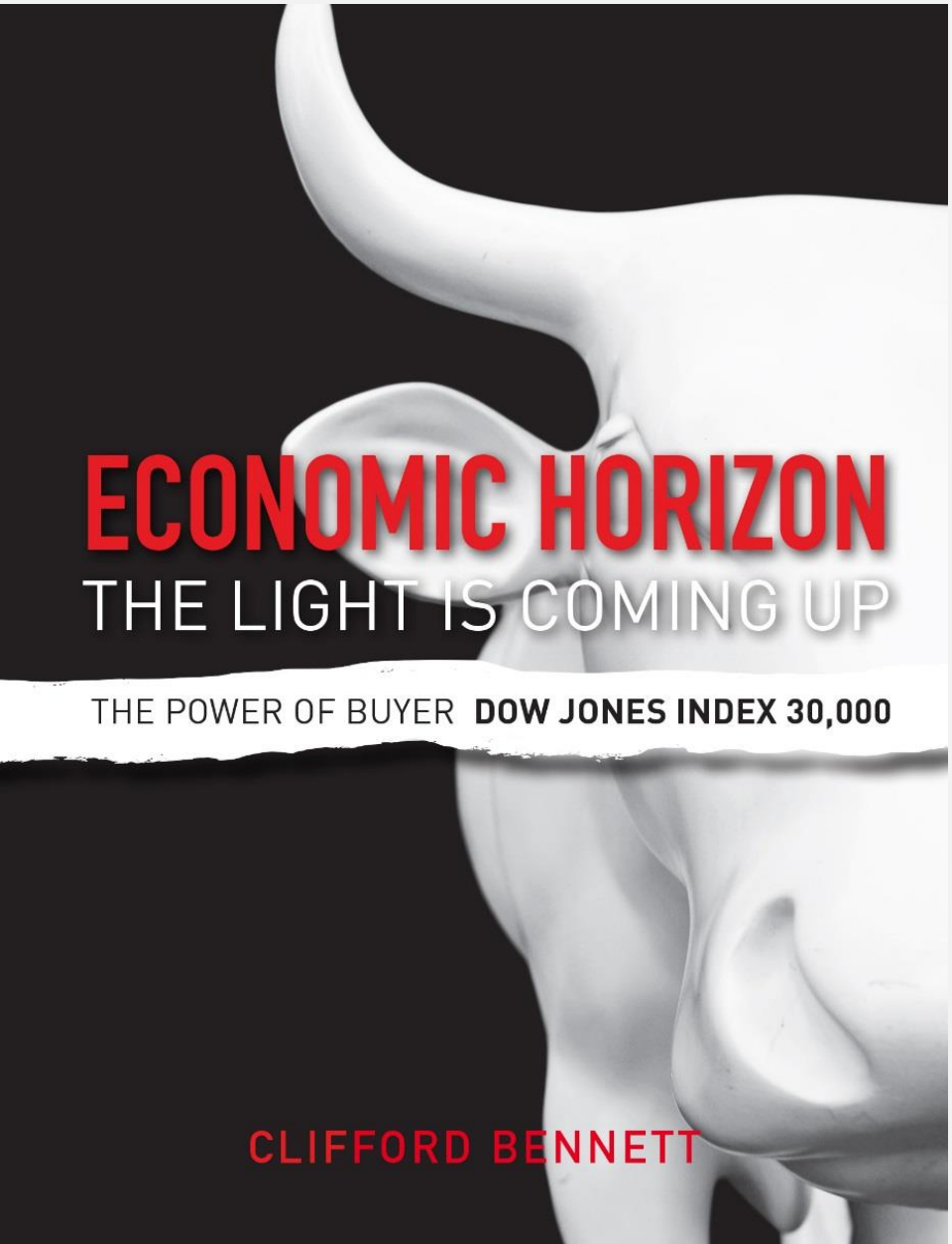
Advance Uncorrected Proof / Galley Copy



ECONOMIC HORIZON

THE LIGHT IS COMING UP

THE POWER OF BUYER **DOW JONES INDEX 30,000**

CLIFFORD BENNETT

Economic Horizon

the light is coming up

The power of BUYER
Dow Jones Index 30,000

Clifford Bennett

The power of “aspiration”
is driving a global “Bottom Up Young Economic Revolution” BUYER,
creating a long term positive historical price shift
in financial markets!

Dedication

Ellisa Bennett, Ami Bennett, Lucas Bennett, my children who have given me the greatest honour possible in choosing me as their father, and who never stopped believing in difficult, as well as good times.

Marjorie Bennett, my Mother who was unconditional in her love, a Haute Couture designer with heart, dress maker to family, friends, and customers, who's commitment and caring for others despite her own challenges, will always inspire us all.

Special Thanks

Martina Hrubes, my dear and patient friend, insisted I "make it happen".

Nicole Chippendale, for wonderful support at the perfect time.

Contents

Introduction

Don't Buy "Fear"….. Instead, Buy Stocks! Aggressively!

We are currently living in the midst of the most rapid expansion of prosperity in human history. The good news is that there is still plenty more to come, both in terms of global economic prosperity, and for the stock market. This is why my "Grand Bull Market" forecast of five years ago has proven to be accurate. The future of the world will not be determined by the demographics of an ageing population, as many a fear monger will tell you, but by the aspiration of us all, and particularly that of the "new first world" of Asia and Latin America.

New technology, from smart phones to the internet now empowers all of us to be productive for the full duration of our lives! People are starting businesses and productive lives far earlier in life, and we will all be able, should we wish, to remain productive virtually to our dying days. Rather than an aged population being a burden, this senior

part of society will remain a contributor in all soughs of ways, many of which we are yet to discover. This is a very profound historical shift. There will be no problem of an ageing population in the west, if we respond to the “aspiration” of the “new first world” of Asia and Latin America, with a revival, or renaissance if you will, of that great American tradition, the *E*ntrepreneur!

The combination of the “aspiring new first world” of Asia and Latin America, with the renaissance of entrepreneurship in the US, along with a recovery generally in Europe, all combine to point to a world of prosperity beyond our wildest dreams.

The biggest stock market rally in history started five years ago on the 8th of March 2009, but you barely noticed, because every bank, broker, and media outlet, kept telling you the world was in a massive bear market headed into a great depression. The reality has always been one of great opportunity in a Grand Bull Market, for over half a decade now. The biggest money is to be made when what I call the “consensus/reality divergence” is at its greatest. That is, what people believe to be the case, a work in all kinds of economic trouble, is at great variance to what the reality is, an incredibly prosperous and healthy

global economy. Clearly to be in the latter camp when everyone else is focussed on the accepted consensus view, is a great advantage and presents remarkable opportunity.

That is where we were in March 2009, when for the very first and only time, I declared the bear market was over, and we had begun a 5-15 year bull market. We were at the point of maximum negative consensus/reality divergence. My only mistake I believe was not to realise at the time that this bull market, which I called a new “Grand Bull Market”, may in fact last longer, perhaps for 30 years! Given this potential, how shall I put it, it is still a very good idea to be heavily invested.

Taking a step back for a moment it is important to understand that the flip side of prosperity, scarcity, is what the great majority of people living in Asia and Latin America have experienced for many decades. Such is the crucible of the modern world economy. Out of that scarcity, and oppression of authoritarian regimes, the human spirit of billions is now free to aspire, and make up for decades of lost time. The bottle has been

opened and this pent up human force of aspiration has been released. The cork cannot be put back in the bottle.

The world is now in a historical sweet spot where un-bridled growth and prosperity will continue for many decades to come. There is no other possible outcome from the unique and timely meeting of new technology, globalisation, and the returned freedom to aspire.

This is why the major economic forces of the day cannot be found or understood in the text books of old. A historically unique combination of knowledge and freedom is generating awareness of the right and power to aspire. these are forces that few traditional economists have any understanding of, but they are most assuredly the most dominant economic forces of our time.

The hallowed halls of Harvard and other schools
have been reduced to the click clack of mere historians.

The greatest investment opportunity of our lives persists, because every day we are bombarded

with opinions riveted in thinking that has no relevance whatsoever to the contemporary economic environment.

In the following pages I will explain why my “look out the window” fundamental approach, incorporating my “bottom up economic revolution” view of the contemporary world, allowed me to forecast all along that global markets will continue to rally, that there would be no inflation from quantitative easing, that the Euro would hold an be a strong currency, that China would remain a powerhouse, and even that sequestration and tapering in the USA would result in accelerating stock prices. All when the consensus of the major institutions and banks was of exactly the opposite opinion.

Capitalism by its very nature must expand in order to be healthy, and now in China and greater Asia, as well as Latin America, it has fresh territory in which to do so. Additionally and at last, there is a strong renaissance of entrepreneurship in the USA, and even in Europe.

The world is in a historical sweet spot where un-bridled growth and prosperity is the most likely outcome.

Subsequently the stock market is severely under-valued,
even at new highs!

The number one driving force in the world today is the billions of ordinary people now “freely aspiring” to a better life for themselves, their family, their community, and even their nation, irrespective of the wisdom or folly of their governments or global institutions, and with appropriately scant regard to western and ivory tower economists and forecasters.

The economic frontier is awash with positive and powerful social and technological forces that are fundamentally different to what we have ever seen before.

My particular brand of economics as I have said is called “look out the window” economics. This is a simple but powerful phrase. It is about recognising that economics is about human development and as such is changing all the time. Therefore it is the application of “common sense” to what we see out the window in the real world, all around

us, spiced with a hint of forward looking vision, that can give us the best handle on what we can expect our economic world to be like in the future. No amount of backward looking data crunching will ever be able to forecast our rapidly evolving business or social environments.

As possibly the first economist in the world to recognise and accurately predict the “Grand Bull Market” of the past five years, I can assure you that the fundamental economic principles outlined in the following pages should prove valuable to you. As they are indeed applicable to the real world. It is amazing what you can achieve by applying a little common-sense and thinking freely about this new era of economics, rather than being stuck in a text book methodology that is no longer applicable, and can even be harmful.

There is a great “bottom up” economic revolution sweeping the world, and nothing will stop it. To be successful in business and financial markets you must understand the world we live in from the perspective offered here. The moment you do, everything suddenly makes sense, and the “Grand Bull Market” we are in, can be seen to be naturally going a great deal higher.

The key decision makers who determine the course of the global economy are no longer the political leaders, central bank governors, or even the largest investors of the west. The key driving force of the global economy is the “aspiration” of the newly empowered working and middle classes the world over, without any strict geographical outline.

“Confidence” is no longer the key ingredient of capitalism.

“Aspiration” has well and truly taken over.

Authoritarianism has largely been defeated and people of all levels of society across the world, while still not equal, have more opportunity than ever before to aspire to a better life for themselves, for their family, and their community. Even their nation. People are on the move and it is a “human tide” of aspiration from west to east, from agrarian to consumer, that is driving an upward self re-enforcing spiral toward ever greater global prosperity.

Subsequently the stock markets of the world are still at ridiculously cheap levels. The Dow Jones

Index will be at 20,000 within a year, and most likely 30,000 within a handful more!

Right now, there is an opportunity for you to intelligently build wealth for generations to come!

What I hope to effectively convey in this book is,

1. The world has changed forever.
2. Some new economic and financial market realities.
3. Where the world is going and how to make the most of It.

As well as introduce some new concepts to the esoteric world of economic debate, such as the "bottom up economic revolution", the "New First World" is Asia and Latin America (understanding the newly liberated aspirational states), and the "Old First World" is the USA and Europe. China is a big part of the story, but it is as much a symptom of everything else that is going on, as it is a cause and driver.

There can be no doubt that it is the success of the "old first world" of the USA and Europe,

that has allowed and lead to the rise and new-found success of the "new first world" of Asia, Latin America!

It is also true that Big "C" saved little "c", China saved capitalism, that the United States will never be number one again, but it will be incredibly even more prosperous as a result, and that Europe is on the mend and will surprise the world!

There will be, if there are not already, Three Equal Super Powers, and therefore three equal reserve currencies. Those of course self evidently being the USA, Europe, and China.

The "Bottom Up Economic Revolution" will drive accelerating growth for everyone.

While in perfect parallel and co-existence with unbridled prosperity, there will at the same time be little Inflation. Inflation is really now just a gentle kitten, as for the first time in history, real Competitive Price Pressures have domesticated this wildcat of last century growth periods.

Clever economic management and improved evolved forms of capitalism currently appearing in Asia and Latin America, mean we all face an extremely prosperous future. One full of opportunity, where we can all aspire, and where hopefully, "aspiration" will never again be contained.

The bullish view I declared from 9 March 2009, was the correct view, and was contrarian to, I believe absolutely every other economist in the world, and where that view came from, was the Economic Horizon.

To look beyond taught economic principles, to as I say "look out the window", and toward the horizon, is the only way to be a functional contemporary economist and worthy market forecaster in this century.

Please allow me to offer an outline of how the world economy truly operates today, and will operate for several decades to come. None of this is difficult to understand. In fact all of it is simple common sense. As well as providing a new economic theory of the world, I will explain how as an

individual you can outsmart the world's biggest investment banks time and time again in the very global financial markets, which they profess unchallengeable expertise. Not content there, I will also make economic policy suggestions for Europe, the USA, and Australia, which are bold yet absolutely essential, if the west is to remain a part of the new world game.

Global Re-Alignment

Getting The Message Across

Suddenly I found myself standing next to US Secretary of State Hillary Clinton, at the top of the stairs on the sidelines of the APEC Summit in Vladivostok, Russia. This Asia Pacific Economic Co-operation Summit was before the Ukraine crisis and was attended by twenty-nine or so Presidents and Prime Ministers, along with a Summit of CEO's from their respective nations. It was September 2012, and I had been asked to speak on the subject of global currency issues. This was an incredible opportunity to spread the news that all was well, and the world was headed toward a new era of relative stability and true prosperity.

This view of the world was a quite a positive perspective most of the attendees, if not all, were completely unaware of. Certainly at that time. The atmosphere at such international political and business gatherings had for several years been heavy with "fear", ever since the start of the GFC, and then the European sovereign debt crisis

came on top of that and had further entrenched "caution" as the dominant modus operandi.

Yet for much of the real world, along the ordinary streets of Asia and Latin America, it was not caution, or a waiting game for "confidence" to be returned by some form of government salvation, that was driving peoples behaviour, but "aspiration" that was and still is the dominant force. "Aspiration" is now the most important factor in understanding the future course of the global economy.

The freedom to aspire to a better life now continues to grow and reverberate around the globe. It is something the big bank and institutional economists fail to fully appreciate, and hence why they have in the main been terribly inaccurate at predicting economic progress, let alone the financial markets of the world, for over half a decade now. Ever since the stock market stopped falling and began a "Grand Bull Market" as I called it in real time, back in March 2009.

When I debated the CEO of Roubini Economics on stage in Rome at the height of European sovereign debt crisis, my view that the Euro would not only hold its ground, but that Greece and

other nations would slowly recover, and in fact the Euro itself would rise to become an alternative reserve currency to the US dollar, as would by the way the Yuan, was to say the least a little contrarian to the consensus view of the time.

As time would show however, it was my solitary contrarian view which was perfectly correct, albeit in stark contrast to my on stage adversary's view that Greece, and indeed all of Europe would collapse, that the Euro as a currency would cease to exist, and on top of that the entire world economy would enter a dangerous downturn.

What was considered the optimistic view, was merely the realistic one!

Europe had invested 30 years of diplomatic effort into the creation of the Euro, and it was not about to fall apart at the first sign of trouble. There was a "political imperative" as well as an economic one. This is why I understood, especially with the largest economies in the union remaining relatively healthy, that Europe would with transparent and aggressive policy initiatives, be able and likely to successfully resolve the crisis. As it did.

As I continued to advance this more positive and for stock and financial markets extremely bullish outlook at every opportunity, I suddenly found myself invited to Vladivostok in Russia for APEC. It is funny and quite frustrating how the perfect one liner can come to you months later, as you look back on a moment, even a quite special moment like standing next to Hillary Clinton! With nothing coming to mind at the time, I did the only gracious thing I could, and that was to not take advantage of the opportunity to say hello. What would be the point. Everyone wants to say hello to Hillary Clinton, and I hate being everyone. Which is a great strength when seeking the truth about the global economy and likely outlook for financial markets. In any case saying hello would hardly add value, and that is what I hope to do with this book, really add true awareness and value to your life and circumstances.

The Secretary of State had stopped to speak to a young lady she recognised, but as they spoke, a crowd and of course the media gathered round. As I stood there, in the intensifying crush, I just decided to absorb the moment. It is a long way from being an independent economist in Sydney, Australia, when one's views were often criticised by peers, to having an audience of Presidents

and Prime Ministers regarding global currency matters, not to mention having an unplanned moment standing next to the US Secretary of State.

Looking back now, if I had the opportunity again, what I would have said, and still would, to the US Secretary of State,
“Your currency is going down, and its going to be great for you!”

For me, that moment of rubbing shoulders with the Secretary of State, simply confirmed anything is possible in this world, and in these following pages I hope to explain convincingly how the world is in good shape, and has a very solid foundation for further globalisation and positive prosperity growth for the great majority of the Earth’s inhabitants for many decades to come. It is also highly probable, let alone possible, that the Dow Jones Index as a symbol of global stock markets and still to a significant degree global wealth, will hit 30,000 in just a few short years!

President Putin in his closing remarks at the APEC CEO Summit mentioned that he did not entirely agree with me, well not by name but he did refer to me as “that currency guy”, on the future structure of the global currency market, which I

had outlined at the summit a day or two earlier. It has long been my central thesis on the global economic structure, and therefore the question of reserve currencies, that we are fast moving toward a situation of there being three equal super powers, and thus three equal reserve currencies. This will be on all levels, economically, politically, and militarily.

While this involves a relative settling of US global political dominance back to being one of a pack of three, it is in fact fantastic for US business and stock markets. The investment opportunity is startling as a consequence.

