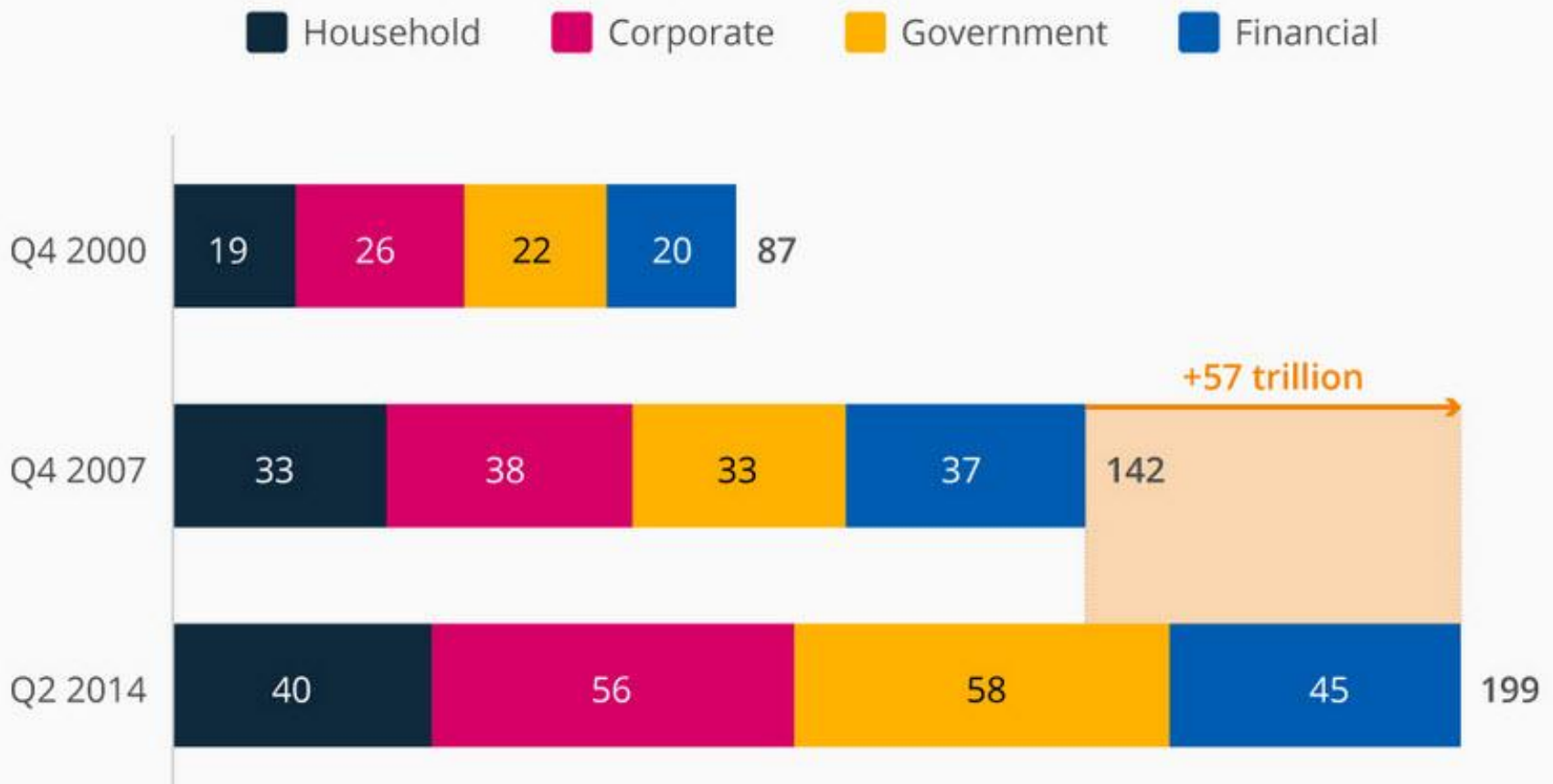
## ***What is causing this Deflationary climate?***

