On the Verge of Chaos

By John Mauldin | November 23, 2014

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>
> – Niall Ferguson, "Complexity and Collapse"
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> I see a bad moon arisin', I see trouble on the way.
> I see earthquakes and lightnin', I see bad times today.
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> I hear hurricanes ablowin', I know the end is comin' soon.
> I fear rivers overflowin', I hear the voice of rage and ruin.

Don't go 'round tonight, well, it's bound to take your life.
There's a bad moon on the rise.

– "Bad Moon Rising," John Fogerty, Creedence Clearwater Revival, 1969

As a college student, I reveled in the sounds of the Creedence Clearwater Revival and its lead singer and songwriter, John Fogerty. Fogerty supposedly wrote "Bad Moon Rising" after watching the 1941 movie classic *The Devil and Daniel Webster*. The movie is a paean to freedom, the American dream, and the ability of a man, even one who has sold his soul, to find redemption. There is a scene involving a hurricane that supposedly inspired the song. Fogerty claims that the song was about "the apocalypse that was going to be visited upon us." Barry McGuire had sung "Eve of Destruction" only a few years earlier. A generation that had grown up with the Cold War, the growing conflict in Vietnam, the Free Speech Movement, and a nuclear arms race was increasingly distrustful of adults and government. "Don't trust anyone over 30" was the maxim first uttered by Jack Weinberg, a leader of the Free Speech Movement in Berkeley. In a small bit of irony, the founders of that movement recently gathered to celebrate its 50th anniversary. As a side note, I find that Boomers are far more susceptible to talking apocalypse than our kids are.

Well, it's a beautiful night here in Dallas, and there is no bad moon rising; but over in the Land of the Rising Sun, I do see a bad yen falling. As we will see in a minute, the recent yen price chart looks like a frozen rope (in the words of Jared Dillian). Understand, my bet (to use the word *forecast* would imply a level of precision in modeling that I have not attained) is that the yen goes to 200 against the dollar, so breaching 120 is not exactly a shocker to me. What is a little unnerving is the rapidity of the recent move.

In this week's letter we're going to explore some of the ramifications of the currency war that Japan is precipitating. It is more than just Germany, Korea, and China having issues and needing to contemplate their own competitive devaluations. If the yen goes too far too fast, there will be geopolitical repercussions far beyond the obvious first-order connections. As Fogerty ended his song:

Hope you got your things together.
Hope you're quite prepared to die.
Looks like we're in for nasty weather.
One eye is taken for an eye.

I'll try to see if I can help you "get your things together" … and help you prepare your hedges. We may indeed be in for nasty weather.

Bad Yen Falling

As I write on a Saturday morning, the yen is 117.8 to the dollar, having fallen modestly from the mid-118's yesterday. Shinzō Abe was nominated to be Japanese prime minister for the second time on September 26, 2012, and it was clear that he would win. He implemented a program that has since come to be called Abenomics.

Japan was suffering from a 35% loss of competitiveness vis-à-vis their most important trading competitor, Germany, because of a rather steep rise in the yen (for reasons we will examine later). For the first time in generations, Japan's trade deficit had gone negative. The interest-rate market was beginning to bounce around, which was a death knell for Japan. Abe made no bones about it: he would replace the controlling members of the Bank of Japan with members who agreed with him that massive quantitative easing should be undertaken.

In the graph below, notice that as it became clear that Abe would win, on cue the yen began a nosedive from 75 to the dollar to slightly over 100 to the dollar and then went sideways for about a year and a half. The Halloween 2014 announcement by the Bank of Japan to double down on its quantitative easing started the recent frozen-rope-like plunge, taking the yen almost straight down to 118 and on its way to 120 in very short order. Goldman Sachs has forecast that the yen will be at 130 by the end of 2015, 135 by the end of 2016, and at 140 by the end of 2017. That rhymes with the prediction of my friend Kiron Sarkar, whose target is 125 in the first half of 2015.

