

Economic Review and Financial Market Outlook



“IT IS FAR BETTER TO FORSEE EVEN WITHOUT CERTAINTY THAN TO NOT FORSEE AT ALL.”

-Henri Poincare

Situation Analysis



Situation Analysis

I. GDP Growth Difficult Despite Central Bank Support

- U.S., Japan, Europe GDP growth is anemic
- Liquidity has gone into stock and bond markets, not GDP
- Deflation vs. Disinflation

II. Fundamental Economic Laws Are Being Tested

- Debt rises faster than income (deflation)
 - Debt per unit of income
- Wages rise faster than productivity (inflation)
 - Disposable income per unit of goods and services
- Prices rise faster than productivity (inflation)
 - Price per unit of labor
- Growth without productivity and innovation
 - Innovation creates demand (GDP growth)
 - Productivity keeps costs in check (controlled inflation)
- Long-term growth through monetary policy
 - Monetary policy is a short-term remedy

III. Markets are being supported by Liquidity not Supply/Demand Economics

- “Race to Bottom” (Debasement of all major currencies)

IV. “New World Order”

- Globalization of currencies, economic policies, and regulatory agencies
- IMF, World Bank and United Nations playing a bigger role
- Replace dollar as “Reserve Currency” with basket of currencies is on table

V. Unspoken Concern of World Leaders

- The Computer revolution is to 21 Century what the Industrial Revolution was to 20th Century.....unemployment and deflation/disinflation
- Off Balance Sheet Derivatives is to Banks today what owning stocks was to Banks in the 1920's
 - Counterparty risks largely with Banks

VI. Deflation Avoided in 2008....But Disinflation Has Continued

- Monetary easing has not created GDP growth nor “good” inflation...
- Increased money supply is at Federal Reserve Bank not in circulation...no velocity of money supply
- Low fed funds rate to pressure banks, people and business to take risk has not worked
- For monetary easing to create “good inflation” we need:
 - Money supply increase to outpace GDP and productivity growth
 - Bank lending to individuals and businesses
 - Wage increases
 - Low unemployment
 - High capacity utilization (demand is greater than supply)
 - GDP growth

VII. Stealth Socio-Economic Issues

- Cost of Education in China much less than cost in developed markets while labor costs are low and productivity is high
 - Shift in wealth from USA to China
 - Reduced standards of living in USA
- The USA displaced England in the 19th and 20th century...China may displace the USA
 - Redistribution of wealth from England to USA.....USA to China
 - Less defense spending by England.....Less in USA
 - Large deficit spending by England.....\$17 trillion deficit in USA
 - Move from Capitalism to Socialism.....

VIII. Fat Tail Risks

- Over reliance on Central Banks resulting in new “Fat Tail Risk” ...leverage in the derivatives markets and margin
- “Bond Bull” trap.....10-year Treasury is significantly below GDP + Inflation ($2.5+1.5=4$)
- Extended period of disinflation
- Japan like deflation

IX. Game Changers

- Where Does Cash on Sidelines Go (financial assets, real assets, stay in cash)
- Move from liquidity economy to purchasing economy (How and When)
- “Cyclical” unemployment versus “structural” unemployment
- Off balance sheet derivatives...is some institution over-leveraged?
- “Fed taper”...there is no play book for this!

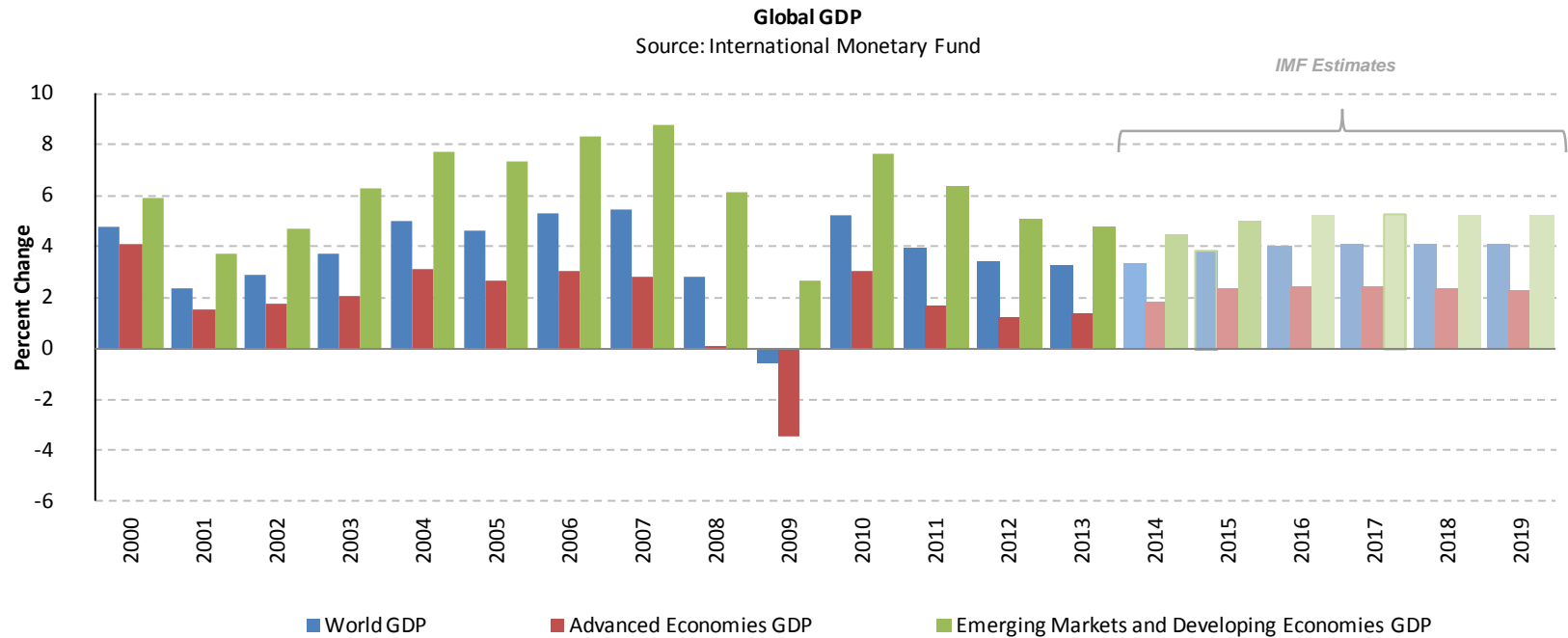
X. Exit Strategy... “Liquidity Mop Up Plan”

- Gross spending (Public and Private Sectors) = Credit + Savings + Disposable Income + Sentiment
- GDP growth with stable inflation
 - Reduce money supply while increasing bank lending, savings, income and consumer sentiment
- Issue #1: Can we get GDP back to 4% to “Mop Up” liquidity that the Fed must release into public and private sectors
- Issue #2: We need a “net export economy” by becoming energy independent
 - OPEC to fight for market share by over production of oil and driving prices below “shale fractioning” cost to produce.

Economic Review



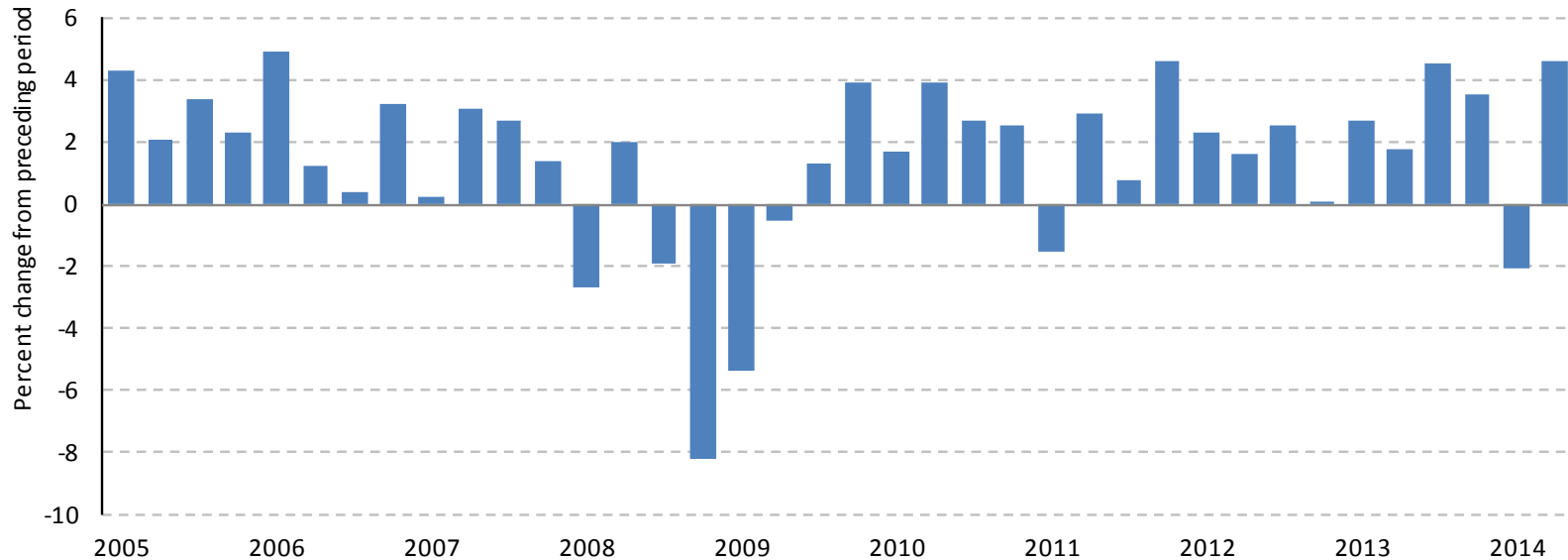
Global GDP



- **Despite setbacks, an uneven global recovery continues.** Largely due to weaker-than-expected global activity in the first half of 2014, the growth forecast for the world economy has been **revised downward to 3.3% for this year**, 0.4% lower than the April 2014 World Economic Outlook.
- The International Monetary Fund predicts that global growth will strengthen gradually through 2015, **increasing to 3.8% in 2015.**
- **Downside risks have increased since the spring.** Short-term risks include a worsening of geopolitical tensions and a reversal of recent risk spread and volatility compression in financial markets.
- Medium-term risks include stagnation and **low potential growth in advanced economies** and a **decline in potential growth in emerging markets.**