What the Russian President specifically took me to task for, and I was flattered that he had listened to what I had been saying, was my suggestion that there will be three equal reserve currencies, the Euro, Yuan, and US dollar. The President stated kindly that I was in error, as there would in fact of course be four equal reserve currencies, with naturally his inclusion of the Rouble?

President Putin had a point, as Russia could be on the verge of being the next economic miracle of historic proportions, one akin in style to that ex-

perienced by China. Russia albeit a smaller version of a similar process, was warming up to a speed, degree of success, and wealth, similar to that of the transformation taking place in China. Yet reserve currency status for the rouble my dear President, remains unlikely, especially given the events of Ukraine, which while Russia had a point, it has probably stepped too far. I have no doubt however that Russia will return to a better path toward prosperity in coming years.

Russia will continue to threaten Canada, Australia, and other nations in the provision of minerals and agricultural resources to Asia, quite simply because they are getting better at digging and transportation, and are right there with improving land transport routes such as the new gas pipelines. So there is the potential for a global currency war on a commodity supply basis, though this should be avoided.

It is this well known competition to supply China with resources, and to do business with China on almost every level, that brings us to the key point of this book. China is not the whole story, but it is a large proportion of humanity and therefore global production and markets.

What is happening in China however, is a human process that is sweeping many other nations across Asia and Latin America simultaneously.

It is a human process that is also generating, through competition, a renaissance of entrepreneurship in the US, and also in Europe. It will be the response of the US at the small and medium sized enterprise, SME, level, which will determine which nation, China or the USA, is the largest economy in the world in ten years time.

The US has much to be grateful to the rest of the world for. It was largely the strength of the rest-of-the-world economy that rescued the US economy from the GFC recession, and it is the innovation and drive of SMEs from Asia to Latin America that is ushering in a new age of healthy competition all the way to the heartland of the USA, thereby igniting a wonderful American business response, which I call the “renaissance of entrepreneurship”.

Regardless of Presidents and Prime Ministers, currencies, and certainly Wall Street doomsayers, Main Street USA, like Main Street Uruguay is getting on with the job of building businesses, often communities at the same time, and making a profit!

This is the hidden strength that supports the biggest economic expansion in history. The “aspiration” of the many.

New Map Of The World

This troika of superpowers, includes the senior nations from both, what I like to term, the “old first world”, and the “new first world”.

The “old first world” consists of the USA and Europe.

The “new first world” is Asia and Latin America.

The only “emerging markets” are really now in Africa.

Canada and Australia appear to have a foot in each of the “old” and “new” first worlds. These “big-foot” economies are about kicking up the dirt, largely for the benefit of others. They are afflicted with the same basic structures and systems that are considerably aged, developed out of the US and Europe. Born of those societies as Canada and Australia are, they are now having to understand and participate in the “new first world”, though their direct and integral participation in

these economies via their unique and essential provision of natural resources.

Having relabelled the world such, “new first world” and “old first world”, suddenly a lot of things start to become clearer, and we can start to see why the world is now operating the way it is, and heading in the direction, or is that directions, that it is.

The “old first world” nations were the early flag bearers of modern democratic capitalism, and as a consequence are now seriously burdened by over legislation, regulation, and complex tax regimes, with an entitlement culture that has quite possibly gotten completely out of hand and irreversible. The economies of Europe and the US on the other hand, are like rusty old steam ships being driven by broad grinning Captains into the abyss of the history pages.

It is the “new first world” of Asia and Latin America, more akin to the beaches of Brazil than rusting hulks, which are rapidly evolving capitalism and democracy as they go into appropriate forms that suit their particular historical and even geographical circumstances, who now lead the global economic cycle and drive the strong and robust

global economy in which we live. The “revolutionaries” in back of these huge social and political shifts within each of these nations, are as always throughout history, an odd mix of the working and middle classes.

This time round the revolution is based in the new wide availability of knowledge, and the ability for all to communicate effectively. The weapons of this revolution are smart phones and tablets, and they are being used to good effect.

The people, sometimes coalescing as small and medium sized enterprises, SMEs, are the source, the drivers, and the decision makers of the modern global economy, which underpins the prosperity we are all now experiencing.

The modern and prosperous global economy, in which all of us currently reside, is largely a function of Asian and Latin American aspirations.

As well as the direct demand for products, services and the technology of the west, this rising challenge has re-awakened the entrepreneurial spirit of the USA.

The White Crane represents prosperity, and global prosperity is certainly the dominant feature of our times. I did think of naming this book after my previous daily economic and markets commentary, “The White Crane Report”, as an antidote to all the fear mongering, misguided as it was, by the many proponents of the “black swan” negative view of the world. I hotly debated the CEO of Roubini Economics on stage in Rome, at the height of the European sovereign debt crisis. My isolated bullish view held to solidly throughout those years, that Greece and everyone else for that matter, would stay in the Euro, and the Euro would rise to become a major reserve currency, was needless to say, considered near heresy at the time.

Yet the bullish view as declared from 10 March 2009 was the correct view, and where that contrarian to I believe absolutely every other economist in the world view came from, was the Economic Horizon.

To look beyond taught economic principles, to as I say “look out the window”, and toward the horizon, is the only way to be a functional contemporary economist. My personal journey has included

the observation and recognition of such processes as what I like to call the “bottom up economic revolution”, “inflation no longer the animal it once was”, “intra-regional trade”, and the all essential pure and powerful ingredient that is “human aspiration”. This book incorporates those insights into a reality check about what was, and is, really going on in the world today, and hopefully offers a reasonably accurate and helpful outline of where we are all headed, whether we like the direction we are going in, or not.

Fear not, we are going in the right direction!

The changes that are taking place are such that our leaders, even the best economic thinkers of our time in the US, Europe, and elsewhere, are all left wanting.

Their forecasting ability, and therefore their contribution to social policy development of the past decade or two, has been seriously deficient.
We have indeed each of us, all paid a high personal price for their limited old world economic perspectives.

I like to call my approach to observing, understanding, and suggesting about the world, *“look out the window” economics.*

It is about the application of that innate human commodity, “common sense”, to mass psychological and massive technological global shifts, occurring all around us right now in real time, more rapidly than any of us can appreciate.

When I look out the window, to the horizon, *the light is coming up!*

China Key

China is only just getting started!

We are talking about the most significant period of economic development in history. Something bigger and better in fact than the post World War II period. We are still in the early stages of the expansion of capitalism in China. We are all aware now of the fabulous urbanisation process that has swept the east coast, and is on-going. We are also slightly aware of the urbanisation only just beginning to take place in the middle and western regions of China. Here comes the “middle kingdom” again!

The east coast urbanisation process has been running for 15 years, and we can expect at least another 15 years of equally rapid and significant urbanisation through the middle kingdom.

The transformation of China is “still taking place”.

the transformation of China must be seen to still be young! It is ongoing and remains incredibly dynamic. We probably have *another three decades*

at least of strong growth, modernisation, and urbanisation ahead of us.

There is no inevitable crash to speak of, but more a gentle maintenance of continuing high but not quite so high growth. It is not the case at all that China is about to slow dramatically as some global bank economic research departments have been suggesting for many years now. Some even forecasting just 2-3% GDP at this time. China will accelerate yet again as manufacturing enters a new technologically advanced phase, including greater productivity, and global and domestic demand continues to increase, alongside rapid expansion in services, and a successful if not triumphant shift to a consumption based society.

We must remember urbanisation is not the driving force!

Urbanisation is in fact a mere *symptom* of that wonderful human trait which is “aspiration”, that is sweeping the whole world. What is happening in China, is happening everywhere, just not so obviously perhaps.

The future really is bright, and for all of us who dare, the opportunities are truly unlimited, and are

in fact right now immediately present. The stark and incontestable reality is that we are all of us, at risk of missing the boat, that boat of untold wealth!

We have mentioned Russia and China initially to highlight the capitalistic dynamism coming from these previously communist nations, and how they are now major contributors to the actual survival, as well as expansion, of capitalism itself.

In 2009 I wrote a paper called,

Big "C" saves little "c"*: China saves capitalism!*

There is no doubt China was a bit of an anchor for the world during the Global Financial Crisis (GFC) and European sovereign debt crisis.

While there were plenty of media news stories about factories shutting down in the export focussed industrial region, the main story, that of on going burgeoning demand in all of mainland China, barely got a mention. At one stage the Chinese authorities, a little panicked by the dire warnings from visiting US dignitaries, closed a large number of steel mills, only to have to reopen them just three weeks later. The nation began to

run out of steel, the economically all important formational product.

This is all by way of example however, as the most important message is that the number one driving force in the world today, of the global economy, is the billions of ordinary people now “freely aspiring” to a better life for themselves, their family, their community, and even their nation, irrespective of the wisdom or folly of their governments, or global institutions, and with scant regard to economists and market forecasters. No where is this force more easily identifiable however, than in China.

The government of China has not, and is not, somehow artificially manufacturing an economic miracle. Rather it has and is, doing its very best to manage, direct, and cope with, a massive *human tide of aspiration*. A tide that is unstoppable and will continue for decades if not generations to come.

Our job is to catch the wave.

Good News USA

The world has changed. The USA will never be number one again. Don’t panic this is actually fabulous news for the USA, and particularly American businesses and investors!

Well not number one in the sense that it was in the previous century at least. That was a period where the US dominated the world, politically, economically, and militarily. A period now past, but opportunity for the US as well as the new world, still abounds.

It will steadfastly remain one of the three great super powers of the world, and will be extremely prosperous thanks to a strong rest-of-world economy, as well as experiencing the re-emergence of that famous all-American trait of entrepreneurship.

This cannot be emphasised enough. Several years ago I was debating a previous Chief Economic Advisor to President Bush, on stage for Euromoney magazine in London, about the outlook for the US dollar. This was to a largely hedge fund audience. As it turned out my bearish view was well founded, but not widely shared at the

time. My adversary just kept repeating over and over again that the the US dollar had to strengthen. Why? Because the USA is the most entrepreneurial nation on earth!

Interesting I thought, but not convincing, and I responded with an easily recognisable array, if you got past a stubborn financial market belief system that the USA will always be number one, of reasons as to why a steady decline of the US dollar was not only inevitable, but would also help correct global imbalances and be good for the USA itself. The counter reply to this was that “the US is the most entrepreneurial nation on earth”. And so it went on. I think you get my drift here.

There was both this unassailable ingrained basic belief that the USA was the greatest nation on earth, and always would be, and even a “strong dollar policy” to back this up. Yet as we were to see just a few years later, not only was the US vulnerable, but that its banking system was the number one problem. Rather than masters of the universe the boffins of the investment banks were common sense brain dead it would actually seem, and believed that if something could be proven in an excel spread sheet then it must be true of the real world. “Common sense” was not, and as far

as I know, is still not, a function available in Excel, and remains quite scared at investment banks generally.

The GFC was a function of people believing that 20,000 high risk assets, pooled into the one product, suddenly became triple A saleable? Never did it occur to anyone that all 20,000 mortgages might respond similarly, and simultaneously, to the same stimuli, such as a slowing economy. Yet this is all that could be expected.

“Common-sense” had clearly gone “walkabout” as we say in Australia?

Three Super Powers

The three great superpowers, the USA, Europe, and China, will be surprisingly equal!

Though there are still some catch up areas for China in particular, any gap is closing surprisingly quickly. In the end, within just a few years, these great unions of peoples, Europe, China, and the USA, will indeed be equal in almost all regards; politically, economically, and militarily.

Russia will always be in the wings, and President Putin in his speech at APEC in Vladivostok in 2012 did take exception with my outline and vision for world power. Russia is the next mini-China economically speaking, it will be a very exciting next decade, and the political power of Russia is on the rise, but it is difficult to see Russia regaining the global superpower status it once held.

There will be other powers like Russia, heavily involved in geo-political processes and events, but it will be the main three who will increasingly dominate the debate in their respective regions.

The Century of Relative Peace !

The general equality of the three superpowers, China, Europe, and the USA, should herald a long historical period of relative stability, and dare I say “peace”. There will still be the odd national and regional skirmishes, even intense situations yet still contained like Syria and Iraq, but nothing on a scale of what the world sadly experienced in the previous century.

The biggest surprise of all is that this our 21st century, could be viewed by future historians, as the “century of peace”!

The Dark Years

Remember 2007, just a few years back?

First the world was going to have an on-going never-ending economic boom. That was early 2007. Then, we were to supposedly experience another Great Depression. This was the most popular, and almost religiously accepted view of the world that persisted all the way through from 2008 to 2012. Neither view was correct, but we are now well and truly in a new era.

The bearish views were not enlightened at all, pure fiction really, in that they had no basis in the reality of the modern contemporary world in which we all live. How the modern economy operates, at the national and especially the international level is entirely different to what previously existed. While international trade may well have been around for some 50,000 to 70,000 years, there is some evidence to suggest the Chinese may have traded with Aboriginal Australia as long ago as that, the free and immediate flow of ideas, technology, and capital, is something quite new.

Global efficiently in these matters has only been achieved as recently as the past 10-15 years. All

economic models from the past century are in fact based on a world that no longer exists. that was a world where nations were focused on mustering their domestic resources in order to trade successfully with each other. Today, small and medium sized companies, as well a s large corporations and even individuals, garner the ideas, resources, capital, technology, and even their staff and clients, form all over the globe instantly, in order to deliver a world class product at the most competitive price possible.

Any wonder the old models do not work, but it was such staid and outmoded thinking that drove the principle financial institutions and leading economists of the world to be virtually certain that we were falling into a deep global economic abyss, escape from which was considered impossible. Nothing could have been further from the truth, but this was the accepted economic thinking of the time. Such were the dark years.

Yet some of us have understood the true reality of where the global economy was going all along, and importantly from an investment point of view, also where global financial markets were headed, better than most. Some of us have consistently forecast economic and market outcomes for

which we were derided in real time, and yet time and time again came to fruition, and were proven to be highly accurate. This has been possible not because of some great rocket science spread sheet approach, but through the application of that ancient and fading art of, wait for it, “common sense”.

This more humanist approach to economics consistently delivers far more accurate forecasts, than any degree of mathematical or excel spread-sheet expertise can ever achieve. Once you start using data, you are only looking backwards, which by definition in an evolving system means with absolute definition and certainty that any forecast from such a model will be wrong. It cannot be any other way. If you are fully focussed on data and modelling based on data, you will never, and I say that again, never, ever, accurately predict the future of any economy,
let alone any financial market.

This book is an attempt to promote greater understanding of how the world is, and will be, among the people who really matter. That’s you, and not other economists who are mostly lost to an obsession with reductionism. There is a new world

out there, and it is best understood from the point of view of a humanities approach, certainly not as recent history has clearly proven, from the reductionist philosophy scientific method.

The great hope for economics is a generational shift, one that we may have to wait indeed a generation or two to occur, back to a more humanist appreciation. Though there are some early signs of this correction, reversal of the pendulum, beginning to occur in various locations around the world. There is hope for some intelligent economic contribution from some of these nodes of intelligent economic life still belittled but nonetheless there at some universities. In the meantime we have to get on with our own lives, the building of our individual and community wealth, and the making of our own countries great again. Through this inner strength, from successfully navigating the economic and financial markets of our day, spreading the benefits of globalisation!

“Look out the window” economics applies common sense to what we can see with our own eyes happening around us, and occurring around the world every single day. We are now more connected than ever. We have to watch and learn all the time. The world, economics, is never learnt. It

is always the most fascinating of on-going evolving challenges.

Yet instead of looking at what is happening right in front of us, most of the world's best known and leading economists and institutions stubbornly choose to bury their heads in the spines of their desperately out dated ancient text books, creating clever sounding formulas that will only ever lead to continued GFC style crises and large hedge fund melt downs.

That may sound bearable, until we discover such events do indeed impact our own individual lives, and the quality of life and opportunity in our local communities.

During the GFC for instance, even in relatively healthy economies, it became harder to get a home loan, and it became more difficult to buy property off the plan because developers could not get the usual access to funding they had previously enjoyed. People all around the world lost jobs in factories that up until then made good useful products, some even essential, and had looked to have a bright future. They closed overnight, because of what occurred, not in the working lives of ordinary people, but due to the utter

void of common sense that existed in the financially engineered creation of excel spread sheet manufacturings in the bowels of investment bank research departments from New York to London.

The so-called “masters of the universe” nearly did destroy the world, but were stopped by the ordinary working and business people of Asia and Latin America initially, and then eventually Main Street USA. They are our real heroes.

The masters of the universe were discovered to actually be,
the not-so-smarts of the universe!

The ordinary people all around the world, who were not so ordinary after-all, were able to look past the self-absorbed millionaires of Manhattan, to right next door to the trade and business opportunities that existed with their closest neighbours. They got on with life.

People everywhere rediscovered the economic abundance of their immediate communities, and just across their immediate borders. The mantle of magic that had surrounded the “old first world” economies of the US and Europe suddenly collapsed, and with some appropriate disgrace.

While the rise of the “new first world” of Asia and Latin America was well and truly established.

The Humble Leaders

The number one driving force in the world today is the billions of ordinary people who now freely "aspire" to a better life for themselves, their family, their communities, and their nations.

China is a great example of this, though not the whole story as some think it to be. Certainly the people of China were quite severely oppressed for some 60 to 70 years, and then the "lid" was lifted. So we have this tremendous historical burst of fresh human energy, an eager appetite to "aspire" to a better life, because now they can, quite possibly in a way un-paralleled in history.

Similarly all around the world, Asia, Latin America, and Africa, billions of people experienced oppression either politically or economically, but more usually both, and for several decades. Many still do. It has been modern global communications, as well as some determined individuals and political movements within these regions, that lead to their sudden full-fledged discovery and embracement of capitalism, if not democracy. Though the second usually follows the first in some form, and this is also one of my reasons for feeling positive about the future.

The argument will always rage as to whether economics determines politics, or is it the other way round?