Make no mistake: the Japanese are not at all concerned that the yen is going to 130 or 140 or 150. While we tend to see the recent move as precipitous, it may be helpful to walk in the other man's shoes, so to speak, and see the currency move from the long-term Japanese perspective. A little over 40 years ago the yen was at 350 to the dollar. Less than two decades ago it was at 150. Then it strengthened all the way to the mid-70s. Even if the yen were to eventually fall to 200, as I predict it will, that's not even a 50% reversal.

Japanese industry has had to suffer the yen's rising almost fourfold over the last 40 years. If the dollar were to rise as much, there would be much weeping and wailing and gnashing of teeth, and the usual suspects in the Senate would be up in arms about currency manipulation. Japanese businesses just cut costs and improved quality and competed heads up. Oh yes, it's been nasty for the last two decades as their nominal GDP has been flat, but their corporations are still some of the most competitive in the world. You put a currency devaluation wind at Japanese corporations' backs and watch how competitive they become. Cue serious worry from businesses located in Germany, Korea, and China.

For new readers, let me briefly describe what is happening in Japan. Japan's debt-to-GDP ratio is roughly 250%. If interest rates were to rise by 2%, it would take 80% or more of their tax revenues just to pay the interest. That is not a working business model. Therefore they can't allow interest rates to rise. The only way they can accomplish that is for the Bank of Japan to become the market for Japanese government bonds (JGBs). And that in fact is what has happened. When the Bank of Japan momentarily withdraws from the ten-year JGB market, nothing trades. The Bank of Japan is the market today.

The strategy for dealing with the Japanese debt is threefold:

1. They have to create a positive nominal GDP, which means they need at least 2% inflation and 2% real growth. They have had neither for over 20 years, so this is not going to be easy. They have tried "modest" amounts of quantitative easing in the past. The only way they can create inflation is to undertake ***massive*** quantitative easing through monetary printing. However, if you do that, you are in effect going to lose control of the value of your currency. It's one of the basic laws of economics: you can control either price or quantity but not both.

2. They need to move an enormous amount (70%?) of that debt onto the balance sheet of the Bank of Japan, thereby effectively erasing it. To point out that a move like that has never been successfully executed in the history of the world, or at least not without

significant economic upheaval, is not stretching the point. The Japanese are embarking upon one of the greatest economic experiments in human history. They are doing experimental surgery on their economic body without benefit of anesthesia. See the note below on the willingness of the Japanese population to endure pain.

3. They need to slowly balance their budget so that at some point far off in the future they will be able to actually allow interest rates to float at a level where they will be able to manage the debt, which means they have to run a primary surplus (at a minimum) in their budget. Given that they are running 7% deficits (and have been for some time), that point in time is well into the future. Abe himself does not project a balanced budget until 2020. And given the nature of the experiment they are conducting, you can have absolutely zero confidence in any budget projections that far out. Maybe it happens, maybe it doesn't.

If you live in Japan, you really should be taking precautions. If you don't live in Japan, you should be anticipating what this is going to do to you. This is not Zimbabwe or Argentina printing money; Japan is important to the global economy. What they do affects everything.

With the recent increase in quantitative easing, the Bank of Japan is now monetizing more than double the amount of the deficit that the government is producing. That means they are slowly moving the debt onto the books of the Bank of Japan, perhaps in the range of 7 to 8% per year. If they can actually begin to reduce their fiscal deficit, then, at the level of quantitative easing they are currently doing, the amount of actual debt monetization will begin to rise slowly, to perhaps as much as 10%, rising to 15% a year over the very long haul. This would get them to the point where they could withdraw from their QE program and allow the market to set interest rates.

This is something you must understand: this process is going to take many, many, many years. They are not going to stop quantitative easing next year or the year after or the year after that. If they don't get the inflation they need, we will get another "shock and awe" announcement from Haruhiko ("just call him Colin" [Powell]) Kuroda, which will have every bit as much impact as the original shock and awe campaign did in Iraq in 2003. And while it won't be as physically destructive, let us be clear: this is central banks at war. And there will be collateral damage. And most central banks, especially those of the emerging markets, only have a knife to bring to a gunfight.

