

Strategic Insight: November 2011

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An American Phoenix?

It's pretty crummy out there, right? The media is full of up to the minute "reports" about high unemployment, large government debts, misallocation of income between rich and poor, financial troubles all over the world and so on. You have to look past the general media to see the bifurcation that may eventually create a "New American Dream." How we got to this point is abundantly clear. We have a demographic bulge that, for better or worse, has no concept of tomorrow. In fact, the boomers are delaying "tomorrow" through cosmetic surgeries and other techniques to prolong life. While the search for near immortality is benign, the boomer-led infection of spend now, pay later hit this society as a plastic tornado. Accompany the "gotta have it now" attitude with a decades-long movement toward globalization (poorer countries getting wealthier), sapping the growth of middle class incomes, mix with financial engineering in the form of creative mortgages and a government which wants to encourage home ownership and you have the seeds of "the great collapse." It was all too good to be true.

Oliver Hardy might have said, "It's a fine mess you've put us in," but is it? Is there a silver lining? Are things all that bad? The answer depends how old you are, how much education/experience you have, what you do for a living, where you live and how internally strong and flexible you are to adapt to a new reality. If you live in North Dakota, Montana, South Dakota or surrounding states, you'd probably say "what problems"? North Dakota's unemployment rate is 3.6%. There is a bustle of activity around shale oil and gas. If you live in Texas, Oklahoma or Louisiana, you might also not see much of an economic problem for the same reasons. Technology has created a new oil and gas boom. A bummer for carbon dioxide emissions, this boom is a potentially big problem added to the even bigger problem of global warming. This said, there is a new industrial renaissance happening. As other countries get wealthier, the comparative advantage they had with cheap labor will diminish.

Even now, only housing markets remain seriously impaired (to the point of stalling, not collapsing). Government is not faring too well, either. Politics are far more polarized than they have been since the 1960's and federal debt is moving ever near to the serious danger stage. Does the good outweigh the bad?

A phoenix must burn to be remade. So a speculative bubble must burst and its remains need to be disposed of before America's national phoenix can rise again. The cleaning up process is four years into the making. Consumers are not as badly laden as they might appear, as shown by robust (but selective) consumer spending. A society which has no problems facing it down becomes lax and flabby over time (as ours did). Turnarounds from such excessive pride and carelessness that overabundance and weak financial restraints engender takes some time.

We see the following:

- U.S. energy independence in 2020
- A continued manufacturing rebound (not necessarily manufacturing employment)
- Return to the commercialism and mercantilism in America's roots
- Continued rapid change in technology (sometimes straining society and government)
- Serious problems continuing

It's the latter, climate change, resource nationalism, competition among nations for raw materials for their consumer societies, global aging, and on and on (but with more competition) that will keep the next few years interesting. But make no mistake – the American phoenix is rising.

Thank you for investing with us.

Jim Pursley

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