Gross Domestic Product - Percent Change from Preceding Period

Source: Bureau of Economic Analysis; Federal Reserve

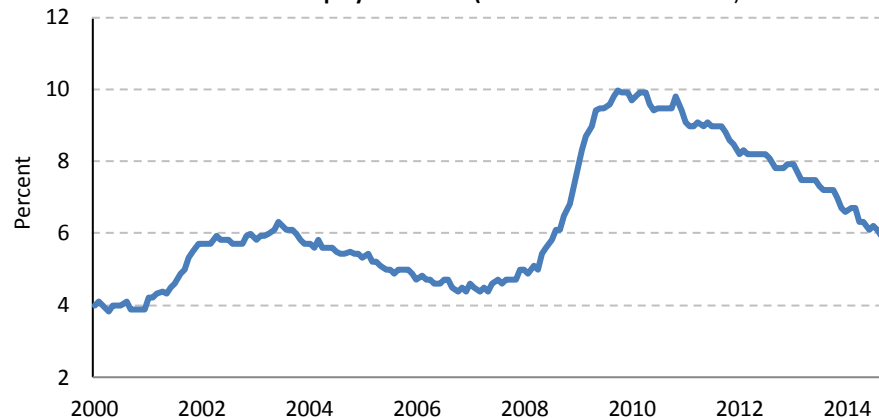


- **Real gross domestic product** -- the output of goods and services produced by labor and property located in the United States -- increased at an annual rate of **4.0 percent in the second quarter** (that is, from the first quarter of 2014 to the second quarter of 2014). In the first quarter, real GDP decreased 2.1 percent.
- The **acceleration in real GDP growth** in the second quarter primarily reflected positive contributions from personal consumption expenditures (PCE), private inventory investment, exports, nonresidential fixed investment, state and local government spending, and residential fixed investment.
- Real nonresidential fixed investment **increased 5.5 percent** in the second quarter, compared with an increase of 1.6 percent in the first. Investment in nonresidential structures **increased 5.3 percent**, compared with an increase of 2.9 percent. Investment in equipment **increased 7.0 percent**, in contrast to a decrease of 1.0 percent. Investment in intellectual property products **increased 3.5 percent**, compared with an increase of 4.6 percent. Real residential fixed investment **increased 7.5 percent**, in contrast to a decrease of 5.3 percent.

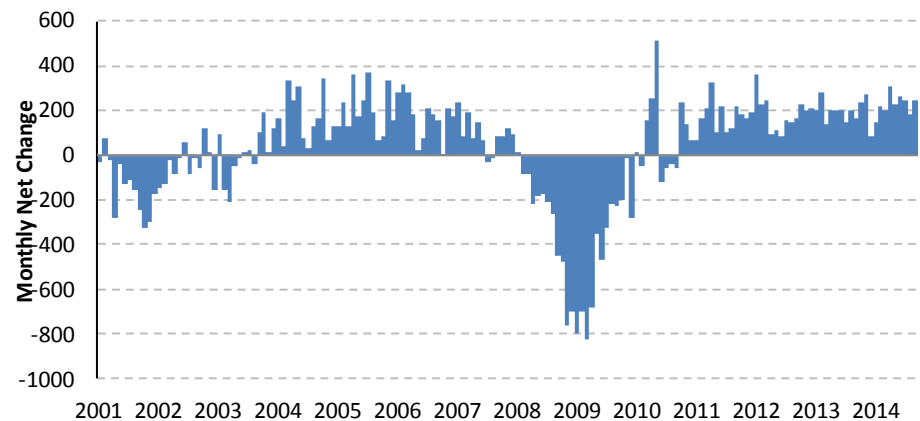
Contributions to Percent Change in Real GDP (Quarters Seasonally Adjusted at Annual Rate)					
	2013Q2	2013Q3	2013Q4	2014Q1	2014Q2
Gross Domestic Product (A+B+C+D)	1.76	4.52	3.50	-2.11	4.59
❖(A) Person Consumption Expenditures	1.23	1.39	2.51	0.83	1.75
▪Goods	0.30	0.80	0.83	0.23	1.33
•Durable Goods	0.33	0.36	0.42	0.23	0.99
•Nondurable Goods	-0.03	0.43	0.41	0.00	0.34
▪Services	0.93	0.59	1.69	0.60	0.42
❖(B) Gross Private Domestic Investment	1.03	2.50	0.62	-1.13	2.87
▪Fixed Investment	0.74	1.01	0.95	0.03	1.45
•Residential	0.53	0.34	-0.28	-0.17	0.27
▪Change in Private Inventories	0.30	1.49	-0.34	-1.16	1.42
❖(C) Net Exports of Goods and Services	-0.54	0.59	1.08	-1.66	-0.34
▪Exports	0.82	0.67	1.30	-1.30	1.43
▪Imports	-1.36	-0.09	-0.22	-0.36	-1.77
❖(D) Government Consumption Expenditures and Gross Investment	0.04	0.04	-0.71	-0.15	0.31
▪Federal	-0.26	-0.08	-0.79	-0.01	-0.06
▪State and Local	0.31	0.13	0.07	-0.14	0.38

Employment

Unemployment Rate (Bureau of Labor Statistics)

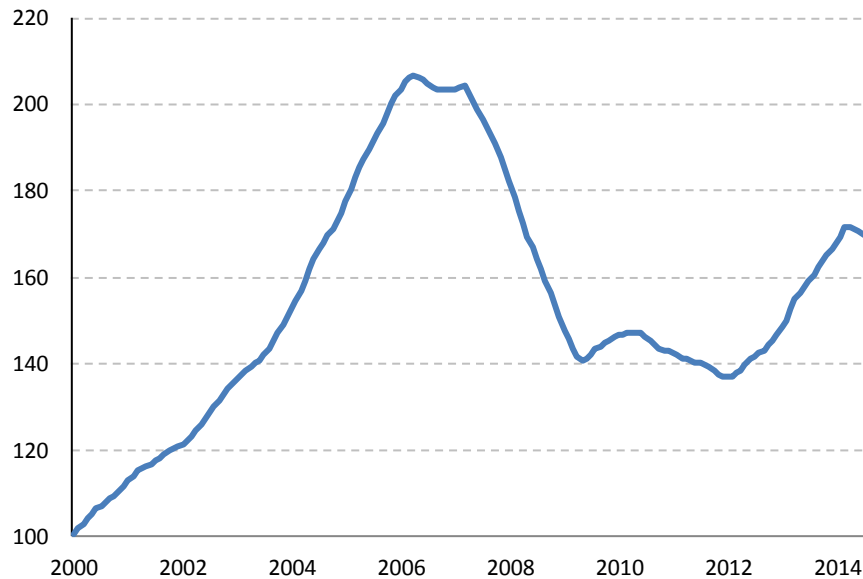


Nonfarm Payroll Employment (Bureau of Labor Statistics)



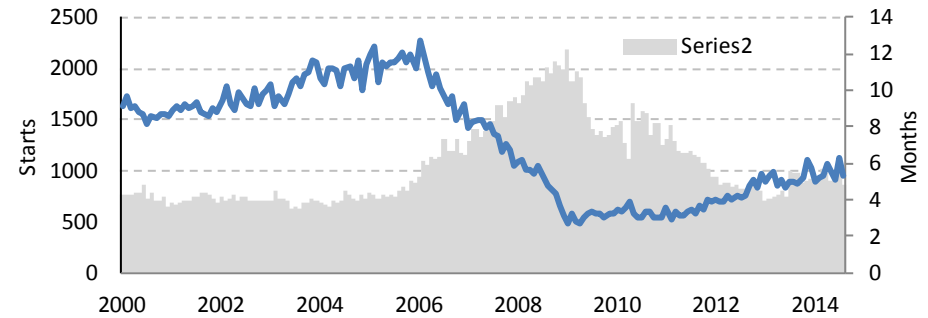
- Total nonfarm payroll employment increased by 248,000 in September 2014, and the **unemployment rate declined to 5.9 percent**. Employment increased in professional and business services, retail trade, and health care.
- In September 2014, the unemployment rate declined by 0.2 percentage point to 5.9 percent. The **number of unemployed persons decreased by 329,000 to 9.3 million**. Over the year, the unemployment rate and the number of unemployed persons were down by 1.3 percentage points and 1.9 million, respectively.
- Among the major worker groups, unemployment rates declined in September for adult men (**5.3 percent**), whites (**5.1 percent**), and Hispanics (**6.9 percent**). The rates for adult women (**5.5 percent**), teenagers (**20.0 percent**), and blacks (**11.0 percent**) showed little change over the month. The jobless rate for Asians was **4.3 percent** (not seasonally adjusted), little changed from a year earlier.
- The **civilian labor force participation rate, at 62.7 percent, changed little in September**. The employment-population ratio was 59.0 percent for the fourth consecutive month.

S&P Case-Shiller Home Prices (Standard and Poor's)

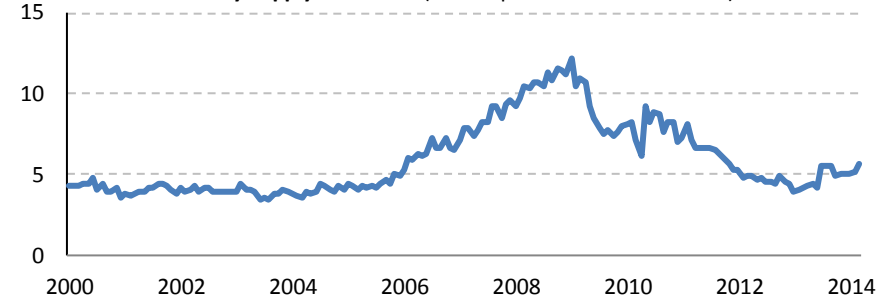


- Data through July 2014, released by S&P Dow Jones Indices for its S&P/Case Shiller Home Price Indices, show a significant slowdown in price increases. Nineteen of the 20 cities saw lower annual returns in July.
- **In July, the 10-City and 2-City Composite increased 0.6% and the National Index 0.5%.** Although New York saw a lower gain this month, it was the only city where prices rose over one percent.