The truth, as in all such matters, is in the grey. The two pinnacles of social creation, an ordered economy and that of good government, evolve together continuously. Therefore I find the enthusiastic spread of capitalism, in its various forms, especially its rapid niche evolution in Asia and Latin America, to be encouraging for the prospects of democracy as well, and therefore the increasing fairness and prosperity of the global economy for all.

While we in the west sit around waiting to be reassured that we can be “confident” before doing almost anything these days, let alone taking a “risk”, the great majority of the world are already hard at work seizing every opportunity, driven as they are by that most magical and noble of human emotions, “aspiration”.

In fact when things look tough, the people and SME’s of the east and south tend to roll up their sleeves and work even harder. Whereas in the

west we have tended to take what we thought was the high intellectual ground and play safe.

The global economy is not driven by the political leaders, central bank Governors, captains of industry, and certainly not by the bank CEOs of Wall Street or Geneva. Though all those people most certainly think they do run, and even save the world from time to time, nothing could be further form the truth. Their mis-guided self delusion is their downfall. My favourite saying in markets is “rooster one day, feather duster the next”, and this certainly applies to the sense of ascendency that has seemingly enthroned Wall Street and Wall St types the world over.

The global economy is driven by every day people who are willing, and are in fact extremely eager, to work as hard and as cleverly as they possibly can, each and every day, to better themselves, to improve their lot.

The global economy of today is more about the ordinary people of the east and south, than it is about the postulating economists and leaders of the west. This a new historical reality that even the most widely quoted commentators are still failing to fully absorb.

Academically, economics as a discipline should never have been moved to the sciences. This is where the "wheels of thought" really started to fall off the "wagon of wisdom".

Economics belongs in the humanities departments of the world's universities.

Real economics is about real people, and no amount of scientific endeavour, reducing systems/economies to the lowest common denominator with empirically repeatable modelling, is ever going to forecast the emotional future path of the earth's great variety of societies. We can only understand what has happened in the last couple of decades, grasp the slightest of inklings of what lay ahead in the many decades fast approaching, if we fully commit to the idea that the economic performance of nations, regions, and the world will be determined by the new aspiring consumer and small to medium sized business managers.

These are the world's most powerful leaders. They are able to absorb dire predictions and go out and invest in a new enterprise the very same day. Something western business managers are

aghast to do, and this is why the west falls further behind. Western business managers actually worship the new Cathedrals and High Priests of Wall Street. While in the east and south they listen, observe, and then create their own opportunities and far more flexible institutions along the way to boot.

The largest corporations in the world will find it increasingly difficult to keep pace with the rapidly changing technological and "emotional" economic environment of the modern age.

The political leadership of all nations is now more challenged than ever, more openly and more desperately, and must work to make life easier for its citizens, to avail its people of that treasured emotion, "aspiration". All governments must empower their populations to be passionate about what it is that they love. In law "passion" is seen as the enemy, but in life "passion" is the source of all creation.

This is key, to rekindle "aspiration" in the west, to the level at which it currently expands organically in the east and south.

Any and all attempts to control or dampen that emotional force of the new people's revolution, the bottom up economic revolution, will lead to a loss of power. It is evident from the freeing up of China, all the way across to the Arab Spring, and this process will continue to roll around the globe for many decades hence.

The human story is one of evolution, which if checked too severely, leads to decay, but only until revolution self manifests.

We are indeed evolving. We are getting taller, and we are getting smarter. We will never do things exactly the same as in the past, rendering backward looking data analysis more and more obsolete. While such empirical endeavours are now universally popular, they are fundamentally flawed, and if not eschewed, will lead to even greater "GFC" type crises. The proponents of economic understanding and policy must accept that the scientific approach, while having a part to play, has failed as the dominant mode of decision making.

We increasingly see the largest, supposedly most respected economic institutions in the world such as the World Bank, the Federal Reserve, and all

the way down to the Reserve Bank of Australia, making horrific policy errors, that set back our economic progression rather than enhancing it. It is true that repair measures have been adopted, but the point remains that such institutions were part of the core cause of the original crises. While the European leadership has done an amazing job to keep Europe out of a far worst recession than would have otherwise occurred, and China operates the best run capitalist economy in the world, such successes and applications of common sense to complex economic challenges are far too few.

Markets Got It Wrong

Why were the most respected economic forecasts the world over so consistently wrong for more than half a decade now?

It could have something to do with stubborn adherence to economic principles which perhaps held some validity in the previous century but no longer do. There was a time when it was correct to believe the USA was the centre of the global economy and lead the global economic cycle. There was a time when what happened on Wall Street, drove main Street, that the real economy would respond to beliefs and perceptions of the future emanating from Wall Street. Those times have passed.

We will now take a look at what really happened in the "Global Financial Crisis" of 2007/2008, which despite all its pain, did certainly expose for all to see and confirm, the "changing of the guard" from west to east, the ascension of the "new first world".

The biggest stock market rally in history started five years ago on the 8th of March 2009, but you barely noticed, because every bank, broker, and

media outlet, kept telling you the world was in a massive bear market headed into a global 1929 style or worse great depression.

Which we were not, and of course never did!

This amazing fantastic bull market rally, it was constantly stated by the world's biggest investment banks, many of which at the time temporarily nationalised, and every media commentator, day after day, would not last!

You were told to sell !
You were told wrong !
You were done a great dis-service !

This completely inaccurate, yet fully committed to daily media barrage from the establishment existed because the traditional sources of economic knowledge and wisdom, had been, not for the first time, completely wrong footed. The actual situation was that despite grand titles, experience, and positions of power, they had and still have, little if any idea as to what is really going on out there on Main Street, Uruguay, let alone Main Street, USA.

The leading and most widely known economic commentators of our time, our economic high priests, have no robes!

They simply don't understand where you and I live, what we do, how we feel, and therefore how we behave, let alone how we will behave? Therefore they have in real time little real economy awareness, and their contribution is nothing but misleading for investors and policy makers alike.

Old academic approaches and methodologies die hard, and usually must run a long course of decay, causing significant damage to society in general, before finally being jettisoned in a form of intellectual revolution.

On this occasion, the actual real on the ground revolution did not wait for the intelligentsia to suggest a new way of thinking. The workers of the new world figured it out for themselves, empowered by free knowledge on the world wide web, in next door neighbourly banter, and seized the opportunity.

The revolution has already occurred.

The intelligentsia is years, perhaps a decade, behind.

The hallowed halls of Harvard and other schools have been reduced to the click clack of mere historians.

Those who dominate the economic space, just haven't figured it out yet. So every day we are bombarded with opinions riveted in thinking that has no relevance to the contemporary economic environment, let alone financial markets.

This is why the establishment, from the World Bank to the big investment banks, to your local broker, and most certainly includes your business news provider, all failed to recognise the start of an initial 100% rally in the Dow Jones Index from the 8th of March 2009 to early 2010, and which is fast approaching a tripling in the value of the S&P500.

The main reason for this abject failure of gargantuan proportions, is their complete lack of understanding of the interplay of mass psychology, contemporary economic forces, and the media. It was also a failure to recognise the world's new-

found achievement of “immediate communication”. There is a bio-feedback intensification of the consensus view that is different to what has previously occurred.

While in 1929 it took many years for the Great Depression to unfold, in 2008 the whole world was instantly in a state of panic with the mere thought or “fear” that another Great Depression might occur. So markets immediately went into the process of fully pricing in that fear, of pricing in a global depression. Markets priced in a Global Depression we were never going to have, because the world is different, but there was no real time appreciation of this.At the time though, “fear” about a Great Depression, even an end of the world and neighbourhood anarchy scenarios, sold like hot cakes.

Little wonder then, that as the market rallied strongly through 2009 and into 2010, that all commentators kept saying with considerable bluster that the rally would not last, and they would not be taken in and fooled.

They missed one of the golden opportunities of their lifetime because of an ego attachment to a

false view of the world, and they contributed enormously to the great majority of investors, your-self most probably included, missing out significantly as well.

Everyone wanted to appear smarter than everyone else by being more concerned, worried, and bearish than the next person.

The biggest movements in financial markets always occur when there is the greatest divergence between the consensus fundamental economic view, and the fundamental reality that exists at that time. The two are very different creatures. One is a function of what the people of the world are really doing, and the other what some western economists in ivory towers in just a few financial centres in western countries, are “thinking” the people of the world are doing, or what they should do according to their out-dated economic textbook theories, or even worse still, some childish new mathematical model created by a recent university graduate. The new golden boy who is unwittingly poisoning all the eggs.

There are no formulas. We are discussing large masses of people from a great variety of cultures. Yet the priceless minority in the west, who were

taught at the best ivy league schools, believe that if “x” happens that “y” must surely follow. Nothing could be further from the truth.

The functioning, parameters, nature, and principles of the global economy are forever evolving, and the rate of that evolution continues to accelerate during our current period of history. Just as the human experience is evolving, so are the principles of economics. For some unknown reason so many economists, and especially financial market economists, seek a formula, a scientific formula to explain economic development. This is high foolishness.

Economics belongs firmly in the realm of the humanities, and this is where it should be taught. The truly poor performance of economic understanding and forecasting by the biggest economic institutions of our time over the past two decades is a function of the attempted absurd reduction of human development to a spread-sheet formula. It is the proponents of such philosophy who are wholly responsible for the Global Financial Crisis.

So lost in their spread-sheets and ivory tower corridors, these so called masters of the universe actually proposed that if you take 20,000 high risk

mortgages and combine them into one single financial product, that they then became and could be sold as a low risk, even triple A credit worthy, investment. How did no one come to consider that the seemingly separate 20,000 mortgages, in fact all largely responded to the very same stimuli? Probably because no one took a moment, “looked out the window”, and said “that doesn’t make sense”.

Then again perhaps they were only interested in “making the sale”! This was a sales pitch that worked, and as to the question or substance of the matter, that was distant consideration.

Many of these products never made sense, but it did satisfy various financial market principles, largely invented by the people who want to sell financial products. It does not take a great deal of intellect to foresee that if the economy turned down suddenly, then all such mortgages would experience stress at the same time. I can just imagine if anyone did apply some common sense and challenge the assumption, they would heave been asked to prove their observation mathematically. Such is the corruption of thought and decision making at such financial altitude. Of course

once the economy turned down, all those mortgages would basically all go sour at the same time. As this began to dawn on people they all suddenly wanted to exit, and the rush was on. The result was a severe competition to sell! A collapse in market after market.

This was just the very beginning of a significant global financial market sell-off that engulfed all asset classes. The fact remains however that all of these falls were exaggerated relative to the real world environment of the time. This is the very reason the recovery in asset prices has been just as impressive and equal to or exceeded the decline. Only a short while ago in 2012, the vast majority of economists were still expecting Europe to implode, the currency of Europe the Euro to disintegrate, and for another severe recession to take hold in the US.

Some economists where even calling for China to experience a complete social break down and another revolution. Such was the “fear driven” fictional madness of the time, but these kinds of nonsensical forecasts were not just coming from blogger world, but just as often from some of the largest, and what should have been respectable, responsible, institutions.

“Tapering” Was Always Bullish!

With regard to “tapering”it was always seen by myself as a strong buy signal. Especially once it first eventuated. Below is an article I wrote as part of my usual reports on 5th November 2013, which outlines the fundamentally and proven to be correct bullish view on the subject. this was a stand out example of just how mis-guided market consensus can become in the modern age of mass media and communication.

The Great Tapering Confusion

Regular readers of my reports will not be surprised by my views here, but I believe I need to go over some of the issues again, for this really is the dominant issue impacting market sentiment at the moment.
May I just at the outset assure you that “tapering”, when it happens, will have negligible if any negative impact on the stock market. I can understand that many people have different views on this, and mine is simply that, another opinion, but I believe there are two distinct aspects to what is occurring in this relationship between the economy and quantitative easing, or stimulus as it is more broadly understood, that require consideration.

Firstly, even if the correct view is that the stimulus measures, predominantly quantitative easing, are responsible for the equity markets strength, this may still very well turn out to be quite a historic and significant example of, "sell the rumour, buy the fact"! By this I mean that even if the market "should" move lower because of tapering, this scenario has been so well telegraphed and accepted by the great majority of market participants, that everyone will be positioned accordingly well in advance.

This means that all those who are bearish as a result of the prospect of tapering, will already be short, well before it occurs. I have spoken before about the process where once everyone who wants to buy, or as in this case sell, has done so, then they have without their real awareness of the fact, all become nothing but a "sea of potential buyers". They will need to buy, in order to take profit on their short positions, and there is no one new, or left, to sell afresh. So once tapering actually occurs, the market may at most be priced a little lower for perhaps a day, or for only a few hours, before it again begins to rally. Furthermore the subsequent rally is likely to accelerate as all those who were positioned short, begin to increasingly aggressively buy their positions back.

They will be competing with one another to do so.

In summary then, even if the market "should" fall due to "tapering", it is now unlikely to do so!

Secondly, fundamentally I do not believe the market "should" fall.

In fact I believe the exact opposite, which is that the market should be looking to "tapering" as confirmation that all the major crises of recent times are well behind us, and if I may, economically the good times are back.

The Federal Reserve has made it abundantly clear on numerous occasions that it will only begin tapering when the economy is on a robust and stable footing, that will sustain continued firm economic growth near or above trend. It is quite obvious then, that tapering only ever begins, when things are rather good, that is, the economy is very strong.

Given the Federal Reserve is one of the more conservative institutions in the world, and the depth of the crises that have been faced in recent years, it has only ever been the case that the Fed would err on the side of caution. I believe this is

exactly what is happening. The stimulus measures are going on for longer than necessary. With too much stimulus in the system, and the economy having continued to improve to the level of robust expansion, it becomes abundantly clear that the stock market would therefore be likely to react by accelerating.

On the basis of the above two points, the true risk then from "tapering", is that the stock market will accelerate higher, not decline.

There is even more to suggest that the market can take tapering in its stride. The stock market has been in a bull market, one I named a new "Grand Bull Market", since March 2009. In fact 2009 was the biggest stock market rally in the last decade. One of the reasons the rally was as aggressive as I thought it would be at the time, was because just like now, everyone was taking one view on the market and it was a view not justified by the fundamental facts.

A strong economy, and tapering only occurs in a strong economic environment, means increased revenues and profits for businesses, which of course means their stock prices are likely to move higher. The bears are actually suggesting you

should sell good American companies because their profits will be sound and increasing?

Yet further, I would suggest that the bull market we have seen has had little to do with the stimulus measures, and has had a great deal more to do with the strength of the new capitalist economies of Asia and Latin America. It is their growth and trade with each other that is enriching their own societies and certainly contributing to the wealth and success of S&P top 500 companies. The rest of the world, apart from Europe, remained relatively strong throughout the GFC and the sovereign debt crisis. This more robust global economy that has now come of age, is able to cope with the swings and roundabouts of the US economy and therefore helps to stabilise global and indeed US equity markets.

We live in a new and prosperous age, and that is why stimulus is un-necessary and can be tapered, without any significant adverse impact on either the economy or the stock market.

Then there is the timing and the nature of "tapering". With Janet Yellen taking the helm we are likely to see an earlier adoption of tapering, I believe commencing in January or February, but for

the process to be more gentle and drawn out over the whole year of 2014.

My price action prognosis is that the stock market will now rally significantly into December/January, pause for the advent of "tapering", then accelerate through much of 2014 in parallel to the occurrence of "tapering". Just as in 2009 I forecast the stock market would rally in parallel to high un-employment and a depressed home construction industry. Now they were "real" fundamental weights that the market did indeed overcome. Tapering is not such a challenge.

In a nutshell, we should all keep buying this and any other dip that comes our way. It is after all a Grand Bull Market!

Grand Bull Market

The “Grand Bull Market” as I first called it on the 10th March 2009, has been driven, and will continue to be driven, by a strong robust and ever more prosperous global economy!

The driving force and emphasis here in these pages is however on the “new first world” of Asia and Latin America. Though the “old first world” of Europe and the USA will and is coming back on line, it will never again be the dominant lead in global economics that it once was. The “old first world” of the Europe and the USA will however prosper brilliantly yet again as they are already exhibiting the early signs of fresh achievement. Such is the renaissance of entrepreneurship in the USA.

I started using these terms, “new” and “old” “first world”, many years ago to make the point that really the only still “emerging” economies of the world are in parts of Africa, and anyone who uses such a term in relation to Asian economies in particular, is sending a very clear signal that they do not really know what they are talking about as far as contemporary economic forces are concerned.

It is essential to note that in many regards countries of the “new first world” are the new leaders in innovation and even the management of further evolved and nuanced capitalist systems. A classic if simple example of this is the rise of the Galaxy Samsung phone of South Korea in relation to the iPhone of the USA. The smart phone is the cutting edge example of consumer technology, and so says a lot about how much the world has already changed.

Throughout the post-GFC and European sovereign debt crisis period it has been China and greater Asia that have been driving global growth and indeed leading the global economic cycle. It is the driving force of the nations of Asia and Latin America as well, that have supported the recovery of stock prices the world over. Understanding the processes involved provides us with a clear indication that asset classes, particularly stocks and commodities, will continue to rise for many more years, and perhaps even decades, to come.

While the great majority of economists continue to spend their days closely monitoring the US economy, in doing so they fail entirely to appreciate the new global economy.

The US is a very large economy, but like Europe, it is a very mature western democratic capitalist system. The vibrancy and growth in the global economy now comes from elsewhere. The US still matters, but not to the degree the institutionalised economists of the world still pay homage, and do so yet years after the fact that the world has changed so fundamentally.

In my talks I frequently make the comment that the world does not need the US to be having a party. If the US were to grow at 0.0%, the world would still have a party. Preferably however, if the US were to grow at above 3%, which is by the way my expectation, then the world will have an even bigger party.

Fortunately for us all, the world is no longer US centric.

This is one of the key points that needs to be appreciated in real time, and is indeed a real world phenomena, in order to get a handle on the already existing global economy, before we can even begin to accurately look to the future.