### ***1. Debt***

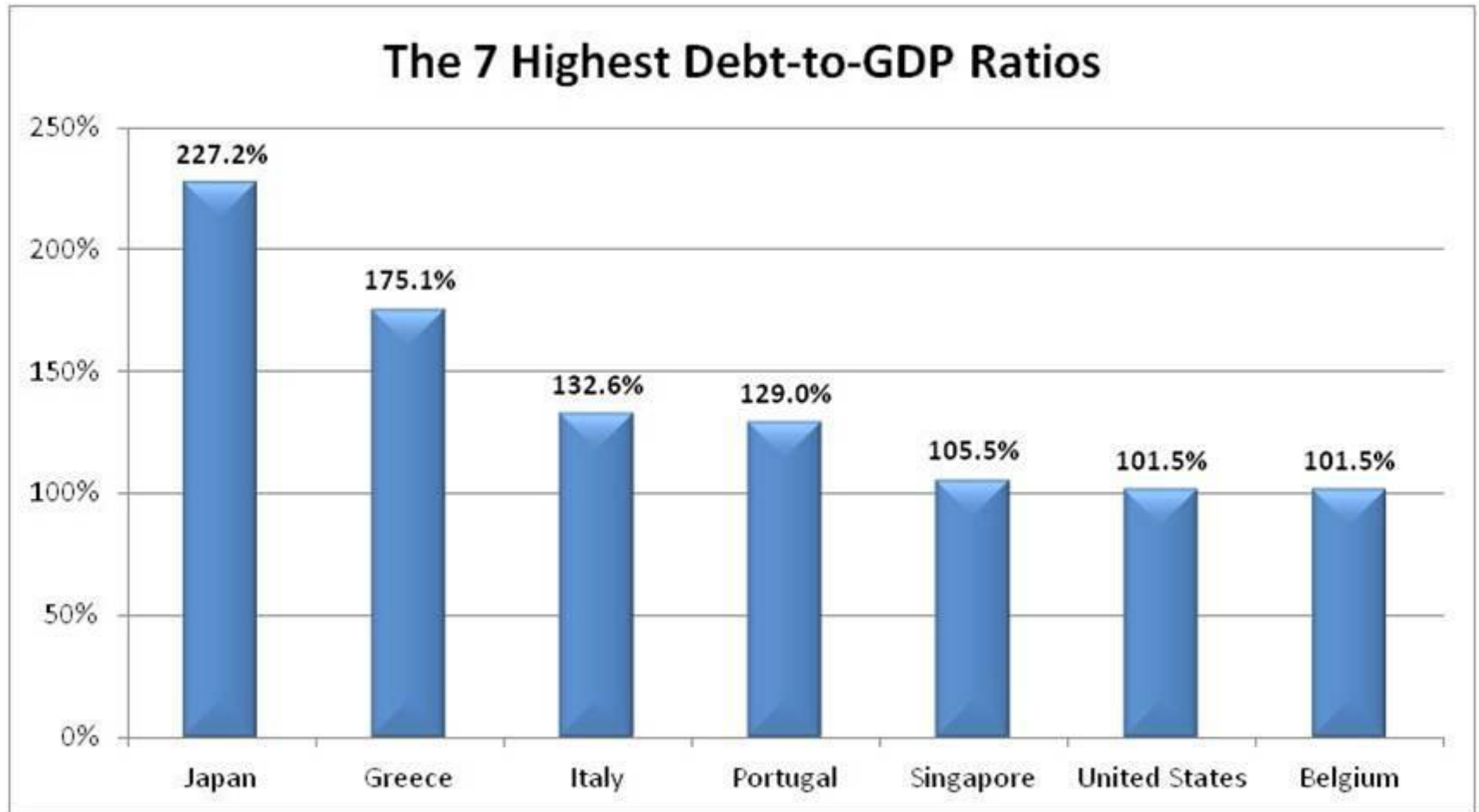
- ***According to a McKinsey & Global Institute study, total global debt (household, corporate, & gov't) has increased a massive **\$57 trillion**, or **40.1%** since 2007***
- ***In the 7 years from 2007 to 2014, global government debt increased from **\$33 trillion** to **\$58 trillion*****
- ***That is a 75.75% increase in just 7 years!!***
- ***Governments are piling up debt at the same time that Gross Domestic Product (GDP) is declining globally***

## Global Debt Has Increased By \$57 Trillion Since 2007

Global stock of outstanding debt, by type (in trillion U.S. dollars)



🟢 *Today, the Debt to GDP ratios are at historic highs*



## ***What is causing this Deflationary climate?***

### ***2. Europe***

- ***In 2012 we had a Sovereign Debt Default scare with Greece***
- ***After the ECB bailed Greece out, the mass media assumed this problem was old news***
- ***Now due to austerity, and sanctions opposed against Russia, most of Europe is in a recession, with many countries on the verge of **depression*****
- ***We even have Germany sliding into a recession***