Housing Starts vs. Months Supply of Homes (Dept. Commerce)



Monthly Supply of Homes (U.S. Department of Commerce)

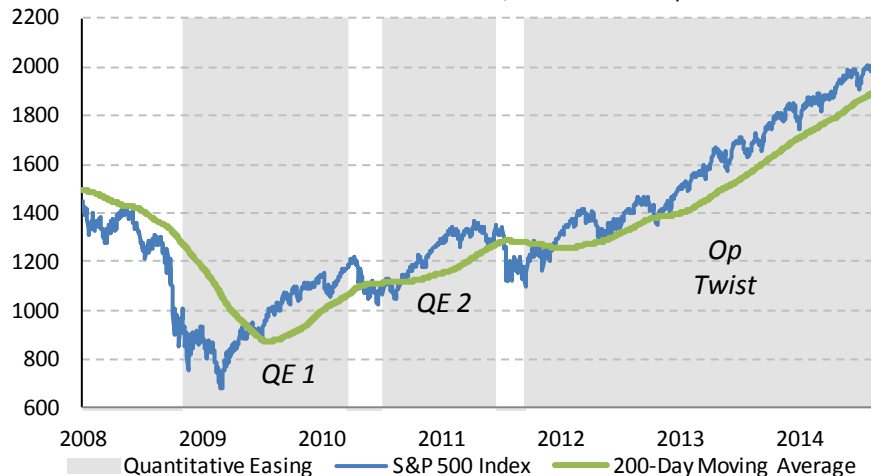


- **As of July 2014, average home prices across the United States are back to their levels posted in the spring of 2005.** The National Index was up 0.5% over June 2014 and 5.6% above July 2013. Measured by their June/July 2006 peaks, the peak-to-current for both Composites is approximately 16-17%. The recovery from the March 2012 lows is 28.6% and 29.3% for the 10-City and 20-City Composites.

Monetary Policy

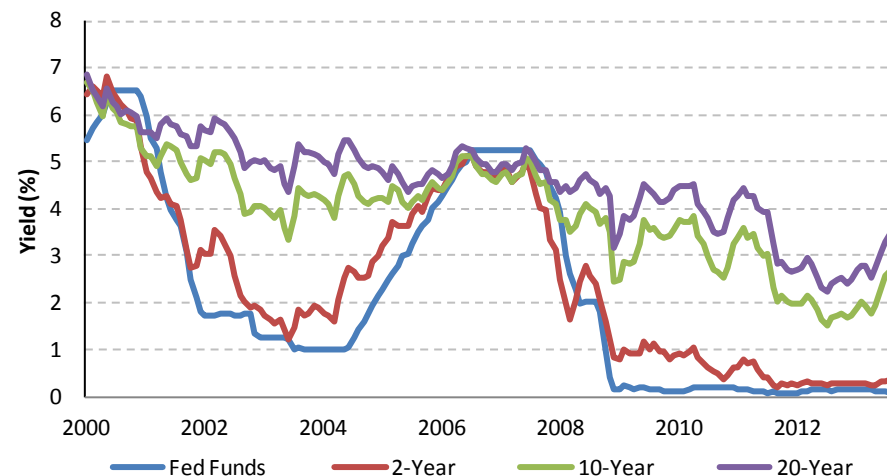
Equity Market Performance and Quantitative Easing

Source: Standard & Poor's; Hennessee Group



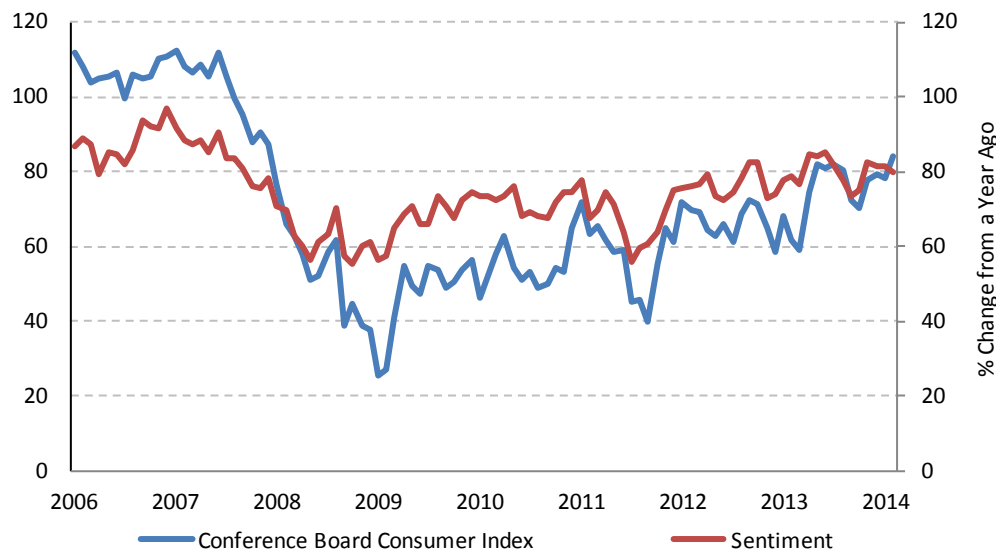
U.S. Treasury Yield Curve Rates

Source: Federal Reserve

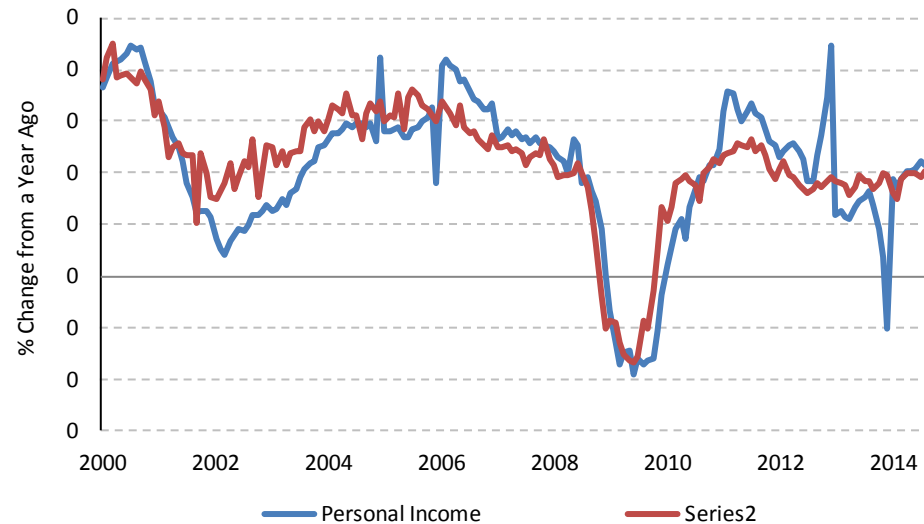


- **U.S. monetary policy remains very accommodative.**
- The Federal Reserve launched "**Operation Twist**" in October 2011. The policy involves selling short-term Treasuries in exchange for purchasing the same amount of longer-term bonds.
- The Federal Reserve has been **tapering its bond purchases** and will continue to phase out quantitative easing over the next few quarters.
- While there are no major conceptual or technical issues involved, the communication problems facing the Federal Reserve are new and delicate. **It is reasonable to expect some volatility in long rates as the Fed policy shifts, as we have already started to see.**
- Action by the Federal Reserve regarding tapering its quantitative easing measures led to an **unexpectedly large increase in long-term yields in the United States and many other economies**, much of which has not been reversed.

Consumer Confidence and Consumer Sentiment (Conf. Board; Michigan)



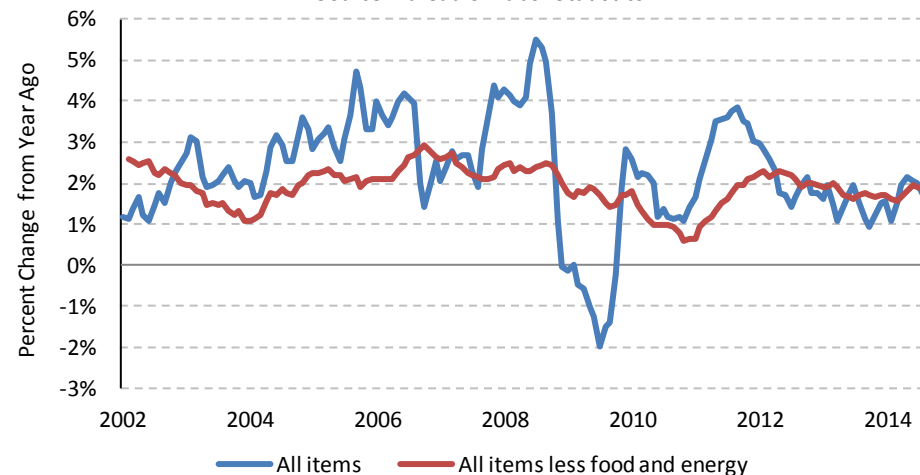
Personal Income vs. Personal Consumption Expenditures (BEA)



- Consumer confidence **retreated in September 2014** after four consecutive months of improvement. A less positive assessment of the current job market, most likely due to the recent softening in growth, was the sole reason for the decline in consumers' assessment of present-day conditions. Looking ahead, **consumers were less confident** about the short-term outlook for the economy and labor market, and somewhat mixed regarding their future earnings potential. All told, **consumers expect economic growth to ease** in the months ahead
- The percentage of consumers **expecting business conditions to improve** over the next six months fell from 20.8 percent to 18.6 percent, while those expecting business conditions to worsen rose from 9.9 percent to 12.0 percent. Consumers' **outlook for the labor market likewise took a downturn**. Those anticipating more jobs in the months ahead fell from 17.8 percent to 15.2 percent, while those anticipating fewer jobs rose from 15.2 percent to 17.8 percent. The proportion of consumers expecting growth in their incomes rose in September to 16.8 percent, compared to 15.5 percent in August. However, the proportion expecting a drop in income also rose—to 13.4 percent versus 11.6 percent a month ago.