The global economic cycle is already lead by China, for it is in China that most of the world's

current increase in GDP originates. While China is not yet the biggest economy in the world, it is certainly in absolute terms the largest contributor to global growth, and driving global growth means what happens in China, significantly impacts the rest of the world, including the USA. This has been the case for many years, but old habits die hard, and the notion that what is happening in the US now, is what will be happening in the world in 6-18 months time, remains a widely held view. Yet it is completely incorrect. On a daily basis we are told the global economy would slow if US un-employment increases. This has for over a decade, if not always, been completely untrue. US employment is completely irrelevant to the true global outlook. In fact the US economy itself will probably not slow one iota if US un-employment increases, let alone the rest-of-the-world economy.

The statement above may have surprised a few people. We all know US employment is a key indicator of the US economy and world growth? Wrong! It most certainly is not!

If US un-employment were to increase a full one percentage point, say from 6.3% to 6.4%, this may have a 0.01% impact on US GDP. Then

again other factors may well overwhelm even this worst case theoretical effect. We could see even stronger US economic growth running in parallel with high un-employment. Impossible some would say. Well that is exactly what happened in 2009, and was exactly as I had forecast at that time. I was forecasting a continuing poor housing industry and extremely high un-employment, while growth would accelerate and stock prices rally. Being perhaps the only economist in the world to forecast US GDP at 3.4% by the end of 2009, at the start of 2009, when everyone was sure there would be a severe slowing into recession.

My positive stock market view, based on how modern economies operate, was in perfect keeping with my forecast of higher un-employment and a still dismantled housing industry within the economy. This was not an easy argument to make at the time, yet it indeed prove highly accurate. At the time the consensus view was for a serious double dip recession experience, if not depression. The exact opposite was true, and for good fundamental reasons that few seemed to be able to recognise.

The point I was making then, and continue to make, was that the state and future path of the

US economy was not so much linked to the 10% un-employed, as it was to the confidence of the 90% who had jobs, about their ability to keep those very same jobs.

As a human tragedy there is no denying the real and social pain of un-employment, but in terms of forecasting the overall health of the US economy, and therefore the long term potential for un-employment to be reduced, what really mattered was the confidence level of the 90% of Americans who had jobs. This was far more important than the level of un-employment, which became as I suggested at the time, immaterial to the recovery we would see in the US economy and to the flood of increasing profits that was about to befall corporate America.

While American households were no doubt continuing to be deluged with recessionary even depression forecasts in their daily breakfast news, the longer they continued to maintain their jobs, and see that pay check continuing to regularly, reliably, come in, the more likely the eventual capitulation back into old patterns of consumption and even over-consumption. Little Pete would finally get that new baseball bat he had desired all through those long GFC years.

A resurgent US consumer was central to my strong economic outlook for the nation, and when combined with a still robust global economy, driven by my concepts of the “new first world” and the “bottom up economic revolution”, it could only mean surprisingly high US gross domestic product numbers, and an upward trajectory in stock prices for the rest of that year and beyond. Which is precisely what happened, and we continue to experience.

This is a typical example of how institutional economists fail to “look out the window” to consider what is really going on. Their ancient textbook theories screamed that higher un-employment, especially approaching 11%, would see further deterioration in the national economy. The exact opposite occurred. For a similar pattern we can look to Europe in recent times, where un-employment has continued to edge up, but those with jobs have become confident again of keeping those jobs, just as Americans did, and so we can expect the resumption of growth in Europe to be sustained, and even accelerate over the next several years.

After all under-pinning Europe's growth going forward is the fact that it is now quite possibly the most fiscally responsible region on earth.

Another great "un-employment" example of this failing of institutional economists occurred in Australia. In early 2009 the major banks, particularly US investment banks, and the Australian governments own Treasury department, were all forecasting un-employment to rise sharply. The official government forecast was a rise from around 5.7% to a whopping 8.5%. One of the US banks even had a forecast of 10%. It was at this time that I was invited for a meeting with one of the nations leading politicians. They had heard of my alternative view of things and wanted to see what I was on about. My forecast throughout the GFC period was for Australian un-employment to peak in the 5.7% to 6.1% range. The lowest forecast of any of the major institutions was at that time around 7.5%.

The meeting with the Federal Treasurer in waiting, then opposition spokesman on treasury matters, the Honourable Joe Hockey, was both, how can I put this diplomatically, dynamic and highly productive. I was mightily impressed with the

economist and the man, but my positive assertions about the economic outlook were not easily accepted. Especially when I depicted the situation such that as a national leader there really was not much to do, and perhaps he could go sailing around Sydney harbour for a period. Perhaps a touch overly glib of me at the time. My point was to emphasise that Australia would indeed be significantly buffered as most of our trade was now with China, and the simplistic “what happens in the USA will happen in Australia” approach of the major banks and even our own Treasury department and RBA no longer applied. As it similarly no longer applied to much of the rest of the world.

This is one of the great revolutionary changes. The USA is no longer leading the global economic cycle.

Such were the cries form the old world economists and politicians however, that not only Australia, but even China undertook emergency stimulus measures. China even closed many of its steel mills, but had to reopen them within three weeks as demand continued to surge. The stimulus measures undertaken in China and Australia both, were un-necessary, but try telling that to the

people who now claim credit for rescuing the Australian economy. The stimulus measures were however more like a fire truck turning up to a false alarm, no fire, and then in their excitement at the prospect of being heroes spraying water just the same. As the un-necessary and even damaging water flowed into the gutters and drains, they yelled wildly, “look no fire”.

Unfortunately we will never know for sure what would have happened in Australia, an odd country, a “Bigfoot economy”, with one in both the “old” and “new first worlds”, if there had been no emergency stimulus measures. Perhaps some measures were appropriate such as bank deposits being guaranteed by the government for a time so as to shore up confidence, but there is also no doubt in my mind that much was completely unnecessary. Australia’s debt began to balloon as a result of the “no-fire fire fighting” stimulus measures.

Australia is a long way from the US geographically, but certainly not philosophically, and represents a litmus test for the changing nature of the world economy from a modern democratic capitalist perspective.

There were two aspects to this rather different and unique view of mine that Australian un-employment would remain low, in the face of great derision to my optimism I must say. Why would I think this, and the other was how could everyone else be so very wrong?

To be aware and really accept that Australia had become far more influenced by the economy of China, and greater Asia, than any other including the US, was seemingly still a new idea as late as 2009 in Australian banking and economic circles. Yet such a perspective, one now more widely adopted, affords significant insights. In this case it was the fact that with China and Asia continuing to power ahead as a result of internal economic expansion, that the severe downturn in the US would be to Australia a distant phenomenon, more to be observed than experienced. Therefore the economy of Australia, and the employment level would be little changed. It is difficult to convey how radical an economic position this was at the time.

Whereas the major banks, particularly the global investment firms with a strong presence in Australia were convinced that unemployment in Australia was headed to 8.5% and even 10%. The

reasoning behind their view was, as often continues to be the case, based on some rather shallow, rudimentary, and out of date logic. The big global banks like to have people believe that they are smarter than the rest of society, that they have secret formulas and knowledge that allow them to predict the future. Well I have worked at a senior level in the research and economic departments at some of the cutting edge investment banks, and I can assure you they are no smarter than anyone else. Not only that, they are actually handicapped by wanting to keep their jobs more than get the economics and marts right. They are also subject to committee structures, and as John Maynard keynes said, trading by committee is a sure path to failure.

The reality is that the forecasting track record of all the major banks and their economists is so appalling that they do not publish those track records. There is a reason why the Chief Economists of the major banks do not offer performance results? They are only ever guessing, like the rest of us, but they are tied up in so many committee meetings that their best guesses keep getting dumbed down to some internally pseudo-politically correct average. Hence their forecasts as it turns out, suggest they have even less idea that

they perhaps actually do. Which to be honest, probably isn't that much in the first place.

Most of the economists in senior positions in the investment banks and major institutions are old world text book types who would have trouble finding a window, let alone "look out the window".

In the case of the Australian unemployment forecasts in 2009, all they were really doing was taking the level at which US unemployment was running at the time, and applying that very same number to the Australian economy, expecting this mystical transference to occur within 6-12 months. In other words they were assuming 100% that the Australian economy would follow precisely the experience of the US economy. How they could be so, it must be said, stupid, so late in the historical realisation of Australia's absorption into the Asia economy, is stunningly difficult to understand.

Two thirds of Australia's trade was already being conducted with Asia. Yet here I was, a lone wolf, crying out for Australia to be positive about our outlook due to our majority association with China/Asia, rather than the pervious historical linkage with the US. No offence to the USA, but

as we all know it was not doing that well at the time.

As a bullish revolutionary, I was even forecasting that the directors on the boards of Australian mining companies were being too pessimistic. I forecast that a year hence the likes of BHP would themselves be surprised by how much money they were making, as they were. Very few if any other economist were forecasting Australia's exports would be at record levels within a year, and so would miners profits, yet it seemed and was in fact quite obvious! All you had to do was "look out the window" and realise Australia was now more influenced by Asia, and Asia had now matured into a great self generating economic miracle that was was resilient and would be sustained.

This is a classic example of how "look out the window" economics will beat the severely handicapped and backward looking obsessed text book and spread sheet proof/evidence approach, every time!

If you are a true student of economics anywhere in the world, may I suggest learn as much as you can, do all you need to do to pass your exams superbly. Then spread your wings and apply your

own great mind to figuring out the *truth* of the future global economic environment. For that is what it is, an evolving organic environment for all of us.

Economics is the greatest game on earth, and perhaps the most important opportunity you will have to make the world a better place.

The New Building Blocks of Global Prosperity

Aspiration

These exciting contemporary forces are at play in the “old first world”, but they are simply explosive in the “new first world”. Which is where the new wave of “aspiration” is creating the competition that is forcing renewed and responsive innovation in the west.

“Aspiration”, not confidence,
is the new key to the global economic cycle!

While we in the west in economic, financial market, and business circles, are always talking about “confidence”, in the east what they are *all about* is “aspiration”.

Their interest is in what they can achieve, and to do whatever it is they need to do, as quickly as possible. Then they move on to their next aspirational goal. Nothing promotes innovation and hard work like scarcity, and scarcity is what the great

majority of people living in Asia and Latin America have experienced for many decades.

Such is the crucible of the modern world economy.

Not only was extreme austerity without hope their common experience, but they were also increasingly aware that many other people around the world were enjoying a rather more fortunate lifestyle. Hence the powerful and dramatic pressures which have built up around the world for drastic change. That change is now fulfilled in most of those nations. Having achieved greater freedom through much of the “new first world”, this involved billions of people, there is no putting the lid back on the bottle now. The genie of “aspiration” is out and granting wishes to whoever it touches.

The exact opposite is also true. In the west decades of success in terms of high quality of life and luxuries have no doubt engendered a degree of comfort and most certainly complacency. So in the west, the “old first world” of Europe and the USA, and to some degree Canada and Australia, we have this perceived “need” to feel “confident”. We also have a sense of entitlement that has reached unhealthy and unsustainable levels. We

want constant reassurance that everything will be all right, and if it isn't, that big brother government will be there to support, even save us. Why else would we create gauges of "confidence" so intently followed as if this will totally determine future economic and business success? In the "old first world", if confidence falls, so does economic activity.

Whereas in the "new first world", almost the exact opposite is true!

This is especially the case at the small and medium sized enterprise, SME, level, which is where the next generation of entrepreneurs and innovators are operating. It is surprisingly the case that it is often a low level of confidence, which accompanies a crisis of scarcity, that is the ultimate invigorator and driver of great innovation and economic advancement, at least in the "new first world". Certainly "confidence" remains a factor and does matter. If there were no confidence at all, then clearly there would not be a lot going on. The key point is that low confidence in the west leads to people tending to "down tools", while low confidence in the east tends to see people trying

and working harder. this has been part of the reason for the west falling behind the east over the past half decade.

Importantly however, it should not however be the role of governments to make people feel confident. Governments should not so much be the custodians of confidence, as the liberators of aspiration. Confidence is something for the individual to determine and develop. Whereas the role of government should be to ensure a level playing field, and thereby secure and right of the individual to aspire to a better life, and to do so for all of its citizens.

Individual aspiration was virtually *illegal* in China for perhaps 60 to 70 years, as was the case in large swathes of the world. Then the decision was finally made to embark upon reform, gradually at first, but then emphatically in 1985 and with membership of the World Trade Organisation, things really began to move quickly. I had a very brief conversation, just a walking chat really as we moved to both deliver speeches at the Caixin Summit in Beijing in 2012, with the man who drove the process for China to become a member of the WTO. When I mentioned that a couple years previously I had written a paper entitled

“Big C saves little c, China saves capitalism”, he seemed genuinely pleased. What really happened in the WTO process was that the lid was blown off the locked up potential “aspiration” of hundreds of millions of people.

What has progressed since, has not so much been a centrally planned economy as a desperate attempt by Beijing to somehow manage the largest and fastest shifting human tide in history. From west to east, from agrarian to white-collar consumer, this human tide has proven unstoppable.

Rather than controlling this process, the leadership of China can now merely do it’s best to channel and manage this tremendous unleashing of the human spirit. It is an amazing and incredibly productive wave of human energy headed Beijing’s way, and the central government is working over time to direct it as best they can. A lot of economists in the west have mistakenly believed that China has been an orchestrated economic miracle, where the numbers are fudged by Beijing. In fact it has been a simple yet awesome miracle of mankind.

Once “aspiration” has become an inalienable right and the freedom of the people is secured, it is extraordinarily difficult to take back. There is no turning back, and China has chosen to press on in a very responsible and well-paced manner.

China’s economic miracle is real, and it still has a very long way to run with hundreds of millions of people still aspiring to a better lot for themselves, their families, and their communities. Having been denied for so long, generations experienced nothing but scarcity, they are now more committed and harder working than almost any other people on earth.

The China miracle has only just begun, it is young,
and this is very good news for the rest of the world!

This phenomena of “aspiration” now sweeping China and Asia, is equally evident in Latin America. Years of harsh conflicts and authoritarian governments oppressed many regions of South America for decades, and it is clear that many, in fact the majority, lead lives of fear.

Latin America is an amazing patchwork of cultures at different levels of economic development. While generalisations about this vast beautiful and productive region are fraught with danger, it is fair to say that until recently historically speaking, the ability to “aspire” was greatly hampered by dictatorial environments. In not quite the same ordered and simultaneous freeing up of society as has occurred in China, Latin America has nonetheless undergone a tremendous burst of fresh and freely aspiring human energy.

Even in the shanty towns of Buenos Aires people are growing thriving businesses that occasional leap out onto the national even global stage. A small home on the slopes can now sell for as much as $250,000. There are still troubles, but economic empowerment is clearly taking place among a people where once all were poor and oppressed, and this development is largely of their own making, which is startling.

If people, no matter how poor, are afforded the right to aspire, they build stronger communities and economic environments as a result, which provides ever-greater opportunity to ever increasing numbers of people. A spiral of upward prosperity can be thus ignited.

Each of us can only impact what I call our “bubble of influence”, and we can only do that well, if we are free to do so in a way that suits our individual and community circumstances. Economic empowerment is not so much the provision of resources, though they do of course have an important role, as much as simply allowing people the opportunity, the freedom, to aspire. They will figure it out for themselves, and in a way that is mrs accurately appropriate to their overall social and economic environment. Communities the world over are discovering the best form of micro and macro capitalism as befits their historical and cultural circumstances, even their geographic nature. Far be it for anyone else to suggest a better approach than they themselves discover.

Billions of people across Asia and Latin America now have significant political and economic freedom, and subsequently their aspiration knows no bounds.

Coming from a historical place of scarcity, they are more highly motivated, and dare I say innovative, than we are in the west. They appreciate and aspire, while we complain and seek confidence, and even support from our governments? The

world is to a significant degree now split in two. The fast growing economies through hard adventurous work, the “new first world” of Asia and Latin America, versus, the slow steady growth pattern that comes with the more cautious approach to work of the “old first world”, that of Europe and the USA.

It does not help that the “old first world” due to a long and proud history of capitalism and democracy, now finds itself severely squeezed between shrinking profit margins, and burdensome regulation and taxation overheads. The “old first world” is in fact suffering from being the first to invoke democracy and capitalism, which so far are still the pinnacles of human civilisation.

Of course nothing is ever quite so simple, but the distinction made above is I believe the dominant and most telling of our times. Do you want to be “confident” or “aspiring”? You may want to be both, but when fully confident are we really at our most aspiring?

One of the great drivers of political and economic freedom of our age is no doubt the world-wide-web. We are so use to these terms, world wide web, internet, they now feel cliché, or almost too

obvious to mention, but they are still the underlying foundation and tools of the freedom to aspire, and will remain so for decades to come. The very word “internet” is literally screaming out to be replaced with some new version of itself. The world we now live in is one where “same” will not be tolerated for very long at all.

Shrewd authoritarian governments like China, many years ago recognised the need to give their people greater freedom, but even those who did not, have been steadily over thrown in any case as a result of the access to other ways of thinking, and the ability to communicate and organise, that the internet provides. From e-mails to Apps to liberal access to news and ideas, the internet has delivered a fast growing more vibrant world where those who hesitate to make sure if it is truly safe, fall behind.

The internet has so many aspects to it that any one of us can only touch the tip of just one iceberg in a sea of icebergs, but basically the internet has two major economic altering impacts that I would like to especially note. Firstly, as above, the widespread awareness of what is going on elsewhere in the world has been eye opening to the peoples of oppressed nations, and secondly,

in the very real functioning of daily commerce around the world, the availability of technology which can feed and empower the aspiration of people and businesses.

There is also the further extreme “true price competition” that is created out of a near perfect industry and indeed global communication structure.

Intra-Regional Trade

The main driver of global growth of the past 10-15 years may actually come as a surprise to many people. It has not been the USA.

Rather the driver of global growth so far this century, has clearly been the development of what I have termed for many years now, “intra-regional trade” in Asia and Latin America!