Why would the Japanese people tolerate the value of their currency dropping by more than half, increasing the cost of energy and other imports? The answer to that is a point that my friend Louis Gave makes time and time again, as he did in a missive this week:

> With Japan in the middle of a triple-dip recession, and Japanese households suffering a significant contraction in real disposable income, it might seem at first that Prime Minister Shinzo Abe has chosen an odd time to call a snap election. But that conclusion would ignore the two iron-clad rules of investing in Japan that we never tire of repeating:
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> Rule #1: Never underestimate the amount of pain that the Japanese will willingly bear, as long as the pain is taken together, and is seen to be borne for the good of the community.

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Rule #2: Never underestimate the willingness of Japanese policymakers to test Rule #1.

The Obvious Impacts

I've been on the phone a lot this week talking with economists and analysts trying to figure out some of the immediate impact of Japan's moves. Jack Rivkin (at Altegris and one of the smartest observers of the economic scene I know) pointed me to a blog post from his old friend Bob Barbera (another brilliant economist and an alumnus of Lehman Research). Jack thought so much of Barbera that while he was running Lehman he fired a very famous economist (whose name will go unmentioned) in order to hire Barbera. Barbera argues rather forcefully that the outperformance by Germany vis-à-vis the rest of Europe is an illusion based upon fortuitous economic circumstances that are getting ready to change. He argues that there is no German exceptionalism. The article provides such important insights that I'm going to quote liberally:

> The German economy, in stark contrast to most of the rest of Europe thrived, 2010-2012. German successes emboldened their policymakers. Merkel, her finance minister and a succession of Bundesbank members all sternly lectured their European partners. Embrace Germany's magical approach, or continue to suffer, has been the message. The good news for the rest-of-Europe is that Germany's mansion on the hill has always been a sand castle. Two tsunami waves are about to hit. And Germany's economic exceptionalism will be swept away in 2015.
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> Everyone agrees that Germany's strength is tied to its export machine. To understand how Germany did so well 2010-2012 one needs to appreciate that two powerful developments in Asia gave Germany a giant gift over the years immediately after the Great Recession – and that gift is now being taken back. The first and most obvious? China embarked on a frenzied infrastructure and real estate build out, in an effort to insulate itself from the contractionary forces that the Great Recession foist[ed] upon the world. This created a booming market for German capital goods exports. The second, and often overlooked, is the insane appreciation of the Japanese yen. The global financial market collapse engendered a powerful unwind of the so-called carry trade. As yen denominated debts were paid off, the yen rose by an astounding 35% versus the U.S. dollar *and the euro!*
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> In combination these two developments created a bonanza for German exporters. A market for their capital goods was booming. And their biggest competitor in that market, Japan, was suffering from a near 35% loss of competitiveness, due exclusively to the swing in their bilateral exchange rate. And as a bonus? Germany's motor vehicle exports to the U.S. compete mightily with Japan's car offerings. In the U.S. as well, Germany saw their competitive position leap, as the yen soared versus the euro. In combination, these developments allowed for a storyline of wunderkind German exporting companies, thriving due to home grown virtues.
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> But the world has radically changed over the past year. More to the point, both of the powerful currents supporting German growth have changed direction and the Tsunami is about to hit. How so? China's construction boom was meant to be a bridge. A three year

commitment, to allow healthy developed world growth to resume, and thereby engender a resumption of growth for China's export machine. China thought they were building a bridge. As it turns out, they have been building a pier. Investment excesses in China now require a sharp curtailment of growth. German exports to China are bound to fall. In addition, Japan, after suffering brutal economic performance at the hands of a soaring yen, is on a mission to sharply devalue its currency. The yen/euro cross peaked at 1.05, in late 2012. At that level the yen had appreciated by 35% versus the euro. Late 2012 through mid-2013 the yen plunged amid the first round of aggressive bank of Japan QE, erasing the lion's share of the climb. And over the past few weeks, with the BOJ surprise announcement of a second larger commitment to QE, the yen has resumed its swoon versus the U.S. dollar. And it is threatening to move lower still versus the euro.