Consumer Price Index: All Items vs. Core

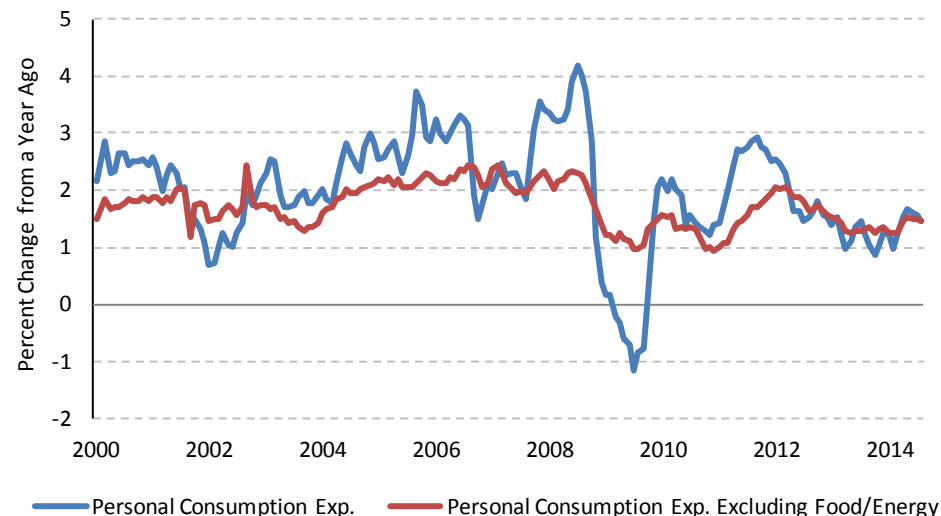
Source: Bureau of Labor Statistics



- The Consumer Price Index for All Urban Consumers (CPI-U) **decreased 0.2 percent in August** on a seasonally adjusted basis, the U.S. Bureau of Labor Statistics reported today. Over the last 12 months, the all items index **increased 1.7 percent** before seasonal adjustment.
- The seasonally adjusted decline in the all items index was the **first since April 2013**. The indexes for food and shelter rose, but the increases were more than offset by declines in energy indexes, especially gasoline. The energy index fell 2.6 percent, with the gasoline index declining 4.1 percent and the indexes for natural gas and fuel oil also decreasing.

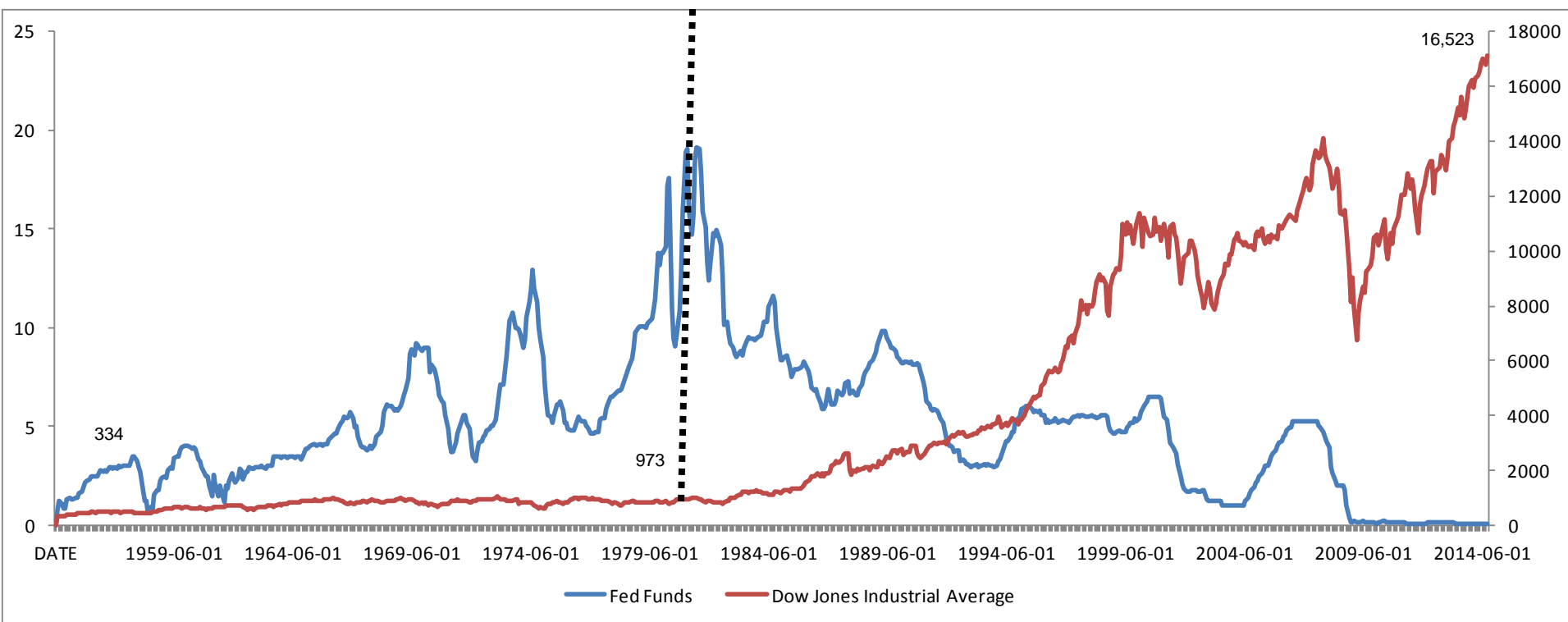
Personal Consumption Expenditures Price Index: All vs. Less Food & Energy

Source: Bureau of Economic Analysis

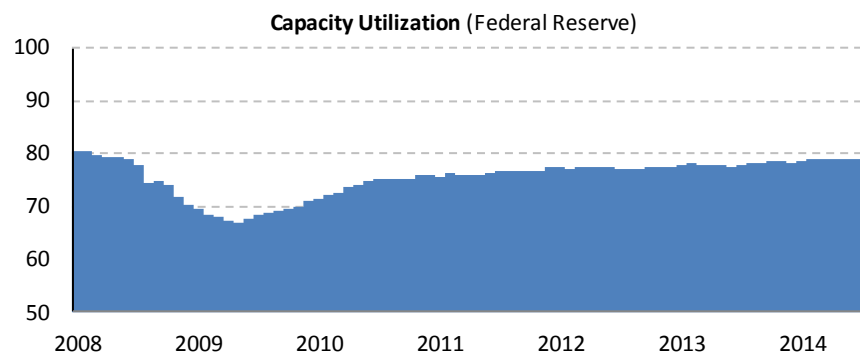
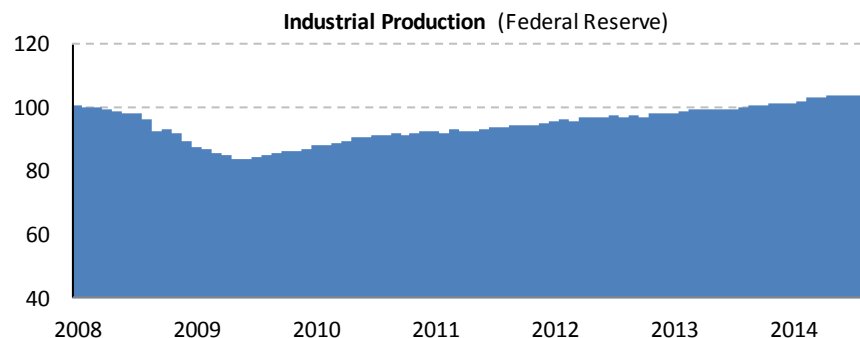


- The index for all items less food and energy was unchanged in August; this was the **first month since October 2010** that the index did not increase. While the shelter index increased and the indexes for new vehicles and for alcoholic beverages also rose, these advances were offset by declines in several indexes, including airline fares, recreation, household furnishings and operations, apparel, and used cars and trucks.
- The all items index increased 1.7 percent over the last 12 months, a decline from the 2.0 percent figure for the 12 months ending July, and the smallest 12-month change since March. The index for all items less food and energy also rose 1.7 percent over the last 12 months. The **food index has risen 2.7 percent** over the span, while the **energy index has increased 0.4 percent**.

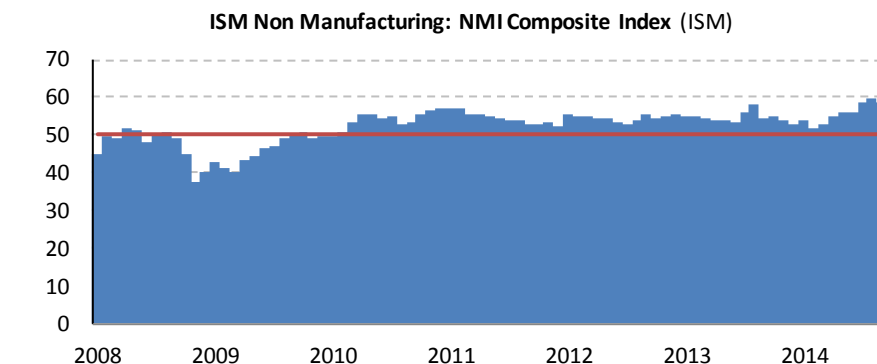
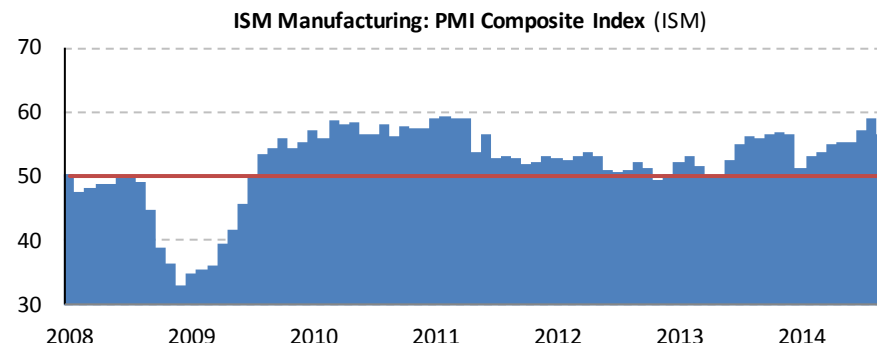
Inflation