An explosion of intra-regional trade, trade between the nations of Asia themselves, and also among Latin American nations, has been a spontaneous response to two historical shifts occurring at the same time. Firstly, after many decades of competing in the same products for market share in the US and Europe, the countries down the eastern seaboard of Asia in particular, suddenly realised they could make just as much money doing business and trading with each other, even more perhaps, than they could by continuing to sell to the USA.

This was partly a function of competition leading to narrowing profit margins in the US market, and the extra cost of transport to and importation reg-

ulations into the USA. However it was also significantly due to the fact that all of Asia was reaching a point of economic critical mass. Where they were themselves becoming sophisticated economies producing large surpluses that could then be spent on consumer and even luxury goods. This was an important historical shift from what had previously been the case for many decades.

This phenomenon first occurred in Asia and is now well progressed there, but is also clearly accelerating in Latin America. A similar process has also played a role in Europe keeping its head above water through the European debt crisis, but not to the spectacular effect that can be seen in Asia. For Asia this was new. That excess consumption became an option in the lives of the newly emerging middle classes, and therefore trade with each other became their biggest profit opportunity.

Each nation has had its particular strengths, and there has been a clear trend to nationalistic specialisation of sorts. However as a consequence, we now have a highly productive economic region called Asia. There is even a specialisation in capitalist forms from country to country, but this has appeared to work to benefit trade between the

countries as they developed economic structures that best suited their own particular product and business strengths. For instance while trade with the rest of the world has continued to grow strongly for China, much to the dismay of the economists of virtually all western banks, China's exports to the rest of Asia continue to grow at around 25% per annum.

In 2012 I was invited to speak at the Caixin Summit in Beijing on China's future trade patterns. This is when I had a brief introduction to the Vice Minister for Finance, and also that quick chat with the leader of China's acceptance into the World Trade Organisation. Why as an outsider I had been invited to speak in China on this subject, I was not quite sure, but it was definitely an honour, and I did as I always do, deliver a quite frank assessment.

China I said had to continue to focus on trade with the "new first world", with the rest of Asia especially, but also increasingly with South America. It was also high time that China make a substantial move toward the establishment of global brands. Brands that would become recognisable household names around the world. Up until then China had been known for producing products at

the lowest prices, but not necessarily of the highest quality. It also tended to produce products for well known western brands, rather than selling brands or products into the west that were its own.

In early 2014 I had the opportunity to have a brief sit down, one on one, with the Deputy General Secretary for Trade and Commerce during his too short visit to Sydney. During our meeting I raised the topic of a regional currency formation in Asia, akin to that of the Euro, but more of that a little later. What was interesting was that the strong highlight of his visit and speech soon after our meeting was that China was moving away from the “Made in China” banner of recent decades, toward a far more sophisticated intent of “Created in China”.

This is again a major shift, for China is fully committed to sophisticated high tech production techniques and indeed products. As part of this changing environment we are also seeing the establishment of Chinese brands in western markets and other parts of Asia, of the kind we have become accustomed to for Japan and South Korea. China is definitely headed down the global brand path, and the ramifications will be far

reaching. If anything China is being a little over assertive diplomatically and even militarily in its own region just now, which is causing trade stress. This is perhaps understandable on the basis of newfound wealth and power, and the fact that it does represent a quite large portion of humanity.

After an initial period of flexing however, we can I believe expect China to settle reasonably in terms of regional disputes. Though this may take some time, it is essential to the on-going stability and development of intra-regional trade patterns. Which is what the Asian and Chinese economic miracle has been all about. Equally if not more so than its success in US and European markets.

Intra-regional trade is about every single country in Asia. For example Japan's biggest export market is now China, not the USA. We may think Vietnam is a small country, but it is over 80 million. Singapore while once the managerial and transportation centre for industry and agriculture across the region is having to re-invent itself in terms of chemical and pharmaceutical and other industries.

Asia is a fast moving feast, a region that becomes more exciting day by day, and the big leap forward feeding this miracle development was the establishment of intra-regional trade.

As mentioned the same forces and processes can now be seen in Latin America, along with the same development and expansion of wealth and prosperity. While as always the distribution of wealth will occur unevenly, it will nonetheless transform all of Latin America more quickly than anyone currently assesses.

Global growth, and prosperity will increasingly be delivered by Asia and Latin America. Of that there is no doubt, but it will have a far greater impact than mainstream economic thought currently forecasts. When combined with the competitive response of a a renaissance of entrepreneurship in the USA, there is little doubt the world is a place of tremendous investment opportunity right this very moment.

The “Bottom Up Young Economic Revolution” BUYER

The bottom up young economic revolution, is young not because of the age of the participants, but due to the youthfulness on the process.

This is a revolution that is as tangible as any other, but fortunately intellectually violent rather than physically. Intellectually violent in that it is throwing up tremendous innovation, pattern interruption, and displacement of established norms at a great rate of knots. Across the seas from Asia and Latin America, to the heart of the USA, and bouncing back again. We are talking about a reverberation that is only just commencing. This is why I cannot emphasise enough that the changes already seen in economic activity and interaction the world over, as well as the tremendous bull market in stock and other asset markets across the globe, are only just the beginning. What lay ahead is beyond what any of us can see, for it is the immediacy of synergy, creativity and aspiration of humanity, that is of a

kind never before witnessed. The world has changed and will never revert.

What is ahead of us is completely unknown territory. It should be eagerly anticipated and seized however, not feared and shied away from. More efficient and instantaneous communication means any company and any individual can break through any prior glass ceiling to become a significant brand in the decades to follow. The innovation we are already seeing will quicken further. The prosperity will broaden, and an impact on world poverty is also certainly being achieved.

The hand held weapons of today, smart phones and tablets, have no equivalent in history, and as we ourselves learn to live with and adapt to new technology, there is no telling what each and all of us will achieve. Individuals, SMEs, and corporations all hold such strong devices simply in the palm of their hands, both weapons and educators at the same time, and everyone has almost the same level of access and capability.

What is so dry interesting is how this modern day revolution, like all revolutions, is being

driven from the bottom up. It is the struggling masses of previous decades, who seem to have the most energy, the highest aspirational drive, who having been given the chance, who having been empowered by new technology that levels the playing field not just on home soil but across the globe, that are the true drivers of contemporary global economics and the wealth and prosperity expansion that comes from that. This is a moment in history which is characterised by the will of the many like never before, for everyone is now empowered and free to aspire!

The opportunity created by the "New First World" SMEs is there for all of us!

We often hear of how senior figures in the West will save the world economy, when in fact it is the West that has been rescued by the rest of the world. The resilience of the rest of world economy, particularly Asia and Latin America, stabilised the situation during the GFC and European sovereign debt crisis, and provided a damming effect to the panic of the West.

By the West I am of course referring to the "old first world" of the US and Europe. To some extent

this term applies to Australia and Canada. Australia in particular has the distinguishing saving factors of geography and tremendous mineral wealth, as well of course an impressive agricultural capacity. Australia is the *door-step-of-Asia commodity producer* and this should afford a considerable buffer to the wild asset movement of the northern “old first world” countries.

The rise of the “new first world” of Asia/Latin America was most certainly confirmed and entrenched by the Global Financial Crisis.

This was a severe western crisis that only touched the “new first world” at the margin. When visiting Asia during those years, people would ask why it was called a “global” crisis as their economies continued to function strongly with barely a ripple in banking circles. Those in the “new first world” ho over reacted to the scares and concerns of the USA and Europe were left behind their competitors. Those who simply paid attention to their business and its on-going potential did very well.

The global financial crisis saw a severe collapse in many asset markets, particularly the stock and property markets of the north, but was in fact one

of those great historic opportunities for people to become wealthy. To buy quality assets at silly prices. Few had the courage to seize the opportunity, but if you understood the nature of the new global economy that was already in place and operating efficiently, it was clearly recognisable in real time that 2009 was a wonderful investment period.

The forces that were at play and under-estimated then, those of the aspiration and inventiveness of "new first world" SMEs and their truly global impact, are still at play and under-estimated even today.

The window of opportunity is still open, though it is narrowing.

Inflation Tamed

Inflation was once the scary monster in the cupboard when any modern economy began to grow quickly and expand its prosperity base. Certainly the was the case in the previous century and can still be an issue in emerging markets where price structures are coming off a very low base. Rather than a real problem however, inflation in such environments is more a normalising process than something that will derail the fresh upswing in economic well-being for the economy as a whole. There is usually quite a positive growth-inflation gap in existence, which should be considered in such economies.

For instance when China experienced high inflation for periods, it was always substantially lower than the actual GDP growth rate. A western economy growing at 3% with an inflation rate of 3% has more challenges than say China growing at 9% with inflation at 4%. The first has a growth-inflation gap of 0. The second has a growth inflation gap of +5.

The inflation rate is more a product of increased capacity to spend in a society, in consideration against the ability of sellers to lift prices due to a lack of competition, than it is to do with monetary policy enacted by central banks.

Generally today there is little ability of sellers to lift prices, regardless of the increased capacity of the society to spend.

Monetary policy has always been a problematic tool in dealing with inflation, yet has been held up as the capitalist salvation during the latter part of the previous century. In the contemporary context however, monetary policy is virtually ineffective except to support asset prices and fresh investment out of periods of crisis, such as we have seen with quantitative easing efforts by various central banks around the world in recent years. Whether monetary policy can be used to contain inflation in the years ahead is another matter altogether, but there is another question which is far more important.

Will tight monetary policy ever be necessary or appropriate again?

It is my humble suggestion that like never before "competitive price pressures" are real and now prevail, making central bank's tightening of monetary policy to reign in inflation, redundant!

The modern world and national economies are now more self regulating than ever, and will of themselves through true competition keep prices restrained.

This allows and indeed opens the door for the common experience of high economic growth in harmonious concert with low inflation and therefore low official interest rates!

Rather a bright picture for us all. It just *requires our central bankers to understand* the new economy we live in.

True Competitive Prices

From the corner store to the global corporation, businesses cannot raise prices without losing market share.

While competitive price pressures have always existed in theory in the pages of various economic texts, the reality has been that the pricing

power and connections of large corporations always overwhelmed the advantage of price, that any new comer or small player might introduce. Of course to some degree this is still correct, but “price” is now more powerful than it has ever been, and competitors are also more informed than they have ever been. When combined with far greater access to technology, almost any truly motivated individual or small business can gain a foothold on any playing field around the world and begin to compete. The larger players are aware of this, and therefore have a very different approach to “price setting”, than has historically been the case.

The nature of business in the 1960s and 1970s was such that company directors of a widget manufacturer might meet in the morning, say around 9.30 - 10.00 AM, ask how much it was costing to make their widget, then simply add their desired profit margin to decide their “price”. Then it was off to the Golf Club for lunch and an afternoon round.

That was then. Today board members get in early to the office, roll up their sleeves, and work hard at understanding the entire production process. They need to, because they are looking to cut

costs and increase productivity at every opportunity. What they are now confronted with on a daily basis is what price the market will accept. From that “market price”, they deduct the cost of manufacture, and the residual is their profit, or loss in some cases.

The company cannot increase prices, so its only chance of maintaining a “profit margin”, is to reduce the cost of manufacture through new technology or cost reduction and process streamlining. In other words drive for productivity gains. This is why the past two decades have generally seen great advances in technology around the world. While many will claim technology itself has been the driver, I would suggest new technologies have had high rates of adoption, and have therefore been worth their investment and development, because every company in the world is desperate to maintain a reasonable profit margin in a competitive environment where they cannot raise prices without losing market share.

From Wild-Cat to Domesticated Kitten

This is why inflation is no longer the animal it once was. There is no doubt the modern economy is one of fierce competition and is global in

nature. Wineglass makers the world over compete with each other, not just locally. If a US department store chain does not accept the latest attempt at a price increase by its wineglass supplier, it may only be a matter of hours before glass factories around the world become aware of the opportunity to tender for the business. All of a sudden there will be competitors bidding better quality glassware at a lower price. To avoid such a scenario it is best for any supplier to keep prices stable and consistent while reducing the cost of production. In the 1960s and 1970s companies could be lazy and maintain sales through the clubhouse chats. This is no longer true. Now everyone has to work extremely hard just to stay in business, let alone expand and grow.

So you see, inflation has finally been tamed! *From the wild-cat of late last century to the domesticated kitten of today.*

Where does that leave central banks and their supposed role in controlling inflation? Nowhere really!

There is less of a role for central banks now that the modern capitalist economy efficiently self regulates inflation.

Furthermore borrowing and lending rates at commercial banks are just as much a function of interest rates around the world, as they are the domestically set central bank rate. All banks lend and borrow at tremendous speeds domestically to each other and globally on a daily basis. While the GFC brought that process to a complete stand still for a very brief but intense period, the central banks and governments of the world did step in with force and reboot the system.

The central bank of today is more a custodian of liquidity, than the setter of economic pace or inflation through monetary policy.

Again Australia provides a great example of the globalisation process on several levels. Thee are lessons from down-under for the US and Federal Reserve Bank. With regard to the new global economy, the central bank of Australia has been a slow learner. In fact I have stated several times on national television and international programs, that the Reserve Bank of Australia “has a learning disability”. How else could one explain the thinking behind raising interest rates in Australia because you felt the resources boom was accelerating?

Historically it has been the case that fast growing economies did generate inflation. It is also the case that previous resources booms in Australia did have flow through inflationary impacts on the broader economy. This is where we come to the crucial point of how to assess the various central banks of the world however.

Are they “look out the window” organisations that have a strong understanding of their contemporary environment, and then look out toward the horizon and adjust monetary policy in advance of developing economic trends? Or, do they simply apply old recipes of action once all the economic data confirms a particular trend?

As I am quick to point out, Australia continues to experience a resources boom and it is one without inflation to speak of. This low inflation outcome is not something I observed after the fact, like so many others who are only now beginning to notice. This was what I forecast at the very start of the boom, strong growth and low inflation. If I could figure this out in real time, then surely the Reverse, sorry Reserve, Bank of Australia should have been able to do this as well. Yet they didn’t.

In fact the RBA failed to understand that inflation would not be a problem, but also that raising interest rates in Australia would not slow Australia's resources boom. The very idea that to contain inflation, the RBA had to raise rates to slow the resources boom, is well, astonishingly lacking in intelligence. The only way the resources boom would be slowed was if the Chinese economy basically stopped growing. Raising interest rates in Australia was never going to slow the Chinese economy, so where was the logic in raising interest rates in Australia to slow the resources boom. There was none, and it didn't.

The RBA did however raise interest rates in 2009 and 2010. This was the most aggressive central bank action in the world at the time. and one has to wonder why? The RBA killed off the nascent domestic economic recovery that had been under-way. Something for the Federal reserve to consider at the moment perhaps.

The RBA like any other central bank in the world today, only has influence over the domestic sector. The external export sector of the economy is driven by global demand, not domestic issues at all. If global demand is high, exporters will not

think twice about borrowing at a higher interest rate to make sure they stay competitive in technology, which is a far more significant determinant of success than is the cost of borrowing. Especially so in the midst of a boom.

So a complete lack of understanding of the modern economy by the RBA resulted in no change to the resources boom or the inflation outcome that Australia experienced. it did however quite emphatically derail the post GFC recovery that had only just begun. Subsequently on a domestic economy basis, Australia has under-performed all of Asia and even the United States for the several years since.

If the RBA had been aware as people like myself were trying to tell them in real time, that raising rates was irrelevant to the resources industry, and that in any case inflation would not run the old historical pattern, the Australian people could have enjoyed strong economic conditions all this time. What actually happened, was that 95% of Australians were continually told they were enjoying strong economic times, while they were living in a 1.5% growth economy. For 3-5% of Australians they were experiencing a 16% boom, but this

only gave camouflage through the aggregate data to the dire struggle of the domestic economy.

Australia has for sometime been the great underperformer of Asia. Hiding as it did beneath the working shovels of the miners. The miners success and therefore Australia's reasonable aggregate growth numbers were purely a function of other Asian nations running their economies far more successfully.

There would certainly be little hesitation on the part of the RBA if inflation were to rise. Such is the nature of the Australian central bank beast. They still have not learnt the lessons of recent years and contemporary economics. The RBA seems to prefer to hike rates as a general principle. This was never more evident than in the Reserve Bank's immediate post GFC operations. Our central bank decided, chose, to be the most aggressive central bank in the world, hiking rates all the way from 3.00% to 4.75% at a time when the rest of the world was to say the least cautious, keeping rates closer to zero for several years after. The post GFC rate hikes must be seen as one of the greatest blunders of the RBA in its history. Eventually the bank was forced to spectacularly correct this painful error in judgement. We

can only hope that other western and “old first world” central banks have learnt something from the RBA’s spectacular foolishness. While a small country, it is nonetheless as i said a litmus test for other western economies, especially as Australia should be doing even better as a “big-foot” economy!

As the first commentator at the time to forecast the RBA would begin to hike in 2009 from 3.00%, some banks were forecasting quite confidently official rate reductions all the way down to 2.00%, it was clear to me that while the RBA should not raise rates, it would nonetheless do so. This is because in relation to Australian official rates one has to ask two questions. 1. What should the RBA do? 2. What will the RBA do? There are quite often two very different answers.

For most people it has been clear for some time that the RBA was out of step with the reality that most people were experiencing in their lives. This is important because central banks are suppose to be there to serve the people through the contribution of monetary policy to support a stable and healthy economy. there is nothing more damaging than the chaotic monetary policy australians have had to endure in recent years.

The Australian domestic economy was resurgent in 2009, until the RBA basically knocked the recovery on its head. The RBA continued to confuse aggregate data, being forced higher by how well China manages its economy and therefore demand for our resources, with what the great majority of Australians were experiencing, an economy in trouble. The primary fear that drove the RBA to be bizarrely so aggressive so soon after the worst of the GFC, at a time when other central banks were nursing any sign of economic improvement, was a firm belief that inflation was about to spike!

