

In the Catbird Seat

December 2009

A year ago all of us in Houston were kind of in shock. Hurricane Ike had hammered us, inspiring many to take a one to two week forced “vacation”. Virtually everyone was out of power for at least a few days. Not long after we sort of got our lives back in order Lehman filed for bankruptcy and off to the races we were with the worst financial crisis since 1929. To add to our challenges in Houston the price of commodities started to fall like a rock in the ocean. “\$4 and \$40 is where I think we’ll see the bottom for oil and gas prices.” “You’re crazy Doug, things can’t go below \$5 and \$50.” What a year it has been, eh?

During all this chaos my over active imagination started to revert to survival mode. Where would I move my family if the U.S. melted down? Where would be a safe harbor? Where was an organic economy with sustainability? I decided there were two types of places to go. The common denominator was countries with a small population relative to their export content. These countries had something other countries would continue to need. Two groups emerged.

- Countries with a low population relative to their natural resource content.

Canada, Norway, Russia, Australia/New Zealand, Chile, South Africa, Mexico, some Arab countries.

When considering a family relocation, several on this list are tough choices, Russia for weather and political climate, South Africa and Mexico for political climate, and the Arab countries for political/cultural reasons. For those that know I am married to a Norwegian, that should seem the obvious choice, but Norway is mighty cold, and maybe more important, quite dark in the winter. Canada seems like an easy choice, but they also have the cold and dark winters. In addition, a lot of the Canadian economy depends on exports to the U.S., so if that “customer” went away, Canada would have challenges. This narrowed my choices down to Chile and Australia/New Zealand. I don’t know for sure but thought Australia/New Zealand had pretty strict immigration laws. With that in mind I sent my wife and eldest son to Santiago, Chile this last summer for a bit more than a week to check it out.

The take away wasn’t that inspiring. Santiago is set between two mountain ranges. Although you don’t recognize it so much the city lives within a constant haze. Their most popular ski mountain, just a couple hour drive away, pales in comparison to our Rockies. The food is bland. The people are nice, but don’t seem to possess much passion. Needless to say we have not moved to Chile.

What about that second group of sustainable economies?

- Countries with a low population relative to their infrastructure for innovation.

Israel, Singapore, Taiwan, Hong Kong, Japan

These are countries ripe with cutting edge technologies and/or entrepreneurial environments. But when considering where to move in a meltdown each of these countries possessed relocation challenges. The Asian countries are obvious from a cultural standpoint. Our looks and language skills would stick out like

Armchair Economic Perspective
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a sore thumb. Israel might be the easiest in which to assimilate so long as we could be comfortable with the constant risk/fear of war.

This exercise of a year ago did provide some investment ideas. Why not stick some cash in these currencies and/or their ETF's. So I allocated a little of my trading portfolio to them. Of course the returns were excellent, but then the whole tide rose over the last nine months so they really were not that much better ideas than buying a U.S. index.

Recent dialog within my mindshare of folks brought back these thoughts. "Washington is setting the stage for massive inflation. Where can I stash my cash?" In addition to the above ideas, which still seem quite relevant, I decided there are two other places to consider.

One is the smaller countries that support the rapidly growing BRIC's.

These smaller countries would be suppliers to Brazil, Russia, India and China, whose economies look to be growing for many more years. Those countries would be Vietnam, Thailand, Cambodia, Malaysia and maybe even Korea for China. Chile, Ecuador and Uruguay, maybe most of South America, for Brazil. Not sure about India. Its "smaller country suppliers" just might be different parts of India. And not so sure about Russia either, although one might consider that Western Europe will benefit from Russia's continued evolution to a market based economy. Western Europe is the more natural supplier of western goods and services to a growing Russian economy.

After thinking about it some I started to wonder if the only places that will suffer in the foreseeable future are the U.S. and Latin America. This got me thinking on whether the U.S. economy might not suffer so much at all. As the rest of the world grows, it will pull us up with it. The U.S. may no longer lead world growth, but maybe we'll be okay since the world will be buying more of our stuff. There though is the rub. Only with a lower dollar can our labor and structural costs compete...back to the inflation debate.

There is one other place where you might be able to play the potential dollar currency/inflation crisis. This place sort of fits all of the subsets described above. It has a low population relative to its natural resource content. And it has a low population relative to its infrastructure for innovation. And it supports the global growth story. It also seems internally sustainable...grows enough of its own food, produces enough of its own energy. Have you guessed where this is in the world? How about Texas?

Whatever our economic take away from this year I expect we all added a bit to our wisdom savings account. Experience is what you get when you didn't get what you expected. I hope this year's experience serves you well with tomorrow's challenges.



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