- *We continue to remind readers that all of these sectors and markets move in cycles*
  - *Man has this innate trait of repeating history*
- *Einstein described insanity as “**doing the same thing over and over again, expecting different results**”*
  - *Based on that definition, all of these politicians & bureaucrats are insane*
- *They see a country like the US, cut interest rates & devalue their currency by printing \$trillions, expecting this action to boost the economy*
  - *It didn't work in the US, but that hasn't stopped many other countries copying the same unsuccessful action – hoping for different results*



- *It is amazing to us that the policy makers never seem to ask these 2 questions:*
  - ***Has this ever been tried before?***
  - ***Did it work?***
- *We have highlighted a number of times that the biggest story during the Great Depression was not what happened in the US*
- *The big story was that the **17 major countries** in Europe defaulted on their debt*
  - *That is correct, **all 17 defaulted***
  - *Today, we are on the verge of repeating history*
- ***We are on the verge of another Sovereign Debt Default***

- *Greece is the likely tipping point*
- *But there are many other candidates*
- *Greece is a small economy, but Spain, Italy, & Portugal are not*
- *A Sovereign Debt Default means that the **bond markets** are going to get hit hard*
- *Other than debt, the biggest problem with the Euro region is that all these diverse countries share a common currency, but not a common debt*
- *We would be surprised to see the Euro survive past 2020*

## ***Why is causing this Deflationary climate?***

### ***3. Taxes***

● *In history, when empires begin to fall, the leaders try to extract as much money from the people as possible, in a last grab to retain power*

● *We are seeing that happen today, with debt ridden governments now chasing down every dime they can grab*

● *If the following statement from Hillary Clinton was true, it would not be so bad, but it is so not true...*

***“We can’t afford to have that money go to the private sector. The money has to go to the federal government because the federal government will spend that money better than the private sector will spend it.”***

- *One of the core problems that we have today is that the career bureaucrats believe that they know best, and they convince the politicians to continue to make the same mistakes, over & over again*
  - *Increasing taxes is **deflationary***
  - *Small businesses are the largest employers*
- *If you keep raising taxes on these business owners, you take away their incentive to expand & hire*
  - *Governments keep getting bigger & bigger*
  - *The US introduced the Foreign Account Taxation Compliance Act (FATCA) supposedly to track down tax evaders & money laundering*

- *But what they have done is force ex-pats living abroad to renounce their citizenship*
- *They are doing it because the US is heavily penalizing any bank that does not report every single American who has assets of > \$50K*
- *To avoid the administrative costs, many banks now **refuse** to allow these ex pats to have accounts in their bank*
- *The only option for these people, many who have not lived in the US for decades, is to renounce their US citizenship*
- *[Click Here](#) to read an article that gives a good example of how aggressively the US is chasing tax dollars*

- *Globally, we need some new leadership & reform*
- *We need to reduce the size of government, not increase it*
  - *These governments have totally mismanaged their economies*
- *The success of the West has been the entrepreneurial spirit that drives people to take a chance on an idea*
- *As these entrepreneurs start up & expand, they hire new staff*
  - *They invest in research & development*
- *When more people get hired, the government gets more tax revenue*
- *When governments continue to raise taxes & fees for these businesses, they choke off growth*

## ***What should investors do?***



## **Understand the trends**

### ● **Currencies:**

- *Strong US dollar*
  - *Weak Euro*
  - *Weak Yen*
- *Buy USD, Sell Euro & Yen on corrections*

### ● **Bonds:**

- *Bond bubble burst coming later in 2015*
- *Avoid long-term bonds, especially in Europe*

### ● **Equities:**

- *European markets are getting a short-term rally on the lower Euro*



- *Over the next couple of years, the **US equity markets** will be the best performers, as **global capital** will flow out of weaker economies*
  - *Although heavily commodity based, Canadian stocks will also get some 'safe haven' capital*
  - *Japan is starting to see inflation rise, which will likely spur the Nikkei market later this year*
- ***Gold & Silver***
  - *Trend is still down & should see new lows (gold possibly sub \$1000) before metals rebound*
- ***Oil***
  - *Trend is still down*
  - *Likely to see \$40 before \$60*

- *Oil could very easily hit previous low of \$32*
- *We will be sending our subscribers Buy & Sell signals on **equity, bond, oil, currency & precious metal** markets when triggered by our models*
  - *Stay tuned!*