It was as if the world had not moved on, that globalisation had not engendered a new economic paradigm, and that all the old world last century economic patterns would repeat as per the dust bound texts that no doubt still harbour pride of place in the RBA vault. What has happened over the past 15 years is that advanced global communications, the internet, the means and nature of doing business, intra-regional trading patterns, the opening up of China, and the modernisation of South America, have all combined to create a new contemporary reality.

One of the great and well established cornerstones of the new economics is that inflation is no longer the threat it once was. There is in fact even less of a role for central bankers in monitoring inflation than was the case in the last century, and some of us were saying this well before the RBA foolishly hiked in 2009/10.

Central bankers do not want to hear or know this, but the modern capitalist economy on both a national and global level, is reasonably self-regulating on inflation.

Forces within the economy work naturally to contain inflation.

This does not mean that the prices of some goods and services do not rise, but these are largely short term weather induced events in relation to food supply, or longer term increases in services in which governments have interfered. By and large general inflation levels are subdued, and this is true even in economies with relatively high rates of growth.

A high growth rate no longer means high inflation.

In the 1960s an 70s for instance, company directors would typically arrive at the office, enquire as to the cost of manufacturing their particular product, then add what they felt to be a reasonable or slightly greedy profit, and hey presto, arrive at the price at which they would sell their product.

cost of manufacture + profit = price

Today's company director arrives at the office very early indeed, discovers what the latest cost of production is, asks what price the market will accept, and then wonders "if" a profit can be achieved? If not, it is not the price that will go up, but the drive to resuscitate the profit margin through greater productivity outcomes.

price – profit = acceptable cost of manufacture

actual cost of manufacture - acceptable cost of manufacture
= required productivity drive

In today's world, one the RBA and many central banks around the world may yet discover, from the corner store to the global corporation you cannot raise prices without losing market share. Mar-

ket share is King, and so companies do everything they can to avoid raising prices. Here is the crucial point however: businesses today avoid raising prices regardless of the level of monetary policy.

The official interest rate makes absolutely no difference to the prices companies charge for their goods and services.

When the RBA raised rates to head off inflation in 2009/10, it was making two quite significant mistakes in terms of the real economics of our age. It viewed a recovery in economic performance as immediately creating inflationary pressures, and also that the flow through from the resources boom would be similar to other commodity booms of the previous century.

All the runs of the latest inflation data around the world do everything to confirm the modern economy is successful at naturally containing inflation. Therefore even as the global and domestic economic outlooks steadily improve, the world's central banks, especially those of the "old first world" and "big-foot" economies should keep rates stable for years to come. Thereby allowing everyone to

grow their business and their respective communities success, in competition with a “new first world” unencumbered by the maturity of democracy and capitalism that besets our own economies. A problem not easily solved, so with low inflation likely to be the norm, the western central banks must hold themselves back from the usual historical inclination to hike.

Clash of Culture and Politic

The Age of Democracy

By the age of democracy, I am of course referring to it in both senses, that in our historical period, our time, democracy is becoming more widespread, and also that in some societies democracy itself is already now of significant age.

Democracy while increasingly widespread, is both young and old in different regions of the world. These regions I have throughout the book outlined as being of either the “new first world”, “old first world”, “emerging markets” (Africa), or “big-foot” economies (Canada, Australia). While Russia is in some regards a special case, aren’t we all, it probably best fits into the “big-foot” category with aspects of the west and also being a growing major resource provider.

In all cases I think it is clear that the economies with the youngest democratic age, are also the ones where wealth and prosperity, based on strong economic growth, is expanding most rapidly in the contemporary context. In support of this

view is the fact that the US experienced perhaps its best days, when it too was a more youthful democracy.

Democratic old age does not seem to be a factor that is supportive of strong economic performance. This actually makes perfect sense.

The more mature a democratic catalyst system or society, the narrower profit margins and the greater the regulatory and taxation burden. This is an inescapable truth that we in the west must come to terms with and find solutions to deal with it. This is not about what side of the political fence we may sit. It is simply about finding far more efficient, less cumbersome and less costly ways of implementing the policies we feel appropriate. All sides of western multi-party politics must recognise that the pendulum in terms of regulation has swung too far, and if “old first world” and “big-foot economies are going to successfully deal with the challenges increasingly brought to bare by foreign competitors, then our entrepreneurs, innovators, and plain hard working citizens need to be supported in having at least an equal playing field upon which to compete.

Right now the SMEs of the USA in particular are resurgent, and to such a degree that even large US corporations are having to adjust internal management and product development protocols in an attempt to be able to match the speed and therefore maintain their market share against the fast moving SME upstarts. This highly impressive renaissance on Main Street USA, is something people on Wall Street should sit up and take notice of. This renaissance of entrepreneurship also needs to be supported by government.

Sequestration was great for the US economy. I was bullish on the basis of sequestration in the same way that I have been on tapering. The second was alate in the game acceptance and recognition that the US was back on a strong footing, and the first, sequestration was at long last an albeit forced winding back of government over-spending. Sequestration represented US fiscal discipline for the first time in living memory. It meant more room for the private sector, which is why I was bullish the economy and stocks at the time of sequestration beginning. It was clear that re-awakening private sector would more than fill the gap that was being made available by the reduction in government spending, and that is exactly what happened.

Western governments should be proud of the social advancement policy and programs that have been created over many decades, but this form of contribution to the social good may well have reached a level of interference that starts to become counter-productive to the overall objective of a healthy society and economy with equal opportunity for all. When you add the now startling and intense increase in competition from around the globe, it is clear we in the west need to have an immediate re-think.

Unfortunately or fortunately, depending upon your point of view, we have to get over the fact that we no longer live in a US centric world. Not just from the point of view of diplomacy, but from the point of view of our own individual lives, business and trade.

Please don’t shoot the messenger! I remember giving a speech for Euro-finance in Miami a few years back. It was their annual national corporate treasurers/chief financial officers conference. There were several hundred senior executives just finishing off their breakfasts in the Grand Ballroom at the Marriott Doral Resort. As I clamoured up side stage and headed for the lectern, I just

said straight up into my lapel mike, “You are never coming back!”. The room suddenly fell a little quiet, but it fell into a silent abyss with several hundred jaws dropped when I finally reached the lectern and delivered the “message”!

“That’s right, you are never coming back!” I said. “The United States will never be number one again. What is happening now is not some aberrant event. This is how it is. The world has changed. America use to be the biggest economy in the world, now the European Union is! You use to be the most entrepreneurial country in the world. Now China is!”

Someone has to say it. As soon as American companies start operating on this basis, in honest recognition of the changes taking place in the world, the sooner they will reap ever greater profits and wealth than they ever imagined.

It has been the case that corporate America and especially investors who hung in there during the recent crises, have made more money than any of them had expected or forecast. This is for one simple reason. The rest of the world has grown up. And while the US was resting on its success, much of the rest of the world walked ahead.

When I gave that speech in Miami there was no sign of the “renaissance of entrepreneurship” now driving the US toward another potentially miracle economic grow period. The private sector of the US has definitely responded. The sleeping giant has awoken. Not only is there enormous potential from simply responding to the competition brought to the US by the “new first world”, but also tremendously accelerated profit opportunities from a now much wealthier and dynamic rest-of-world business and consumer environment.

In the last 15 years China has created another USA in terms of the population now involved in a white collar, modern, consumer economy. In the next 15 years China will do the same again. This process is occurring rapidly across all of Asia, even India, albeit at a more modest pace, and certainly Latin America. The global market for any product or service is not only growing rapidly, but accelerating. The loss of dominance of the US is not to be mourned, but to be celebrated as having shown and lead the way for so long. We now have the perfect global integration from which to benefit from this amazing historical period.

This is not a global boom like any seen before. While history is full of strong economic expansion and prosperity periods, the world has never been so instantly connected before. Connected not just in communication, but for face to face business negotiations and extraordinarily rapid trade and delivery of product. One can dine out in Sydney on truffles, that were growing in France just the day before. Even livestock is transported by air, as goods of all kind are. One can virtually walk into almost any store in the world online, and be enjoying the goods purchased in our own home, just a day or two later. In some cases mere hours later.

It is this instant connectedness that is new. It also means that nations with handicaps of any form are vulnerable. The “old first world” has clearly fallen into this category. What happened?

Well the US, like Europe, has to some degree been a victim of its own success. Seeing what the US has been able to achieve with democratic capitalism, other nations followed suit. First in Asia, then Latin America, then Eastern Europe, and in a stop/reverse attempt even Russia. All have sought to gain the advantages that clearly come with the “political economic” approach of

the US, open democratic capitalism. While Europe has been a strong advocate of democracy, its experiment with capitalism has been less pure and committed as that of the US. The “big-foot” economies of Australia and Canada have been closest to the purest approach of the US. This perhaps partly explains their quick response to the opportunities of Asia.

What is needed now however, are bold initiatives by western governments to support the courageous efforts of the private sector.

Let’s cut to the chase here. It is “DE” time! De-regulation and de-taxation. This does not mean we cannot advance our policies and government contribution, but it does mean we can only enact new policies that are efficient and REPLACE, not add on to, past legislation. What happens when people get elected is that they immediately think it is their job to enact new laws. So they keep seeking to create new regulations and policies, so that when they leave office they cn sal “loook what I did”. Well that is what has caused the huge government burden under which all western economies now struggle. What we need are people who recognise that they have been

elected to improve and at the same time streamline government activities. It really should be a rule that new legislation cannot be introduced without demoing or replacing more legislation of the same kind.

Imagine how productive small business across the USA, and any western country would be if their regulatory paper work was halved. That has to be an achievable target. This does not necessitate the watering down of existing regulations, but some that is redundant or counter productive surely could be, and certainly regulations can be simplified. Then take this a step further and consider the impact of simplified and even reduced taxation. Well we all know this would be a good thing, but what those in government need to take a leap of faith on, is that simpler lower taxes and regulation would ignite greater productivity and therefore higher overall tax revenue. The more vibrant a society the more capable it is of delivering important civil services.

So that really is the challenge. Legislators need to feel that their role is to simplify and empower the system for their citizens and the private sector. So

straight forward yet seemingly incredibly challenging to achieve. If we do not work toward this goal however, how will we ever get there.

There are other perhaps more subtle challenges that also arise from over -regulation, and this includes the private sector every bit as much as the public sector. The more procedures are detailed and the more we create forms for all kinds of issues to be considered, inescapably what we are doing is dumbing down our business, our department, our society. As all of western society seems to be sliding down into a tick a box mentality with no real decision delegation or nuanced appreciation of what the original purpose of the form related to. everything is one step at a time, and some of the steps are ridiculously tiny.

It is almost as if computers are reaching up out of their screens and transforming us into digital thinkers like them. The human brain operates to take into account a myriad of factors, often and perhaps most subconsciously, before reaching an appropriate decision. Taking that thought process of the individual on the spot out of the equation through the provision of micro-procedure scripts and absolute forms where every box has to be

ticked or come back another day, either the applicant or the brain of the person reviewing the form, is to remove tremendous efficiency from the system.

We all know this. We have all been frustrated in such situations, but have we considered seriously enough the overall in-efficiency and therefore delay and burden to our economy, and therefore in competing with other economies, that such inane procedures impose.

The nations of Asia and Latin America are a long way from reaching this point, but the “old first world” of the US and Europe are already there!

The freezing up of the old first world economies is largely driven by over regulation and over taxation, but few establishment economists really understand why this is happening or how to stop, let alone reverse the process.

Regulation and taxation should be supportive of the freedom to aspire!
This is the only way the “old first world” could ever hope to predominate again, if that is what it wants to do. Taxation is in effect there to pay for regulation, but positive regulation that encourages a

level playing field across the society for individual and private sector innovation and advancement. Through, transportation, education, health, and the protection of the system, both internally and externally, through police and defence.

Granted the focus is often on creating a level playing field, though sometimes the temptation simply to control is too great even among the most democratic of the “old first world” nations. Largely though this is kept in check through repetitive changing of the government form one major party to the other. The people can always vote you out, if you get too carried away with your own power.

Of course multi-party democracies area a two edge sword. We have the extremely valuable benefits of true democracy where anyone, and any party, can run for office. The advantage however of the alternative single party democracies, which is how they refer to themselves even if it is a different system to ours, is that they have continuity of policy and can make long term plans that will be adhered too. This creates far greater efficiencies in terms of commitment to large infrastructure projects and investment in government

services, as well as targeted support of favoured industries.

The Chinese for instance create 10 year economic plans that may be modified for effectiveness along the way, but basically remain on track. In Singapore commitments are made to developing entirely new industries such as was the case for pharmaceuticals.

In the west we can have one government policy, and then the exact opposite just four years later. Alternative points of economic view on what is best for a multi-party democracy create a swap and change, back and forth, halting progression forward. Perhaps we need to pay greater attention to the possibility of joint party committees setting at least some specific policy objectives.

in no way am I suggesting that the west move toward single party systems. The benefits of freedom far outweigh the upside of stable economic policy. We do however need to be aware that we are at a disadvantage in some ways which means we have to try harder in other areas in order to compete effectively. the rest of this century will be very much about competition so we need to get use to the idea.

It is quite an acute issue confronting western democracies, our penchant to legislate for the sake of legislating. Members of parliament walk into the legislature and see their job, understandably, as being to create new legislation that is good for the country, and that is what has been happening for over 100 years now in the western democracies.

That's over a century of making new laws! Layer upon layer of more and more law. Which translates into an awful lot of rules for businesses and individuals to follow. The level of complexity and over taxation to pay for this never ending complexity is now reaching a crescendo where small businesses and individuals are spending significant portions of their precious time addressing various regulations from several levels of government and are simultaneously over-whelmed by the requirements for taxation submissions.

Far from a level playing field we have created a system where only the wealthy can afford to hire the necessary specialists, across a variety of fields, in order to deal with this high level of complexity. The system alienates the ordinary citizen who is forever condemned to working for those

who can afford the help of the required experts. What we are doing, and this is very important, for it is the removal of aspiration from the system for the majority of the workforce, is again creating a confined working class. An institutionalised system where upward mobility is waning rather than expanding. The result, for any nation, is that it is completely unable to perform at its best. For only a minority of the population, in other words a fraction of the full spectrum and variety of potential available, is able, or even attempts, to contribute to their maximum personable ability. The future of any nation with strong class lines, for example India, is greatly diminished by this aspect of its society.

Unfortunately in the west, after decades of progress, we are headed back in that direction. The complexity of regulation and taxation is becoming a very powerful barrier and ceiling for most of the population.

There is only one solution, and that is the re-empowerment of individuals in the west, so that they can compete equally with the individuals and SMEs of the east. The “old first world” and “bigfoot” economies need urgent individual re-empowerment measures in terms of control over

their own finances, savings, and ability to begin new businesses in line with their passions or artisan skills. As well as bold tax reductions made possible by more efficient government and streamlined regulatory processes. Developing the art of legislating to remove prior legislation, could prove very valuable indeed.

Both globalisation and internal China policy have delivered a great empowerment and actual uplifting in quality of life for hundreds of millions of people. Perhaps billions in respect of globalisation. While the critics of globalisation rant about how corporations have too much power, and this may be so, but in their eagerness to attack any form of authority they miss the point that the “system” of globalisation is actually empowering people, uplifting women’s rights, helping the environment and bringing fresh water, food, job opportunities, education and even independence and wealth to millions on a daily basis. The system of globalisation is not perfect, no human endeavour is, but it is working. There is no doubt globalisation is improving the lives of the peoples of the world.

We in the “old first world” economies need to continue to embrace this process, but to do so intelligently, accepting and acting on the fact that we too will need to make internal adjustments in order to remain relevant and competitive in this modern world.

Meanwhile in the “new first world” economies there is much discussion about the problems and stresses of the widening wealth gap.

Lets be brutally honest here. The fact that there is a very wealthy group of individuals in any society, as long as that wealth has been derived honestly and in a way that contributes to the overall society, helps to inspire and spur on others to greater success. It is a very healthy aspect of any modern economy if can be seen that it is possible to fulfil one’s financial and other dreams. This is a significant part of the aspirational energy being unleashed in any society at any time.

The problem, with say a country like China at this time, experiencing a widening wealth gap is not a problem at all.

What is actually happening, and this is a broad but valid generalisation, is that both the wealthy

and the working class are getting wealthier. The wealth gap is gettIng larger because the rich are getting richer faster, but the workers are also getting richer. Just not as quickly. the wealth gap is bigger, but the workers are also better off. their quality of life is increasing too. When a widening wealth gap is a real problem, is when the rich are getting richer, and the poor are getting poorer. Now that is an ugly situation, and if not turned around will lead to revolution.

This is not at all the case in China. The situation in there is un-precedented in the history of the world. That a fifth of the world's population is suddenly adopting higher levels of technology and getting rich trading with the entire rest of world is a completely new event. That the rich are getting river faster than the workers can hardly be a surprise to any capitalist. What matters is that the quality of life is being improved for the great majority of the population, and that is certainly happening.

It s not just the actual wealth gap that matters, but whether the workers are getting wealthier as well, as this is true across the entire "new first world" which is why this great upsurge in global prosperity is stable and sustainable.

As long as strenuous efforts are made to further improve the state of a level playing field, that is health and education and access to both as well as employment through an effective transport system, then the poor who are getting richer will be assured as they should be, of their opportunity to aspire. There will be no revolution in these circumstances. What is their to revolt against, better education, better health, improved transport, and the opportunity to build your own enterprise and grow your own wealth, as well as that of your family, community and nation?

There will be those, perhaps the majority as is the case in western democratic capitalists systems, who do not achieve great wealth or even the life style of the middle class, but this is a function of capitalism, not the one party political system of China, or other “new first world” economies.

All of this is vitally important from the point of view of understanding that the miracle that is China and the rest of the “new first world” is rock solid. It will continue to be a huge historical success, because it is in the interests of not just the ruling elite, but of all citizens, and this is constantly being proven and experienced to be the case.

The People's Bank of China, is in my book the world's best central bank, with the European Central Bank in second place. The ECB has shone during the GFC and then the sovereign debt crisis in some of its member nations. The PBOC however really deserves the top spot, perhaps sharing the title with the Ministry of Finance.