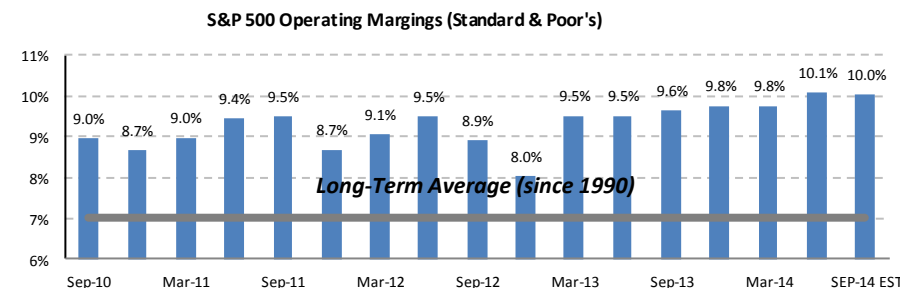
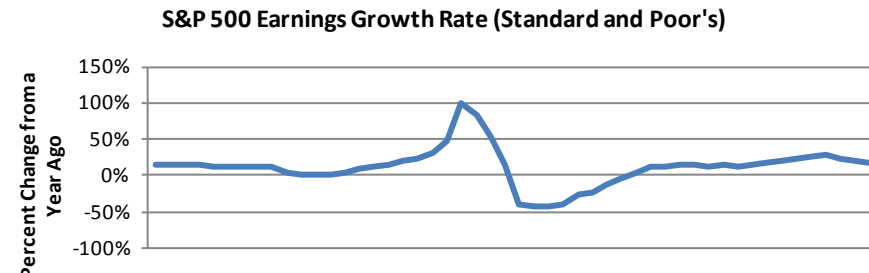
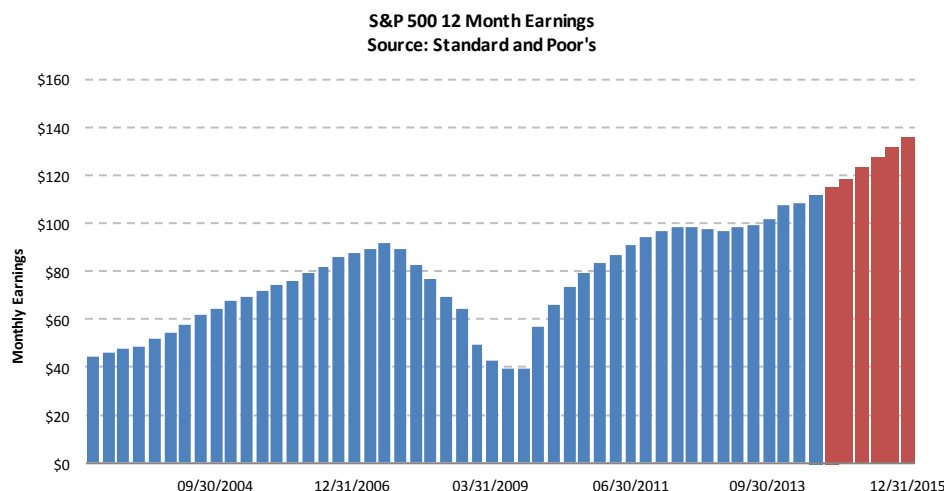
- **1954 to 1981: Average Inflation of 5%**
- **Average return after inflation: 5% for equities, -1% for fixed income**
- **1981 to 2013: Average Inflation of 3%**
- **Average return after inflation: 8% for equities, 6% for fixed income**



- The index of **industrial production edged down 0.1 percent** in August, and the index for manufacturing output decreased 0.4 percent; the declines were the first for each since January. The gains in July for both indexes were revised down. The declines in total industrial production and in manufacturing output in August reflected a decrease of 7.6 percent in the production of motor vehicles and parts, which had jumped more than 9 percent in July. Excluding motor vehicles and parts, factory output rose 0.1 percent in both July and August. The production at mines moved up 0.5 percent in August, and the output of utilities rose 1.0 percent. At 104.1 percent of its 2007 average, total **industrial production in August was 4.1 percent above** its year-earlier level.



- Capacity utilization for total industry decreased 0.3 percentage point** in August to 78.8 percent, a rate 1.0 percentage point above its level of a year earlier and 1.3 percentage points below its long-run (1972–2013) average.
- Economic activity in the manufacturing sector expanded in September for the **16th consecutive month**, and the **overall economy grew for the 64th consecutive month**.

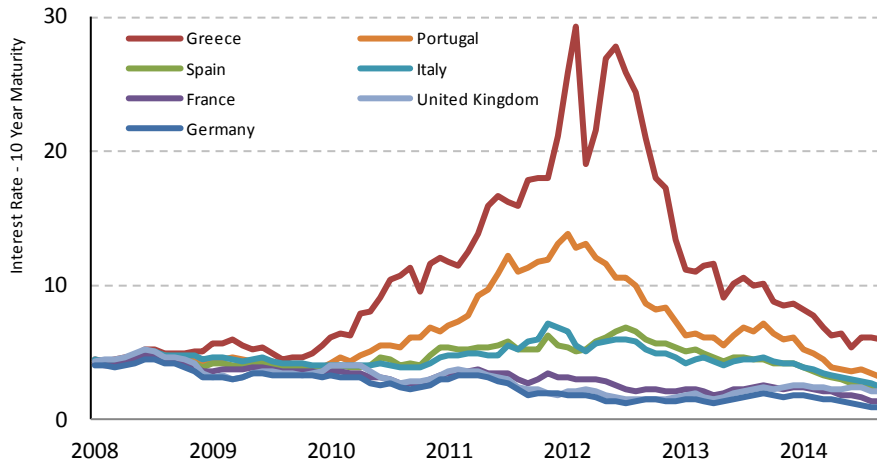


- The **estimated earnings growth rate for Q3 2014 is 4.5%**. The **Telecom Services** sector is expected to report the highest earnings growth for the quarter, while the **Consumer Discretionary** sector is the only sector expected to report a year-over-year decline in earnings.
- On June 30, the **estimated earnings growth rate for Q3 2014 was 9.0%**. Nine of the ten sectors have lower growth rates today (compared to June 30) due to downward revisions to earnings estimates, led by the Financials and Energy sectors.
- For Q3 2014, **82 companies have issued negative EPS guidance and 27 companies have issued positive EPS guidance**.
- **The current 12-month forward P/E ratio is 14.9**. This P/E ratio is based on October 9th closing price (1928.21) and forward 12-month EPS estimate (\$129.77)

Europe and Japan

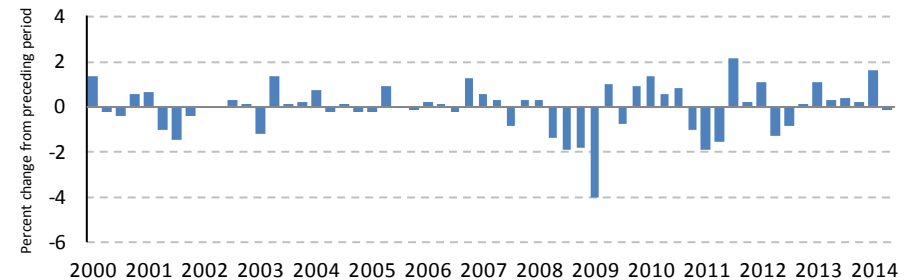
European Long-Term Interest Rates

Source: European Central Bank



- The European Central Bank has published a Banking Structures Report 2014, which shows that the on-going consolidation of the euro area banking system continued in 2013. The rationalisation process suggests that overall efficiency of the system continues to be enhanced. The total number of credit institutions **decreased further to 5,948 in 2013**, down from 6,100 in 2012 and 6,690 in 2008.

Japan GDP- Percent Change from Preceding Period (Gov. of Japan)

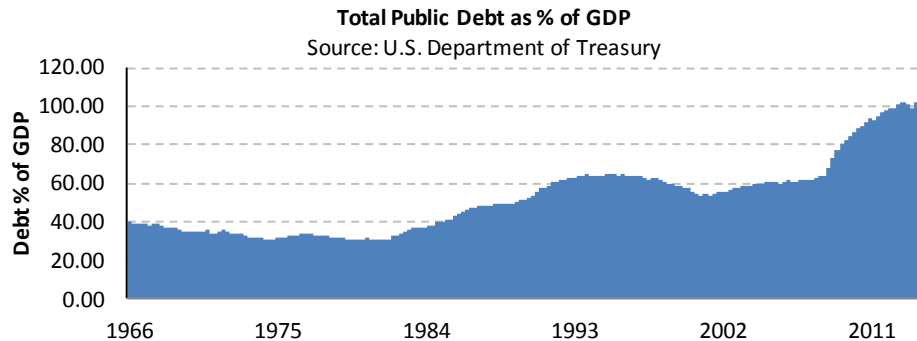


Currency Chart: Yen per U.D. Dollar (Fed Reserve)

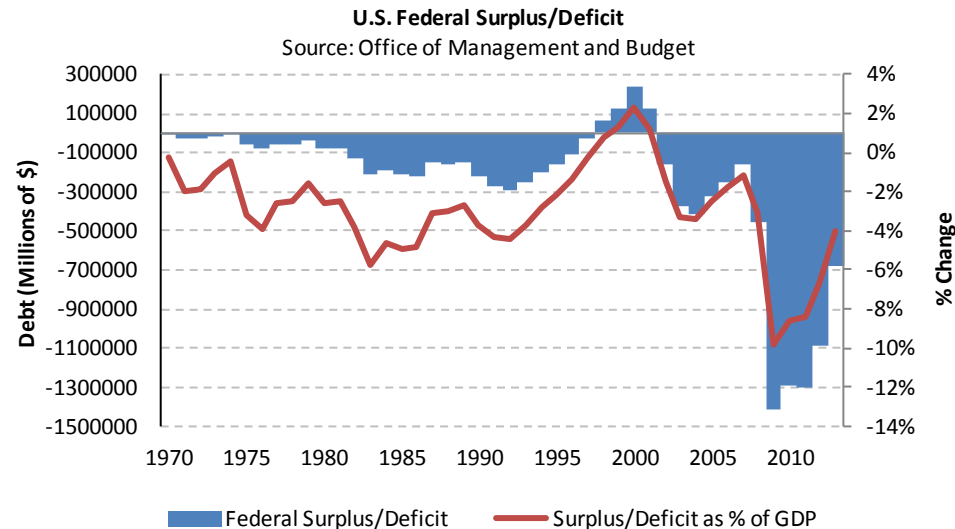


- In Japan, **growth is now expected to slow more gradually** compared with October 2013 WEO projections. Temporary fiscal stimulus should partly offset the drag from the consumption tax increase in early 2014. As a result, annual growth is expected to remain broadly unchanged at 1.7 percent in 2014, given carryover effects, before **moderating to 1 percent in 2015**.
- The **dollar-yen trade could reach 120 by the end of 2014**, according to economists at Capital Economics, who said the yen's downward drive will persist throughout this year and next.
- The yen has **depreciated by around 30 percent** against the U.S. dollar since last September as a result of Japan's newly launched **aggressive fiscal and monetary stimulus measures**, dubbed "Abenomics".