Thus Germany now faces a world in which its locomotive, China boom, has been derailed. And its competitive edge has been blunted by a plunge for the yen. It could well be that Germany, in the quarters immediately ahead, will underperform the rest-of-Europe. Spanish and Italian exports to China are quite small. And Italy and Spain do not see Japan as a major competitor for markets.

The End of German Sanctimony?

What might this portend for European policy? Angela Merkel has stood her ground on the value of fiscal austerity. Bundesbank and finance minister proclamations call into the question the legality of a more substantial version of European QE. Belt tightening exhortations warmed the heart of folks in the hinterland – amid good German growth and with the jobless rate at an astoundingly low 5%. How firm will German officialdom sound, if German economic circumstances go south? Perhaps Germany will finally sound more like its southern neighbors, when its economy begins to look similarly distressed.

This week we saw Mario Draghi finally lose the inexplicable timidity he has shown in not instituting a European version of quantitative easing. (For whatever reason my speech recognition software always wants to interpret Draghi as "Druggie" – maybe because he's getting ready to push €1 trillion into the European blood system?)

I maintained in *Code Red* that as the yen fell Germany would eventually have to allow the European Central Bank to monetize, or they would see their export economy fall apart. Goldman Sachs now forecasts that the euro will be at $1.15 to the dollar by the end of 2015 and then weaken to parity by the end of 2017. It is at $1.24 today. Back in 2002, when the euro was at $.88, I was forecasting that the euro would rise to $1.50 and then fall all the way back to parity over a decade or more. And while my forecast is not quite as precise as Goldman Sachs', we are on the same page.

Every Central Bank for Itself

The Chinese central bank cut its interest rates this week in what will be a process of continual cutting, as they have to respond to the fall of the yen. My friend Joan McCullough speculates they would be better off going the route of Mexico in 1994 and simply devaluing their

currency, catching everybody off guard and making it too late to exit. Whatever the process, this is going to create massive problems in China, which we have touched on in past letters and which my associate Worth Wray will deal with in depth next week.

The Bank of Korea recently cut its benchmark interest rate and lowered its economic forecast. Central banks all over Asia as well as the rest of the world have got to be having long meetings trying to decide their policy options. While the situation varies from country to country, most have no good choices, and that's before the unintended consequences kick in. I would really like to be a fly on the wall at the monthly meeting and dinners of the major central bankers in Basel at the Bank for International Settlements. Besides good food and wine, I would expect there would be some low-key fireworks served with the main course.

What we see starting is a cascade of competitive devaluations by central banks all over the world. This is like some old grade-B Japanese movie where Godzilla wreaks havoc. Eventually we'll have sequels in which Godzilla is portrayed as the good guy and battles all sorts of other monsters from around the world. Cue the Chinese dragons and European bears. King Kong anyone?

Seriously, the Fed Is Doing What?

As cynical as I am, and as much as I read, I manage to find new things that both surprise and disturb me on a regular basis. Joan McCullough sent me a link to a very insightful piece that appeared in the *Financial Times* a few weeks ago, which commented on the speech by Federal Reserve Vice Chairman Stanley Fischer at the recent IMF meeting. Ousmène Mandeng writes in an opinion piece entitled "The Fed has built a thorny central bank divide" (emphasis mine):