In China these two organisations have worked together to successfully manage a fast changing economy in a highly nuanced manner. When many a western commentator was complaining that China's property market was a approaching a frightening bubble stage, instead of simply hitting the whole economy with a broad and blunt sledgehammer as we in the west would do, by raising official interest rates.

The Chinese made it very difficult and set a higher interest rate on people borrowing for a third or more mortgage. This makes sense to take the heat out of possible over speculation. At the same time first home buyers continued to enjoy an interest rate reduction below the usual lending rate. In this way speculative property activity was calmed, while at the same time new home owners, largely the working class could continue to

aspire to a better life including the purchase of their first home. All this while the rest of the economy was left to run normally.

The exact opposite occurred in Australia when the RBA decided to raise rates to slow a resources boom it had no influence over, and instead simply killed off the nascent domestic recovery.

China showed the same high level understanding of their burgeoning economy when, with inflation rising sharply because of food prices and a shortage of pork, the government simply and for a limited period of time, placed a limit on the maximum price of pigs. Again avoiding the blunt sledgehammer kill all approach usually applied by western central banks in such circumstances.

In summary regarding culture and politic, the “new first world” has the competitive advantage in terms of youth in both democracy and capitalism.

The Chinese have a knack of applying common sense to “look out the window” economic phenomena. The approach by the Chinese is not tribal, as in Conservative or Liberal, but quite

forthright in attempting to achieve what is the correct policy response to any given situation through a highly developed committee system that must deliver definitive findings and policy suggestions by a set date.

The United States has as a mature democratic capitalist system been to a large degree slowed and distracted by the ridiculous micro legislative track that it is on. So much in fact that recently there were extended debates as to how much tomato paste on a pizza, would render the pizza a “vegetable” for tax purposes. This is a complete nonsense of course.

Yet this is what modern democratic legislators often spend their time on. Meanwhile a tribal approach to their own sovereign debt crisis has achieved very little if any progress. While the great majority of American economists were spending their time scaring the world about China being a pack of cards, and Europe’s about to disintegrate into depression, they have failed completely to do anything about their own equally severe problems. This is one of the factors for instance in even the Euro becoming seen a safer currency to hold, than is the US dollar.

There are ramifications, serious competitive ramifications, to having policy advancement paralysed by multi-party factional conflicts. This is of course democracy in action, but the point remains that the pendulum has swung too far to reach an absurd situation of micro legislation proliferation.

In my comparisons of the new China and the old USA, I am not meaning to advocate a single party political system over a multi party system. There are advantages to both, but my primary concern here is to show you that the Chinese political and economic systems are robust and will prevail for many decades to come, if not longer, as well as the urgency for the USA and other “old first world” economies to find solutions to this new global wave of competition.

There are essential policy initiatives that no matter how seemingly impossible today, must happen and be put in place tomorrow!

Expansion Frustrated

Remember, in order to remain healthy, a vibrant economic system supporting a well functioning society, capitalism must expand. This is why we have had many examples of imperialism, and it is also why China is the miracle economy of the world. China has only recently adopted capitalism as its economic system. It remains a single party democracy, and some would debate this characterisation, but China arguably has the best run capitalist system in the world at the moment. The form of government may still appear authoritarian in many regards, but the economic system itself is indeed trending quickly toward pure capitalism.

The reason the nations of the west are falling so far behind China/Asia, and even Latin America, is that the never ending desire to legislate, that is regulate, has ended up with another form of authoritarianism where the government controls everything to the smallest detail. This overly mature system of government is clogging up the free enterprise structures for which these nations could previously be so proud. The never ending complexity of regulation, a function of the respective legislatures believing it is simply their job to

make more and more rules, is the greatest counter weight to the effort being aggressively made toward productivity in the world today. While individuals and companies are working tirelessly to keep prices down and productivity high, they are being equally assaulted by ever greater documentation and approval process requirements, as well as ever more complex tax regimes. Is it any wonder that from Shanghai to Buenos Aires that small companies are able to deliver an equal or better product, faster and at a lower price than their US or European counterpart.

To respond to the low regulation, low taxation, “new first world” competitive threat, there is only one viable course of policy action for the “old first world” to take. Western governments must act to support, and not purely focus on control, our innovative private enterprise sector. It is the private sector that will again drive and dominant our economic future.

There is only one answer, “De-regulation and “De-taxation”, “De-Day”.

For a “big-foot” economy like Australia the response is relatively straight forward, yet still difficult to attain politically. To successfully compete

and sell all manner of goods and services into our now much larger market place which is Asia, we must have a competitive tax structure. My humble suggestion for Australia is a 20/20/20 tax plan! That is, company tax reduced form 30% to 20%, top marginal income tax reduced from near 50% including levies to 20%, and the GST or sales tax increased from 10% to 20%. Such a structure would be competitive with our Asian neighbours and encourage fresh capital investment in manufacturing as well as mining and agriculture. Seems relatively straight forward, but such notions are considered political time bombs due to a lack of under-standing of the severity of the threat posed by the “new first world”, and the vulnerability of any single party that attempts bold reform in a multi-party democracy.

Achieving such bold reforms in an economy the size of the USA, is infinitely more difficult. The road to a highly effective competitive stance in the new world economy is an extraordinarily difficult one. So the question must be asked, is it possible? Is continued success and spectacular wealth creation achievable in the “old first world” in the manner it currently is in the “new first world”?

The resounding answer has to be YES !

but not unless we see this new world in which we live as it is rather than how we wish it still was, and not unless we take bold steps toward giving our entrepreneurs in the “old first world” and “big-foot” economies, a chance on a relatively equal, if undulating. playing field.

Yes, of course it is, but it will take incredible cour-age, patient under-standing, and bold leadership!

Fortunately the private sector is already respond-ing to the challenge of the east and south, the “new first world”, but it has to be noted that the challenge is significant from all perspectives, as the example of the Samsung Galaxy and iPhone shows.

Small and Medium Sized Enterprises

The correct response of governments the world over to the new paradigm that now exists, is the empowerment of small and medium sized enterprises, SME”s.

If there is a quick fix, an immediate clear and powerful objective for governments to aim at, then this must be it.

China is ahead of the curve on this. When I attended the 2012 Asia Pacific Economic Forum, APEC, i was contributing on global currency issues. One of the best and most insightful economic horizon speeches was given by no less than President Xi Hue of the Peoples Republic of China. His speech seemed strikingly contemporary and forward looking in comparison to many others. In the west we can become too accustomed to government policy being announced that is years behind the private sector. In this instance the President mapped out in detail how SME’s were the future of China’s innovation and global competitiveness. This was ground breaking stuff back then and still is for many western economists.

The President went further assuring the audience of concrete steps of empowerment in terms of access to capital and technology, but also to policy making with the inclusion of SME representatives at the most senior economic committees. This is certainly a model that we in the west should pay attention to urgently.

China has recognised in effect my suggestion that the world is currently gripped, and will be for some time, by a “bottom up young economic revolution”. This revolution knows no bounds, and has no historical precedent. Information truly is power, and now the people of the world have it. Small and medium sized enterprises are very fast adopters of new technology and will continue to out-perform larger organisations in innovation and price.

The Answer for the Individual

This may and is knowingly a slightly circular suggestion, but it is the way of the world now, and the sooner each of us jumps onboard, the faster we will grow our wealth.

The correct approach by individuals int his new global economy is to be an SME. Create and build an SME, and to do so with the global market in mind at all times. always create, develop, and design for the global market. There may be a great niche opportunity in table stabilisers, solving the age old problem of the rocking table at your local cafe, but design and manufacture your miracle stabiliser for the global market place.

Then after success is achieved in your first venture, or not, start again! For the new economy really is about a more level playing field than has ever previously been the case. It already exists. It can be taken advantage of. To be successful is to be nimble, and the best way of doing that is to be small, grow to medium, then start again.

The world is changing so quickly, that those who are fleet of foot have the advantage on the new

modern level playing field. To always be relevant and ahead of the competition as well as fulfilling the generation Y and beyond penchant for change and variety, the successful entrepreneurs of today and tomorrow may well be those who build SME's to considerable size before selling them to large corporations which are still trying to figure out what they are doing wrong.

Then starting all over again, perhaps even in a different industry.

Global Markets

Media Ear Plugs

First step to true wealth, turn the TV off!

The global financial and business media remains largely US driven, still very US centric. Daily news reports speak with great detail of what is happening in the US. This really is a throw back to the 1960s. Our major media commentators are stuck in a time warp. The main city for global media and for investment banking is New York. London is a larger financial centre but it does not have the lead on daily commentary and spin on world developments that New York does. With both the principle epicentres of finance and media located in NY, it is little wonder the main run of information is about the US and its global leadership. Yet as I have mentioned earlier, the US no longer dictates global economic developments nor does it lead the global economic cycle. The US is a follower, and has been for many years now, of China/Asia economic cycles.

In order to correctly appreciate the global economy and financial markets, when reading and

hearing even local news reports, it is absolutely crucial that we buffer the information we are receiving with the awareness that these people are still living and operating in an old paradigm that no longer exists. Therefore we have to excuse them for their lack of understanding of what is really going on in the world today, still utilising the information provided, but adjusting for the true nature of the modern global economy. In this way we will understand events such as a full week of shear panic about Cyrus banking problems, and how it was only ever an opportunity to buy, as I strongly advocated to my clients at the time. European debt challenges, like high unemployment in the US have little, and most probably zero impact on the global economy. The global economy has a life of its own, and the rather more effective and nuanced management of the China economy has a far greater impact on our daily lives than whether the US Federal Reserve is undertaking quantitative easing or not.

The world really has changed, but the great opportunity for those of us involved in financial markets, is that the so called masters of the universe, even if they occasionally pay the views outlined here, lip service, do not actually get it, have little

to no idea, and are subsequently consistently getting economic forecasts and markets embarrassingly wrong. I remember when George Soros made a great deal of a statement about Gold being a bubble that was about to burst. Gold was at US$950 at the time, and I immediately used his forecast as a sign that the American hedge funds as a whole did not understand that Gold was a buy for the positive reasons of China and India demand. That someone like Soros could be so sure as to make such a strong statement of view, simply confirmed to me that the market was ready to go a lot higher. My forecast for 2012 was US$1950, and the market only just fell short of my target. Time and time again we see the big names of the US hedge fund industry go under. They really do not know anything more than we do, and these days they mostly know less. They are victims and captives of the pond in which they swim, and have been bread. They simply cannot see the ocean just over the lip of their small vestibule.

In summary then, take everything you hear in the financial media with a grain of salt. The world is a lot bigger than those on the screen or writing a column in your newspaper appreciate.

The Stock Market

Dow Jones Index 20,000 within a year, and 30,000 in a handful more!

Build wealth for generations to come!

RIGHT NOW AT RECORD HIGHS,
STOCKS ARE FUNDAMENTALLY CHEAP !

During the 2008 early 2009 market crash, I was not popular for being bearish. I say this because some people think I have always been bullish. What was truly amazing however was the intensity of the hate mail I got when I turned bullish and as the market just kept going up.

On the 8th March 2009 I wrote a short essay called “Levels of Confidence” which argued fundamentally why the world was about to start a period of economic expansion lasting 5-15 years, and that this would be paralleled by a major bull market in stocks. It was a coincidence I wrote this the day global equities bottomed, but there was something in the air.

Just two days later that feeling had penetrated my bones and I sent my famous “ring the bell” report

out to clients. I went on the Switzer Show that night and again aggressively declared hat the absolute low of the market crash had already been seen two days previously, and we had now started a 5-15 year "Grand Bull Market”.

Five years later my Grand bull Market is still raging, and is looking good for my Dow Jones Index target of 20,000, which I forecast two years ago as a 3-5 year target. I now believe we will see 20,000 in 2014.

On the last Switzer show of 2012 I forecast the ASXSP200 to easily hit 5,200 this year, and would have a sharp rally after the federal election to 5,700 by year end. I made this forecast in December last year of course. At the same time I forecast Australian GDP would be just 1.8% this year, when others were forecasting 3.6%. I also then forecast that in 2014 Australian GDP would hit a fantastic 4.5%. 1.8% in 2013, then 4.5% in 2014. It will do so with low inflation as well, and the only risk to 2014 is a Reserve Bank with a learning disability. The target I set for the ASXSP200 a couple of years ago, for 3-5 years out was and remains 8,900 !

I call what I do “look out the window economics”

and I have even had Presidents and Prime Ministers pay attention to what I do because there are very few economists who apply common sense to what is going on in the real world. President Putin complained that I left the Rouble out of my “three reserve currencies” theory last year.

Back to stocks, but all of the above is relevant. People have to understand that the world is an incredibly prosperous place, driven by the aspirations of billions in the “new first world” of Asia and Latin America, and not by Washington or any other leaders of the “old first world” of Europe and the USA. This human “aspiration" story, flowing through SME s all the way to Beijing, and the reaching of critical mass of these economies and their application and evolution of forms of capitalism that befit their particular circumstances, mean the world is abuzz with tremendous opportunity.

While people in the west have been waiting to feel “confident", people in the east and south responded to the GFC and European sovereign deb crisis by working “harder". This is why global growth will continue to out-perform IMF and World Bank forecasts, and why every time they downgrade their forecasts it is a fantastic buy signal for the stock market. Global growth is being driven

by what I call the “bottom up economic revolution”, where the weapons of the people are smart phones and tablets, used to good effect, and also by exponential “intra-regional trade”.

It doesn’t matter what happens now in Washington, and by the way Obama and Boehner were the big losers recently, so they will put something together early this time round, what matters is that there continues to be a phenomenal historical surge in global prosperity, and a cycle of great corporate profits, further globalisation and the expansion of capitalism in a variety of forms, which means the current bull market I first called in March 2009 still has at least another decade to run.

From a particularly Australian perspective, there will be a continuing fresh business investment surge post the federal election, and the resources boom as I said all along never ended. When you combine an at last improving domestic economy, stay out of it RBA, and a continuing resources boom, that is strong domestic economic growth and accelerating resources boom, it is easy to get to 4.5% GDP. What makes the Australian market such an extraordinary buy, it is cheap even at to-

day’s levels, is that none of this strong fundamental picture and positive sentiment from a continuing bull market in the US, has until recently begun to be priced in here. Australian fund managers are incredibly behind the curve, which means for those already positioned a long way back, they will continue to enjoy the ride of those funds having to compete to establish respectful equity weightings in what is after all, a raging "Grand Bull Market".

“Fear" died at the end of 2012. Then we were in what I called the “curious about greed” phase. Now, well we just tipped over into full blown “greed", but it has only just started. Its not too late to buy, though if you haven’t yet, you are most definitely late. The good news is the party still has a ways to go!

With a global backdrop like that is it any wonder the Dow Jones Index is going to double in the next 6-7 years, probably by the end of this decade, but very likely by 2021. The underlying strength is also due to the fact that until very recently, in fact yesterday in a historical sense, most of the worlds most preeminent commenta-

tors and economists, including the top global institutions such a s the world bank and the IMF have been warning of, if not a global depression, at least a significant further slow down and various vulnerabilities to the economics and asset markets of the world. What this means is that opportunity abounds!

Markets have there biggest moves when the consensus is wrong, and oh how wrong has the consensus been for several years now. Until the end of 2012 markets were still trying to price in a deep depression in Europe, it never happened, self destruction of the Euro it never happened, a recession in the USA driven first by “sequestration” and then by potential debt default , and of course always by the fear of “tapering” The truth is none of these factors really matter. Most are not based in reality, representing a fictional portrayal of possible outcomes for the world that belong in Hollywood more than Wall Street, but then again Wall Street has become pretty Hollywood in recent years.

The truth is all too obvious, but often like brilliant changes, or dare I say discoveries, once someone starts saying it, the discovery seems like the

most obvious thing of all. So as I have been saying all through this book and simply and powerfully restate here, the world is in great shape.

Let me say that one more time, the world is in great shape!

Take the moment to imagine a world where everyone believes the future to be bleak, no one wants to own companies which are going to go out of business, and even money when various currencies may basically cease to exist! Where would that leave the Dow Jones index? About where it was in early 2009, but in fact maybe a little lower. Nevertheless the reason we have seen a sharp rally ever since, one I proclaimed as a new Grand Bull Market on 10 March 2009, has been largely even at this point near 15,000, seller exhaustion.

THE FIRST BIG WAVE UP

We should believe in the S&P500, 300%.

That is, we should get a full 300% rally from the March 2009 low, before this first huge wave up is completed, and that may not be the end of it either. We are currently up around 180% and so we still have plenty of potential left in the market.

When you consider the March 2009 low was pricing in a global great depression that we were never going to have, and the continued up-turn in global output and prosperity that has been experienced, then it is easy to appreciate the fundamentals underlying this bull market. So far price-earnings ratios are modest indeed, around 17x for the S&P500. So there is yet to be any exuberance priced into the stock market at all.

As we made fresh historic highs yet again, US retail sales were a little subdued, and the risk of significant conflict in Ukraine is again front-page news, the market has had an average down day. The nature of the price action toward the end of the day in the US, however, suggests this may be just a 1-2 day consolidation rather than a significant correction. We may now be entering a period

where most people who want to sell at these highs have already done so, and therefore volatility will subside and the market will revert to a low volatility rally. By that I mean there may not be big single-day moves in either direction, but steady accumulation of quality companies will continue week after week, month after month, driving prices considerably higher in small steps. There is no doubt a lot of people are again positioning short, and some are also positioned long volatility, but both those positions may be at risk, I believe.

It really has been a long series, of just another day in our Grand Bull Market. Pullbacks have to be viewed as generous opportunities into which to buy more…

For months, and likely years to come !

Once Mighty Dollar
3 Reserve Currencies
Good US Data Means a Weak US dollar

The once dominant currency of recent history, the US dollar, otherwise known as the "greenback", use to make people green with envy.