U.S. Fiscal Situation



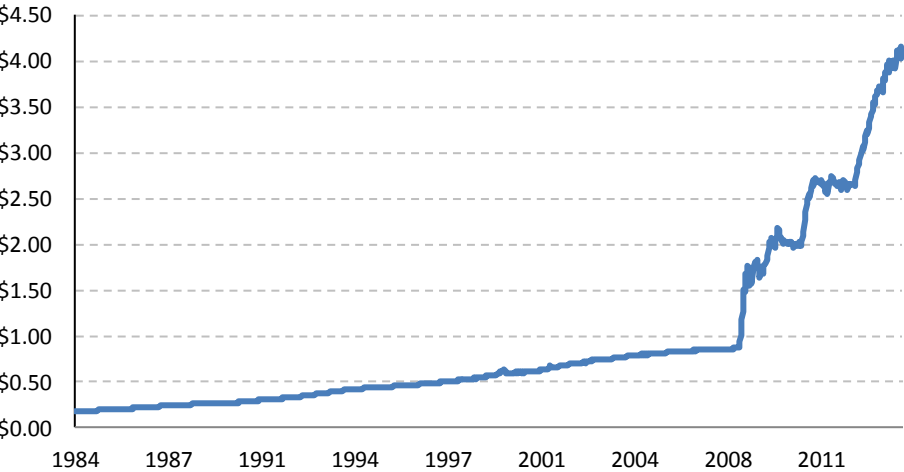
- The **federal budget deficit has fallen sharply** during the past few years, and it is on a path to decline further this year and next year. However, later in the coming decade, if current laws governing federal taxes and spending generally remained unchanged, revenues would grow only slightly faster than the economy and spending would increase more rapidly, according to CBO's projections. Consequently, relative to the size of the economy, deficits would grow and federal debt would climb.
- As the economy strengthens over the next few years, **inflation is expected to remain below the Federal Reserve's goal**, and interest rates on Treasury securities, which have been exceptionally low since the recession, are projected to **rise considerably**.



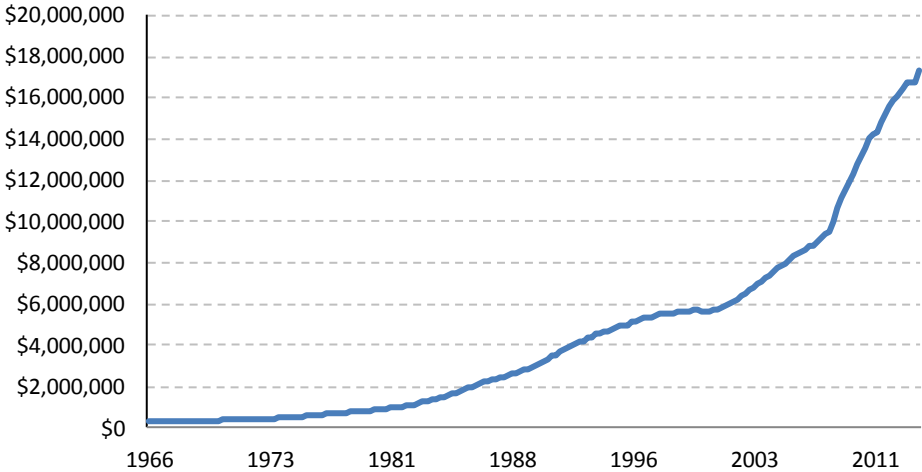
- The federal budget deficit for fiscal year 2014 will amount to **\$506 billion**, roughly \$170 billion lower than the shortfall recorded in 2013. At 2.9 percent of gross domestic product (GDP), this year's deficit will be **much smaller than those of recent years** (which reached almost 10 percent of GDP in 2009) and slightly below the average of federal deficits over the past 40 years. However, **federal debt held by the public will reach 74 percent of GDP** at the end of this fiscal year—more than twice what it was at the end of 2007 and higher than in any year since 1950.

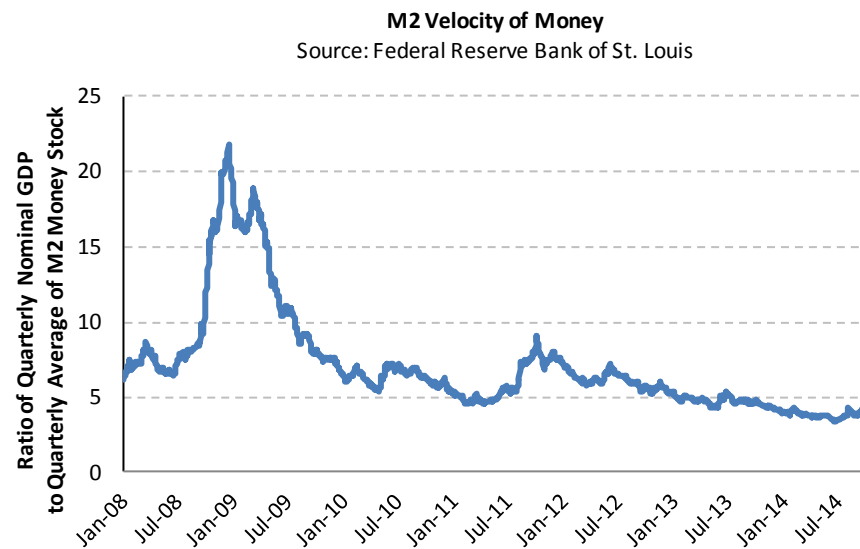
U.S. Fiscal Situation

Monetary Base (\$ in Trillions)
Source: Federal Reserve Bank of St. Louis

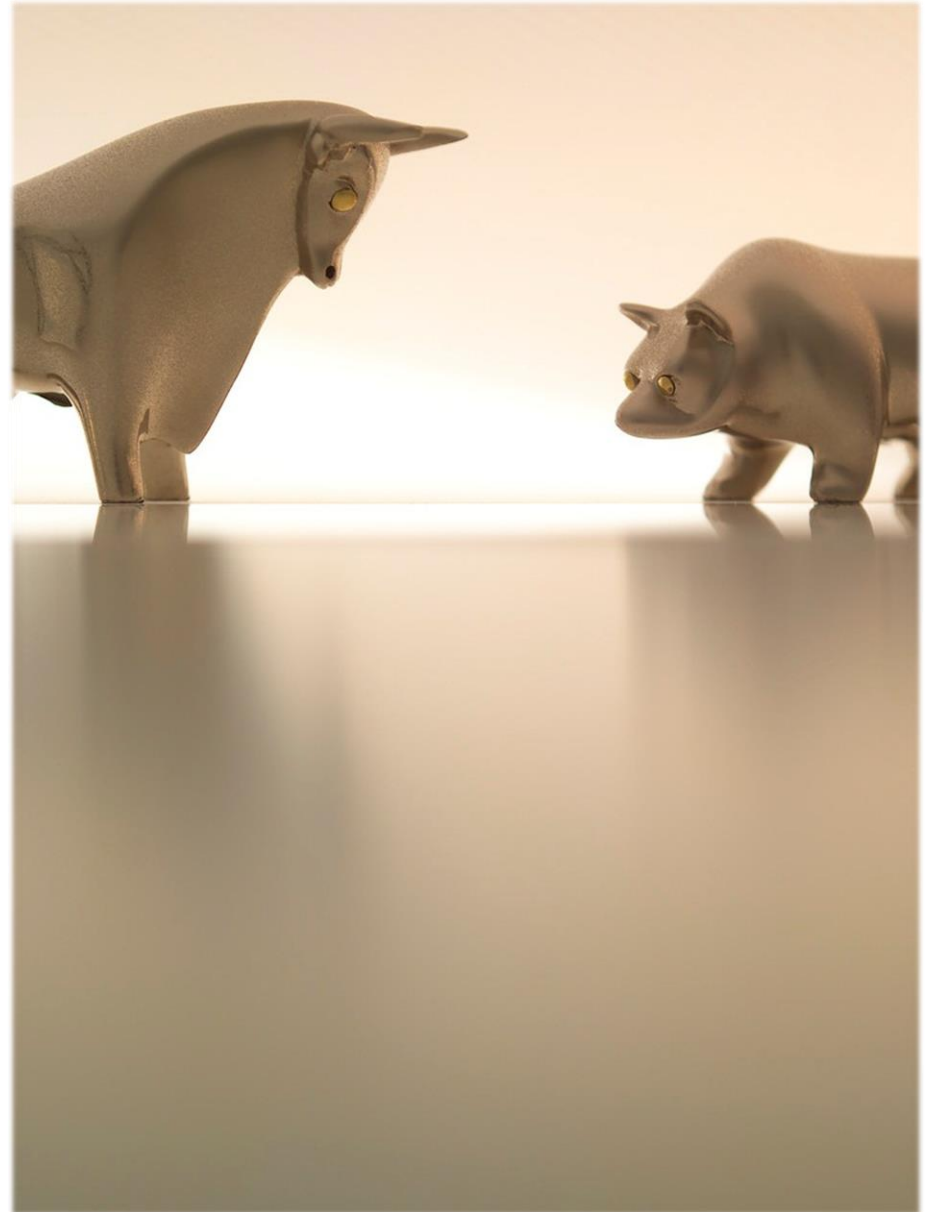


Federal Debt: Total Public Debt (\$ in Millions)
Source: Federal Reserve Bank of St. Louis





