

At Times You Wish You Were Wrong

By Drew Tignanelli, CPA, CFP®

For many years I have predicted this day would come. I have often said the Big Brokerages were destined to implode due to their excessive use of leverage. I have often said that the US government would make the mistake to go the opposite direction from the mistakes of the Great Depression to run the risk of the Great Inflation. Though the Great Inflation has not yet fully occurred, the nationalization of companies and financial bailouts is a very logical first step. I have said general money markets will break the buck creating a panic for a safe haven.

Though an all out panic has not happened, a considerable amount of effort is being exhausted to calm investors after the Reserve Fund has limited liquidity and will return less than a \$1 to shareholders. (The Reserve Fund was one of the largest and the first ever money market fund.) This is why our money market has always been a US Treasury Bill money fund and I have not worried about the higher yield I can get in these other funds that had some degree of risk. We have been in a defensive posture for a year and with the investments we have, they are currently geared toward what we believe is coming next.

Inflation and Asia is the best way to summarize our prediction of the future. The USA will become the emerging market and China will become the economic superpower. A decoupling will happen and Asian securities will take off for the stratosphere while the USA works to get its house back in order. Do not think I am saying the USA is a has-been and washed up, but it is merely a mighty nation that needs to pick itself back up and let the freedom of American Ingenuity to once again take hold. Take hold to fix our schools, recreate our financial institutions, develop a world-class healthcare system for all Americans and bring back true statesmen that run the country for the good of the nation. Out of turmoil comes greatness and I for one am confident that America is not down for the count, but merely bruised from years of self-centered ambition both in government and corporations.

Government is in a large part the problem and not the answer, unfortunately Government is waltzing in acting like the hero on the white horse. In five-to-ten years, China will give us some good old competition for top economic nation in the world; when that happens, the wheels of America will turn and our freedom will trounce their party. When I say China is a great opportunity, many people keep pointing out their problems (corruption, pollution, poor quality controls, government intervention etc.); and I say everything you point to as a problem with China has been and/or still is a problem with the USA.

Chinese are harder workers, better educated, better savers, and they are a homogenous group of people with four times more of them than us. Asia is the opportunity and our focus is Japan, Korea, Taiwan, Hong Kong, Singapore and Big Red China.

This downturn is truly scary, but I see the opportunity ahead. Every great financial turmoil brought forth unbelievable opportunity. With our current defensive posture of upwards to 50% of funds in US Treasury Bill money market and international bonds we are in a good place to go on the offensive when the timing is right. Remember whenever a storm comes rushing in with big black ominous clouds there is always the brilliance of the sun shining on the other side. Be assured the sun will be out tomorrow.