Over the past decade however its value has been steadily eroding. While much ado was made about the European sovereign debt crisis, it is interesting to note that through this period the US dollar barely held on, and even declined a little against the Euro.

There are two clear reasons for the decline of the US dollar, and rise of the Euro.

Firstly, a major factor in the decline of the US dollar has been the official "strong dollar" policy of every US administration. What most people do not realise, but I have been arguing for nearly a decade, is that the "strong dollar" policy is in fact the "orderly decline of the dollar" policy. No administration dare ever say that the US is happy for its currency to decline. The "strong dollar" pol-

icy was used as a global centre weight, and anchor in that what ever happened in the world, whatever economic crisis, the US would always support its currency. The US dollar would in effect always be a safe refuge. This has been a major factor in the investment of US treasuries from foreign governments, institutions and individual investors. This policy is also in back of why whenever there has been a major crisis, even if the crisis was emanating from the US as was the case during the GFC, the US dollar and US treasuries were seen as the ultimate safe haven. As bizarre as it is to anyone applying the simplest of logic, global financial market participants bought the US dollar in a panicked state in 2008, even though the epicentre of the crisis was Wall Street.

Even the Australian dollar had moved to above parity to be bigger than the US dollar, and will again! perhaps it will become a small reserve currency of sorts. It may yet even become known as the “big down-under”.

The steady decline in the US dollar has been a very good thing for Americans. The long term historical re-pricing of the US dollar to much lower levels is a fundamentally valid process. The market is merely in a historical sense, pricing out the

once dominant position of the US in world affairs. The US will remain a super power, but one of three. Also while the US was attracting as much as 70% and sometimes more of fresh available investment capital in the world a couple of decades ago, it is now headed to a more sustainable 30% if that, in the years ahead.

Secondly the strength of the Euro is predicated upon the inescapable fact, no matter the degree of chagrin from US economists, that it is the only immediately available alternative reserve currency to the US dollar. The US dollar is in effect simply falling back into the leading pack of global economies, slipping back from once having been out in a dominating lead position. While the US has its significant problems, it is more of a case of the rest of the world coming f age and catching up. Being younger and hungrier the rest of the world economies are capable of strong sprints at this point, that are now beyond the likes of Europe and the US.

Despite all the scary press headlines, Greece was never going to leave the Euro, the Euro was never going to dis-integrate or even weaken back to parity to the US dollar as so many of the world’s most significant economists believed it

would. All of these forecasters, the biggest banks in the world, and the main stream journalists, were really living in some kind of fictional form of what was going on. These people completely failed to understand, or remember, that the formation of the Euro had been a 30 year process. The political investment had been huge, and the survival of the Euro was a political imperative as much as it was an economic one. The problems and challenges were huge but they were never in surmountable. Especially to a group of leaders who unlike their American counterparts were actually prepared to address and deal with the issues at hand, and to do so transparently, regardless of how popular the process was. As a result Europe is now the most fiscally responsible economic region on earth, and will remain so for the next two to three decades. Europe also happens to be, as in those countries encompassed in the Euro, the second largest economy in the world after the USA, with China a fast approaching third. With sophisticated and highly integrated financial markets for a still very diverse and deep economy, the Euro is a stand out safe haven proposition, and all the more so for the sovereign debt crisis. I say this because after all the highly fictional dis-integration forecasts by financial market types and the relentless media bombardment,

from 2010 the Euro never made a new low. In fact the 2010 low was only marginally lower than the trough of the GFC inspired panic toward the US dollar. So in all those years of relentless negative press, the Euro was actually resilient. This is the mark of a great currency. The ability to absorb continued speculator and media attacks, and to bounce back strongly. One wonders of the US dollar would be as firm in such a campaigned assault. Most probably not.

Increasingly we are seeing a shift away from the US dollar as the crisis safe haven currency. More recently a sudden crisis will only see a momentary and modest bounce of a day or two in the US dollar before it falls back to the pre crisis level, and again settles in to its steady march lower. As I stated this section, the US has an “orderly decline of the US dollar” policy. Just as the orderly appreciation of the Chinese Yuan and Euro is appropriate in terms of three equal super powers, so too is the further decline of the US dollar.

The decline of the US dollar I argued some time back is a perfect cure to some of the world’s great imbalances. Especially the shortage of investment capital in the what use to be called “emerg-

ing markets”. Those now “new first world” economies have been significant beneficiaries of the re weighting of fresh investment capital around the world and way from the US. Whenever the US has withdrawn, such as during the GFC, and then the European sovereign debt crisis, China has been quick to fill the gap.

Gold Culture

Gold $2,000 for the good reasons of growing, prosperity, and therefore demand, across China and India

I have always advised people to buy gold for the good reasons of increasing global prosperity. there is no doubt the world is a more prosperous place than a decade ago, and things continue to improve with purchases of luxury goods going through the roof.

The strongest reason for buying gold is that the two cultures that value gold most highly, also happen to be the two most populous nations on earth, and among the fastest growing economies in the world as well. The demand for gold in china and India has been increasing rapidly and will continue to do so.

Meanwhile as with other minerals, many high cost mines are closing. So future supply is going to be less than consensus expectations, and at the same time due to an under appreciation of the resilience of the China economy demand will exceed current consensus projections. this mis-

match of expectations is what is creating tremendous opportunity in the market, and why I believe Gold can rally about 50% from here in the next 3-5 years.

Do not buy gold as an inflation hedge. Inflation is no longer the animal it once was due to the rise of true competitive price pressures.

Do not buy gold due to fears of an economic downturn or any other crisis. The renewal of Europe and the rise of China alongside a still strong USA, means there will be greater overall peace this century even if there are occasional localised but intense conflicts like Syria.

Buy gold for the good reasons of the bottom up economic revolution where the people of Asia and Latin America can now aspire to a better life, and are determined to make it. This is the engine of global growth now, and it will flow through to an ever greater demand for gold. Something that is not priced into the market at all.

Higher Commodity Prices

In general, watch out for a big upturn in food production productivity, particularly out of China and other Asian nations, which will be capable of matching increased demand. Nevertheless soft commodity prices will remain firm to higher, but quite possibly not to the extent that mineral commodity prices are likely to soar.

You cannot grow new rocks, so mineral resources will continue to track higher. Oil too, at least for most of this century as it will be several decades before alternative energy is mainstream.

This is about global growth, which will be way above consensus expectations, and therefore so too will be demand for raw materials. Demand can only increase from here.

The only reason one could think otherwise, or be cautious on global growth, would be to believe the US will slow again quite seriously below trend, Europe will fail to recover, and China will have a major crunch even recessionary period? Well China is resilient, more of that below, and Europe

and the US are more likely to surprise on the upside relative to consensus expectations than to under-perform.

Current forecasts for all nations, and the US, China, and Europe in particular, are understandably cautious, certainly quite conservative. No one wants to get it wrong by being too bullish, so everyone is trying to look clever and appropriate by being cautious. Most people are forecasting in the lower half of the range they may actually expect, and even then almost all fail to understand the key processes like bottom up economic revolution, intra regional trade, and the inflation kitten. Most economists and commentators have no idea just how aggressive is the economic power of the SMEs of Asia and Latin America.

Much has been made in recent years about a potential sharp slow down in China, when in fact the economy is barely slower at all, and still growing probably in real time at about 7.4%. The “fear” about a sharp slow down however had people marking commodity prices and resource companies desperately lower in recent years. Yet those commodity markets just kept bouncing back. This

is because real demand, as opposed to consensus expectations, continues to increase month after month after month.

During this period most analysts were warning of the over-supply that would be coming to the market. So what happened initially, in response to all this over-supply threat forecasting, was a sharp fall in commodity prices. This had the remarkable impact of virtually every major mining company in the world then winding back its existing production expansion plans. Having seemingly got it wrong back then, planning to increase production but commodity prices fell sharply, the boards of directors of the large mining companies do not want to be seen to get it wrong again. While now they see the need to increase production, the previous plans of even greater expansion of supply, no longer exist. What has happened is that future supply has been quite elastic in relation to commodity price movements on the downside, but no longer so on the upside. In other words, even with sustained price recovery there will now only be modest actual increased supply, as a result of the high volatility of commodity prices in recent years.

The net result is that we have continuing increased demand above consensus expectations,

Chinese and global growth above consensus, at the same time as we have much lower supply increase than the market was expecting. Actual demand is greater than consensus expectations. Actual supply increase is lower than consensus expectations. Therefore commodity prices have been stronger than consensus expectations, and are likely to remain so.

With the fundamental outlook that global growth will continue to improve we should expect commodity prices overall to continue to move higher.

The Compliance Monolith Buying Opportunity

The world has never before experienced synchronised growth in an age of instant communication and totally fluid trade.

That's today's markets. Things are really heating up and the stock market is about to again be the hottest game in town.

Commodities are going to be firm in line with expanding global prosperity, but it is the stock market that is about to truly astound everyone. Remember the world is more about the "new first world" of Asia and Latin America, than it is the "old first world" of Europe and the USA. That is why when we get any level of growth in Europe or the USA, then we can be sure global GDP is accelerating. I have said for several years now if the US had 0.0% GDP the rest of the world would still have a party. If the US grows at trend and higher, as I have always forecast, then the world will have an even bigger party. I do not think we have yet seen just how fantastic this next period of global expansion is going to be. Company profits and wealth levels are about to go through the roof, perhaps like never before in history.

This is not such a ridiculous statement. The world has never before experienced synchronised growth in an age of instant communication and totally fluid trade. We have not had intra-regional trade growing at 25% in the most populous region on earth before, with goods and services being rapidly exchanged between Asia and the rest of the world, even Latin America. Where will profits go? How high will they be in this new first-time environment no one understands or expects? It will be a more powerful upswing in company profits than even the boards of directors of companies currently dare to dream of.
So how cheap are stocks at a P/E average of 17x for the S&P500? Very cheap.

European growth remains modest, but the point is that Europe is well and truly on the path of stabilisation in preparedness for some acceleration of its own later in the year. In the USA, we have continued strong trending data. Of course, not every number will be great as was the case with manufacturing last week, but the more recent anecdotal evidence suggests that was just a moment in an otherwise strong series. All areas of the US economy including housing are now strengthening. Similarly, consumer confidence will

have pullback moments too, from what are, in fact, major economic boom levels of late. You will never get 100% consumer confidence, so where we are now is about as good as it gets.

Also, never lose sight of the fact that Main Street USA has been far smarter about the economic outlook than Wall Street for many years now. Small and medium-sized Main Street enterprises (SME) stopped listening to the major house Wall Street economists a long way back, and re-launched their businesses aggressively, both to fight off the challenge of “new first world” SME’s, and to grab domestic market share from sleepy larger corporations.
There is so much opportunity around now in terms of business and financial markets it is incredible!

This weird financial institution cultural shift to a place of “compliance”, an overarching obsession with being safe and so politically correct that getting markets right and making money has become secondary, is our opportunity.

So profound is this new culture that to say this to a senior banking executive would be to be met with a blank stare, but of course money making is

secondary to my getting a tick in my review for compliance and a happy team, would be the reply! The great banks and brokers were created by street-smart creative, passionate, and even sometimes aggressive individuals. The great story of smart Wall Street boutiques has been replaced by compliance monoliths filled with lawyers and mathematicians playing with spread sheets. No wonder it is so easy to outperform the big names. Which is why there is so much money to be made, so much wealth to be created!

Now combine the fact that the largest traders and investors in the world are dumbed down versions of their former selves, with the established reality of an extraordinarily strong global economic environment, an exciting economic expansion in fact, and it is sun blindingly clear that we can win at investing in markets. The big houses will continue to trail the market. Their commentaries will continue to reflect what has happened as quickly as they can, but their predictive powers are left badly wanting. If the big houses were good at economics and markets, beyond sounding clever after the fact, the rest of us would not stand a chance. But what is actually happening is that we continue to significantly outperform. We are not bound and

weighed upon by the play safe compliance meetings that now besiege the investment houses. We think for ourselves, see a world that is great and invest. The big houses come in later after us, and drive prices higher delivering our profits. This is why we have to buy market pullbacks every time.

This is why I have been suggesting to buy aggressively.

The big guys just don't get it, and that's our opportunity, both in terms of creating smarter economic analysis, and far more accurate global financial and stock market understanding and investment.

Be a bullish revolutionary! It should prove very rewarding!

Conclusion

The Age Of Opportunity

The global economy, that is the businesses and consumers across a great variety, yet tightly linked, amalgam of nations, all simultaneously now seem to be emerging from one of the most challenging financial periods in modern history. The European sovereign debt crisis, running as it did hot on the heels, and partly as fallout from, the Global Financial Crisis, created an extended period of enormous economic uncertainty from 2007 all the way through to 2012, but it is now 2014.

It was only at the end of last year, and the start of this, when at last it could be confidently said that “fear” was dead.

“Fear” in its many forms, from CEO’s competing to rationalise their businesses as aggressively as possible, to investors retrenching their wealth to mattresses, gripped the world for five long years. In the “new first world” of Asia and Latin America, things were generally better, but in the “old first world “ of Europe and the USA, economic pain

became the order of the day. Countries like Canada and Australia found themselves having a foot in each camp. No wonder there was some confused policy making in recent times.

Until recently financial markets, particularly stock markets, were pricing in the risk of the US falling back into recession, at first due to “sequestration” as the US wound back tax breaks and government spending, and more recently “tapering”, the winding back of stimulus. There was also, and there still are, plenty of people suggesting Europe is at risk, and even China. Yet it is clear to most reasonable minds that all these economies are actually beginning to accelerate again rather nicely.

The key trick here, if I may, is that the equity markets of the world are only belatedly becoming aware of this new world reality, one of prosperity. Earlier this year we saw high yielding stocks do well. I called this the “curiosity of greed” phase. Fear had been defeated, but “greed” was certainly not back. People were still very cautious, but they were also most definitely just a little bit curious about the possibility of a new bull market. As someone who proclaimed a 5-15 year bull market in 2009, this period has certainly held some

amusement. What we saw however was normal human behaviour, the desire to participate in a bull market, tempered by not wanting to take too much risk. The solution was to buy the safest high yielding stocks.

We are now likely to see a steady tipping over into riskier and riskier stocks, as that age old emotion “greed” begins to take hold once more. This will be great news for stock brokers and financial types, but also for the broad community. Increased investment, and an appetite, even competition, to lend, will see economies re-invigorated.

This is a rare moment for markets. Global sentiment, especially that of the investment community is now stumbling into “greed”, and with many years to run, at the same time as we discover the world all around us is doing remarkably well. Way beyond consensus forecasts in fact.

If not invested now, you need to act quickly!

Stronger global growth rates will be the norm, and so too will low inflation. The perfect recipe for surging stock markets.

With a global backdrop like that, is it any wonder the Dow Jones Index is going to double by the end of the decade. The underlying strength is also due to the fact that until very recently, in fact yesterday in a historical sense, most of the worlds most preeminent commentators and economists, including the top global institutions such a s the world bank and the IMF have been warning of, if not a global depression, at least a significant further slow down and various vulnerabilities to the economics and asset markets of the world. What this means is that opportunity abounds!

Markets have there biggest moves when the consensus is wrong, and oh how wrong has the consensus been for several years now. Until the end of 2012 markets were still trying to price in a deep depression in Europe, it never happened, self destruction of the Euro it never happened, a recession in the USA driven first by “sequestration” and then by potential debt default , and of course always by the fear of “tapering” The truth is none of these factors really matter. Most are not based in reality, representing a fictional portrayal of possible outcomes for the world that belong in Hollywood more than Wall Street, but then again Wall Street has become pretty Hollywood in recent years.

Let me assure you one more time, the world is in great shape!

Economic Horizon

The economic horizon is very exciting indeed. It is where we are all headed, and there is room and opportunity for all. I know this sounds a little optimistic, but please believe me there have been times when I have been appropriately pessimistic and bearish too. This is not one of those times.

I can remember one day in October 2012 when the stock market was having one of its yet again major correction periods. These were the rather large price collapses that occurred every time there was an excuse for another one of those big bear beat ups in the media. Anything from a tiny country in Europe having banking problems, to a property developer in the Middle East going under. These were strange times. What I am thinking of however is how this one particular day, more than any other all those years, when it was remarkably clear or at least it seemed like it, and certainly people were telling me so, that I felt like the only person in the world who was bullish.

This was acutely apparent in the Australian market. I remember going on an Australian financial markets program at lunch time, and such was the intensity of the bearish religious fervour that the anchor basically derided me for seeing any bullishness at all. She was sure the market would collapse further. That things were dire. That everyone else was totally bearish. Her assertion was how could I let everyone down by being bullish? My response was as it always is, how I see it, whether people like it or not, and whether I am right or not, I always know I will have been honest with my audience. I said I expected the market to fall perhaps 30 or 50 points further that day, but to bottom that afternoon and begin the next major up-trend in my Grand Bull market scenario. She basically dismissed the notion as nonsense. I don't remember exactly how much further the market fell, but it did reverse and that was the last day of one of the last major sell offs of recent years.

You can only call it as you see it. I really am trying to help here, and I almost feel a duty to stand up against some of the bearish bullying we have all witnessed. People do not like to be wrong, and many turn to bullying those who do not agree with

them. We all have something to learn from each other, and that should always be our focus. If some of my analysis and forecasts seems a little extreme, well all I can say is that markets always do what people least expect, because that is exactly what people are not positioned for.

When I received hate mail for being bullish in March 2009, I knew I was on to something. It was a new Grand Bull Market, and it has been amazing. Yet what this bull market is attempting to price in, the sheer magnitude of the economic revolution sweeping the world, and the accelerating spread of prosperity everywhere, should still not be under-estimated.

The Grand Bull market is young. It is only five years old and only just starting to grow and be respected. In reality we are all young, and we all have lots to learn. I can't wait to learn more about one of the greatest bull market's in history, the one we are living in the midst of right now.

I sincerely hope you make the most of the opportunity in business and investment as it is presented to you.

The Economic Horizon now stretches across the entire globe, and the light is only just coming up.