Financial Market Outlook



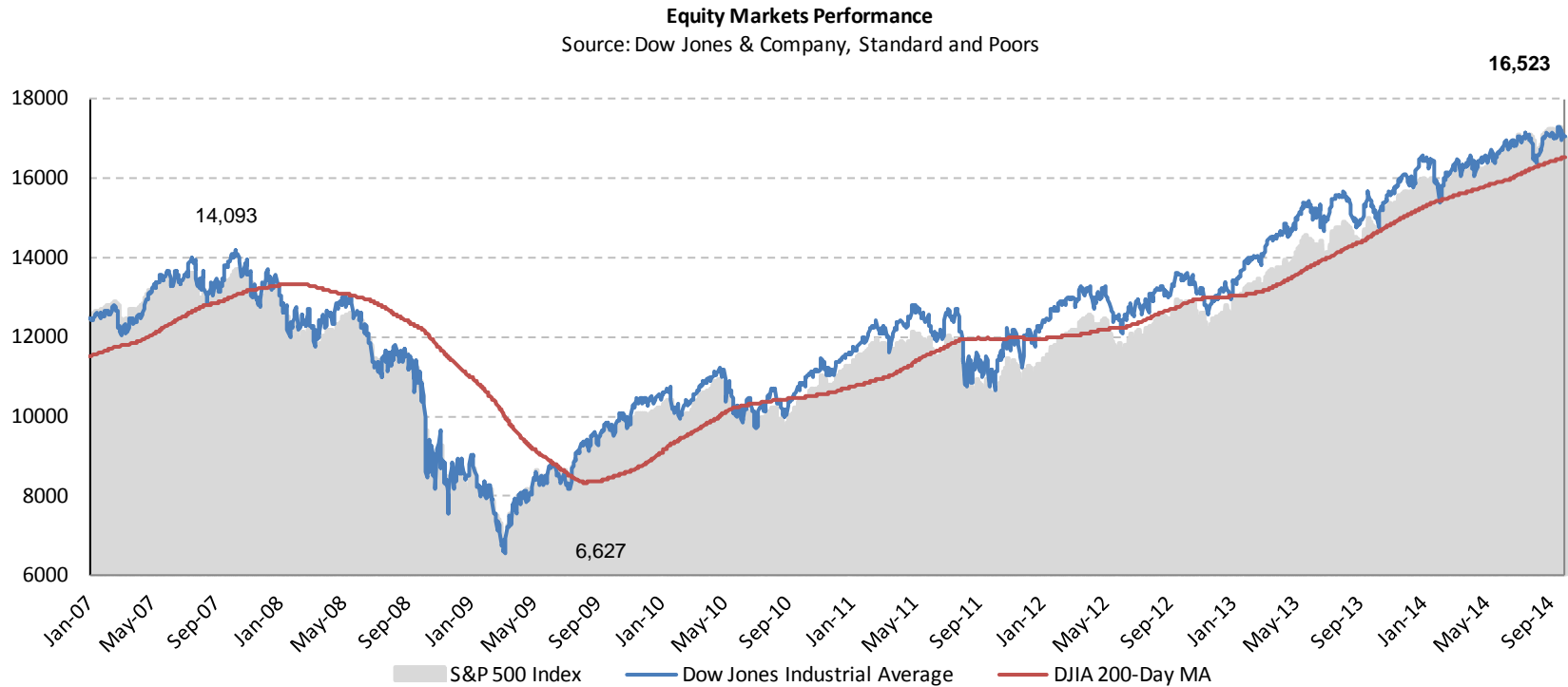
Financial Market Review

U.S. Equity Markets	2014 YTD Performance (through 9/30/2014)	U.S. Fixed Income	2014 YTD Performance (through 9/30/2014)
S&P 500 Price Index	+6.70%	Barclays Aggregate Bond Index	+4.09%
<i>Best:</i> Health Care, Information Technology	+15.21%, +12.71%	Barclays Credit Bond Index	+5.66%
<i>Worst:</i> Consumer Discretionary, Industrials	-0.23%, +1.25%	Barclays High Yield Credit Bond Index	+3.50%
Dow Jones Industrial Average	+2.81%	U.S. Treasuries (Long Term)	+6.35%
NASDAQ	+7.59%	Commodities	
Russell 2000	-5.32%	Dow Jones-UBS Commodities Index	-5.61%
International Markets		Gold	+0.54%
MSCI Europe Index	-4.17%	Oil (WTI)	-7.13%
MSCI Pacific Index	-2.83%	Currencies	
MSCI Emerging Markets Index	+0.26%	U.S. Dollar (versus basket)	+7.37%

- Investors have been rewarded since the financial crisis for following the old Wall Street adage of "Don't fight the Fed." That has meant loading up on stocks and riskier corporate debt as the Federal Reserve's low interest rates have reduced the attractiveness of "safer" investments such as Treasury's.

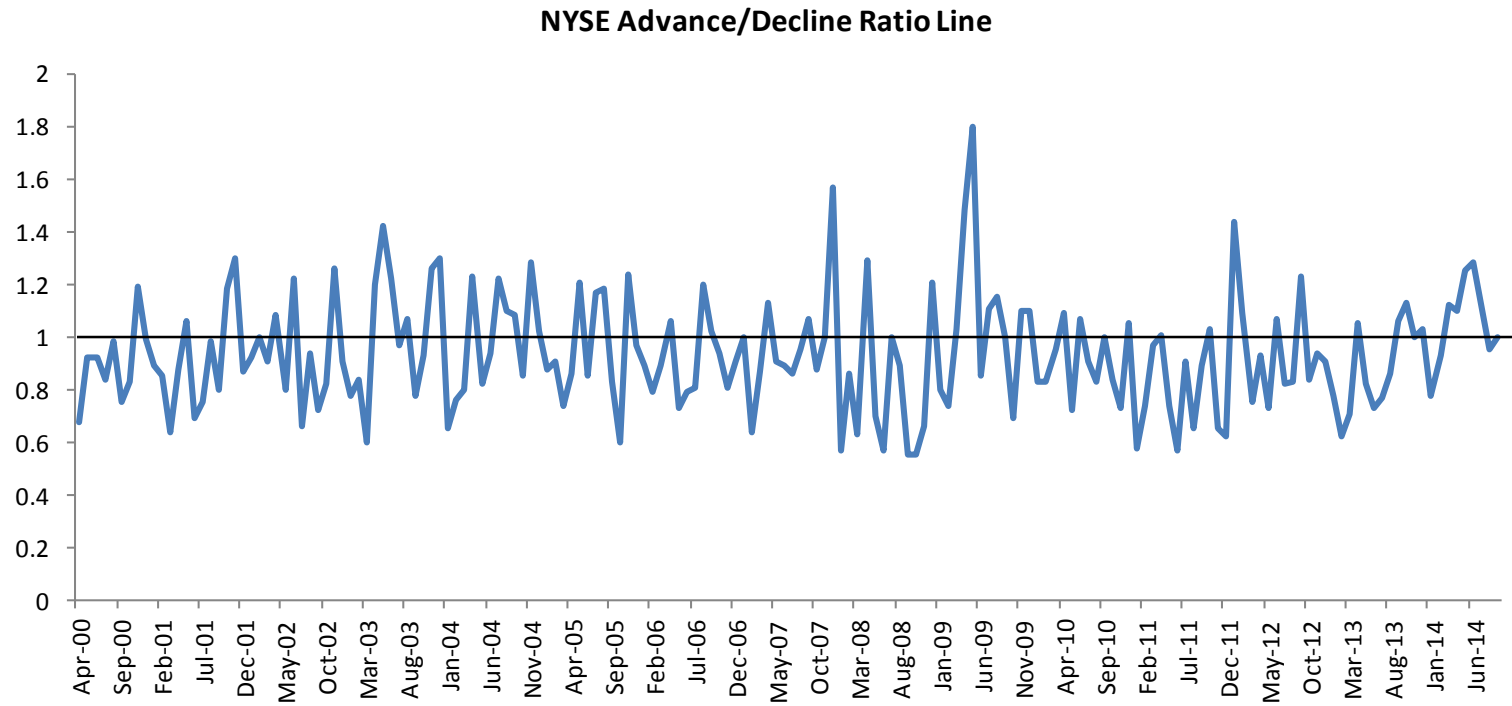
- Most commodity markets are reflecting a modest outlook for the global economy, crimped by slackening Chinese demand, uncertain growth prospects in the U.S. and Europe, adequate stores of raw materials, and a strengthening U.S. dollar undercutting commodity prices.
- A stronger dollar typically makes dollar-denominated commodities weaker in dollar terms. However, the dollar has weakened since December 2012 (-2.43%).

Equity Market Performance

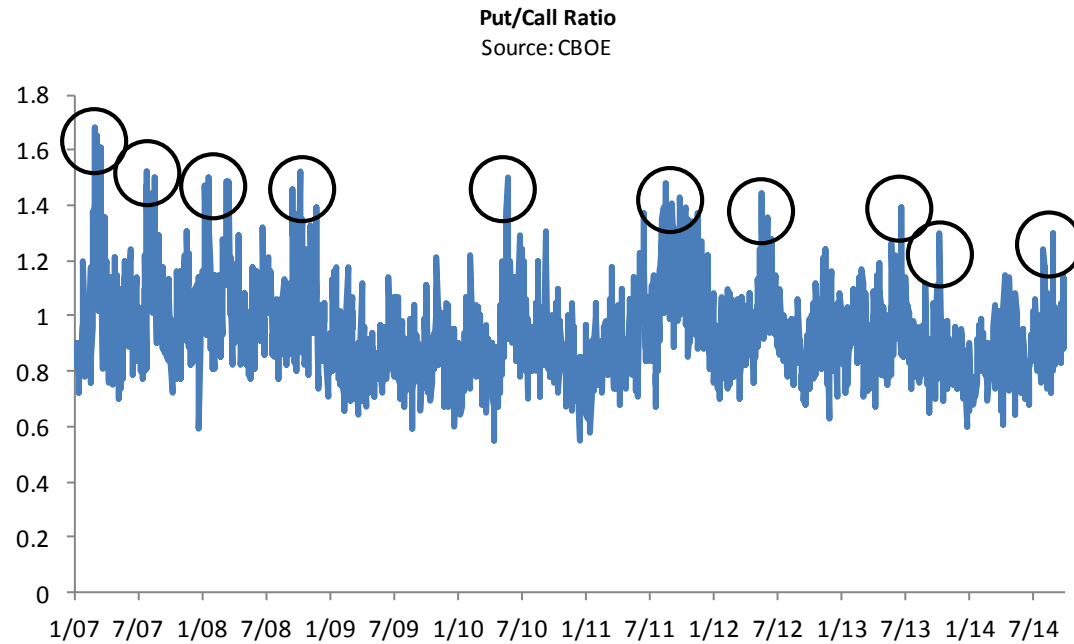


- ❖ For the bulls, their rally chant is simple: "Don't fight the Fed," as the central bank's stimulus measures seem to be only creating demand for financial assets and real estate...not jobs. While comparisons are being made to the pre-1999 "irrational exuberance"...the equity market is fairly valued. Corporate and bank balance sheets (fundamentals and technicals) have never been better. The wild card is the bond market which is a classic "bubble".
- ❖ Bull markets don't die of old age. Bull markets end with a recession, excessive valuations or a "fat tail" event.

Advance/Dencline Ratio Line



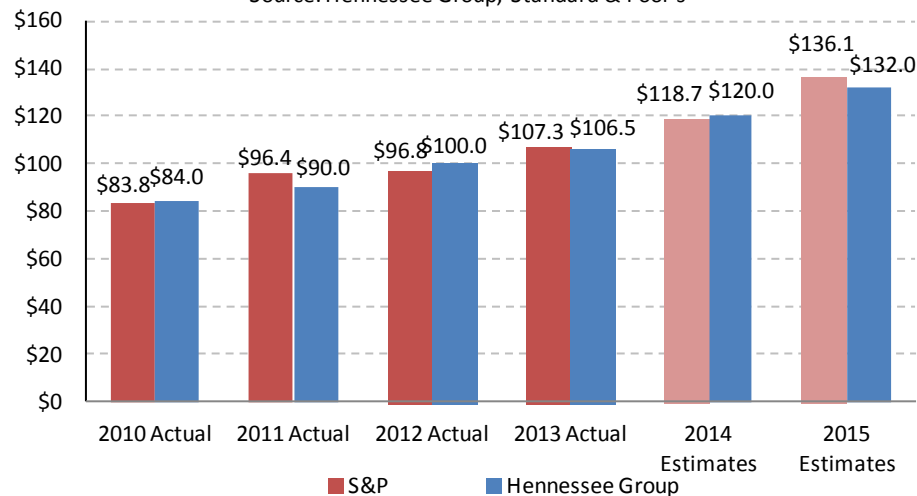
Put/Call Ratio Line



S&P Earnings and Valuation Outlook

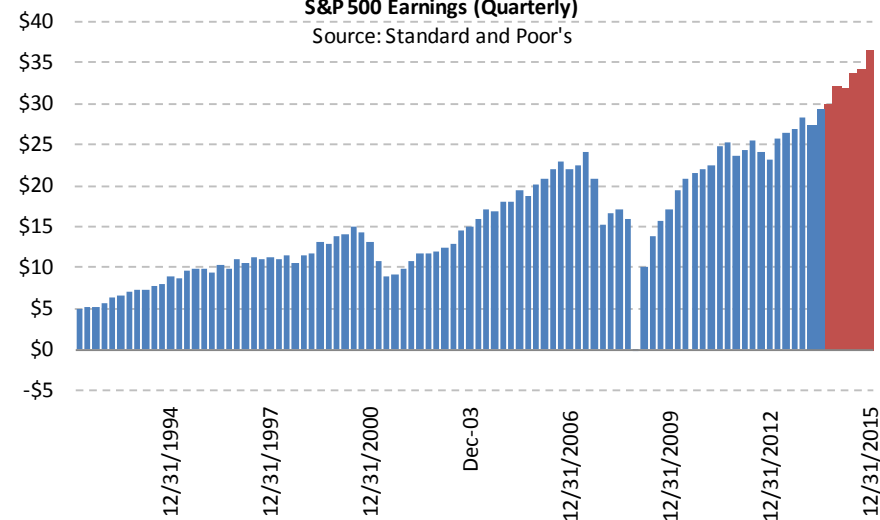
S&P 500 Earnings Estimates

Source: Hennessee Group, Standard & Poor's



S&P 500 Earnings (Quarterly)

Source: Standard and Poor's



- ❖ **S&P 500 Earnings Forecast:** S&P 500's 2015 earnings estimates of \$136.1 are an increase of 15% from its 2014 full-year estimates. Using a P/E multiple of 15x, the S&P would be fairly valued at \$2,042, a gain of 3.51% from the 9/30/2014 closing price of \$1,972.29.
- ❖ **Earnings Forecast:** Hennessee Group's 2015 earnings estimates are below S&P's earning expectations for 2015. We anticipate earnings per share of **\$132.00 per share in 2015** (+10% increase from 2014).
- ❖ **Multiple Forecast:** We assume a P/E multiple of 15x. We think **multiple expansion is unlikely** until the Fed begins normalizing policy. The end of unconventional monetary policy would be a key step out of the post-crisis financial repression **deleveraging** period and toward normalization.
- ❖ **Valuation:** Assuming earnings of \$132.00 per share and a P/E multiple of 15.0x, **the S&P 500 would be fairly valued at \$1,980** representing a +7% increase from \$1,848 (closing price 12/31/2013) and +0.4% increase from \$1,972.29 (closing price 9/30/2014).
- ❖ The S&P 500 hit a high of 1989 in September 2014...1850 as of October 16.

Key Long Term Issues and Risks

- ❖ **United States fails to address fiscal deficits** in a way that balances the need for economic growth with longer term need for fiscal responsibility.
- ❖ **Long term impact of Fed's unconventional and extreme monetary policy is unknown.**
- ❖ **Currency controls in the U.S. to control the conversion of dollars to other currencies.**
- ❖ **New Fed Chairman (Yellen) is unable to unwind QE program without contraction in economy.**
- ❖ **"Fat Tail Risk" ...Free fall of the U.S. dollar resulting in hyper-inflation.**
- ❖ **Structured devaluation of dollar** due to printing of money and extreme expansion of monetary base.
- ❖ **Republicans do not win the November election in the Senate.**
- ❖ Countries appear to be in a race to **devalue currencies**, which can result in "protectionism".
- ❖ **China experiences a hard landing** due to a significant slowdown in the world economy and/or a disorderly correction of China's banking system.
- ❖ **U.S. corporate profit margins decline from record highs.**
- ❖ **Lower interest rates breed an excessive use of margin.**

The Dollar Dilemma



The Dollar Dilemma

- ❖ The U.S. dollar forms the basis for the world's financial system
- ❖ The U.S. government cannot go broke because it can simply print more dollars to pay its debt
- ❖ America is the only country that doesn't have to pay for its imports in a foreign currency
- ❖ Since WWII, whenever the U.S. needed dollars to buy "oil" we would print dollars
- ❖ Total U.S. government debt was \$1 Trillion in 1980 and now stands at \$17 Trillion
- ❖ Wild Card Risk: Our creditors stop accepting dollars in payment for oil or greatly discount the value of the dollar
- ❖ China is actively taking steps to "phase out" the U.S. dollar because they believe we are mismanaging our currency to the point of forced devaluations...resulting in currency losses in assets they own that are dollar based
- ❖ The U.S. dollar standard is in jeopardy for other reasons also...the global economy is moving from a U.S. central bank centric to multi-currency trade centric (China, Australia, Japan, U.S., Euro, U.K., Russia)
- ❖ Great Britain's sterling was the world reserve currency for nearly 200 years...until WWII when the U.S. loaned money to Great Britain and all of Europe in foreign aid
 - Post WWII international financial architecture is now viewed as outmoded by many countries as the U.S. contains its monetary policy

The Dollar Dilemma

- ❖ **Great Britain went to socialism after WWII**
- ❖ **Great Britain's leaders wanted to "spread the wealth around Britain"**
- ❖ **In 1967, the economy got so bad that the Labor Party (socialists) decided to devalue the British currency by 14% overnight**
- ❖ **This ushered in one of the worst decades in Britain's history with inflation rising to 25% in a single year ending their "superpower" status held for 20 years**
- ❖ **The U.S. is in a similar predicament...The U.S. dollar has fallen 20% since 2002**
 - Gold, oil and other commodities rose
- ❖ **The U.S. government cannot stop printing money because there is no possible way for us to actually afford our existing debts**
- ❖ **Germany has taken all their gold stored around the world back to Germany (gold is traded in U.S. dollars)**
 - When Germans realized their currency was being destroyed in the 1920s they bought Swiss Francs and gold

The Dollar Dilemma

- ❖ **As the dollar continues to lose its position as the world's reserve currency, it will cause an economic downturn**
 - In 2008 we bailed our economy out by printing money
 - Will we be able to continue this policy in the next crisis?
- ❖ **Devaluation is another road to inflation**
- ❖ **No nation in history has ever become wealthier by going into debt and then printing the money needed to repay the debt**
- ❖ **Our current success has added complacency in the government**
- ❖ **The next bailout will be states and cities (Detroit and California)**
 - Print more money
 - Increase taxes

The Dollar Dilemma

- ❖ **With rising level of debt many countries are questioning the position of the U.S. dollar as the reserve currency**
- ❖ **The IMF has proposed replacing us of the U.S. dollar with “Special Drawing Rights” or SDRs**
 - Can be converted into any currency
 - Use SDRs to buy oil, gold, commodities
- ❖ **Just before a country devalues its currency it implements policies that would control capital flight**
 - Nationalized 401k plans
 - Foreign Account Tax Compliance (FATCA)
 - Chicago Mercantile Exchange (CME) accepts gold to settle futures contracts
 - Monitoring of wire transfers...especially international wires
 - Money laundering laws can be used to curtail flight capital leaving the U.S. for foreign investments in local currencies

Acknowledgement and Disclaimer

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