> Top Federal Reserve officials were careful to be seen to be understanding of the plight of lesser central banks during the International Monetary Fund's meetings in Washington last month.
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> **However, they may have unintentionally made things worse. By confirming their reluctance to assume greater international commitments, they underlined the divide between central banks that have access to the Fed's dollar swap facility and those that do not – in other words, between those with and without a Fed backstop.**
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> In an environment of record-low government bond yields, an indication of a scarcity of safe and liquid assets, it is likely to make a big difference whether or not a country has access to an unlimited source of dollar liquidity. Fed Vice-Chairman Stanley Fischer focused on the international transmission of monetary policies and the Fed's responsibility to the global economy. This appears to have been in response to repeated complaints, in particular from emerging markets, that highly accommodative monetary policy has caused a surge of capital inflows to their economies and made them unduly vulnerable to sudden reversals. The Fed acknowledges there may have been adverse spillovers from changes in its policy stance (such as the "taper tantrum"), and that a normalisation of monetary policies may bring further volatility. There is therefore a considerable premium on access to dollar liquidity. Mr. Fischer merely offered that the Fed will "promote a smooth transition by

communicating our assessment of the economy and our policy intentions as clearly as possible". **At the same time he stressed that the Fed is not a "global central bank."**

The Fed is effectively a global central bank, but only for some. Recognising the importance of adequate dollar funding beyond its borders, the Fed extended temporary dollar liquidity facilities to 14 central banks during 2008, including to the central banks of Brazil, South Korea, Mexico and Singapore. Those expired in February 2010. In May 2010, amid renewed short-term dollar funding strains, the Fed reauthorised dollar liquidity swap lines with the central banks of Canada, the euro area, Japan, Switzerland and the UK; in October 2013, the Fed converted those into standing arrangements. This suddenly established a segmented dollar liquidity sphere.

Fischer's remarks echo a similar speech from a few years back by Ben Bernanke, which a number of the world's emerging-market central banks interpreted as saying, "Kiss off. We have our own problems to worry about."

(My co-author Jonathan Tepper and I laid out the very scenario that is playing out today in *Code Red.* In it we predicted that the developing currency war would start with Japan. We had laid out the rationale for that theme four years ago in our book *Endgame,* but then we were focused on Europe. Both books will help you understand the current environment. Seriously, I make very little when you buy a book on Amazon, but a lot of people think *Code Red* is a perfect primer for understanding our times. If nothing else, go buy a cup of coffee at Barnes & Noble and read the two chapters on Japan.)

The upshot of Fed policy is that we are likely to see a continued move into the dollar as a safe-haven currency, causing the dollar to strengthen against other emerging-market currencies and creating problems for dollar-denominated debt around the world. Shades of 1998. The demand for dollars at a time when the Federal Reserve is putting fewer dollars into the system (appropriately so) is only going to increase volatility in the currency markets.

But a global currency war is just the most obvious impact of what the major central banks of the world are doing.

Complexity and Collapse

Okay class, for those who want a little extra credit, I'm going to give you some extra reading and viewing. Lacy Hunt encouraged me to listen again to our friend Niall Ferguson's speech entitled "Empires on the Edge of Chaos" (Note: the introduction is 10 minutes long and can be skipped. You know who Niall is. And there is considerable Q&A at the end, so the speech itself is roughly 40 to 45 minutes. But the Q&A has lots of laughs, which makes it worth it.) Or you can read this article by Niall in *Foreign Affairs,* which has much of the same content.

I want to repeat the two quoted paragraphs that opened this letter, along with one more from the *Foreign Affairs* article. (Again, all emphasis mine.)

Great powers and empires are, I would suggest, complex systems, made up of a very large

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> number of interacting components that are asymmetrically organized, which means their construction more resembles a termite hill than an Egyptian pyramid. They operate somewhere between order and disorder – on "the edge of chaos," in the phrase of the computer scientist Christopher Langton. **Such systems can appear to operate quite stably for some time; they seem to be in equilibrium but are, in fact, constantly adapting. But there comes a moment when complex systems "go critical."** A very small trigger can set off a "phase transition" from a benign equilibrium to a crisis – a single grain of sand causes a whole pile to collapse, or a butterfly flaps its wings in the Amazon and brings about a hurricane in southeastern England.
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> Defeat in the mountains of the Hindu Kush or on the plains of Mesopotamia has long been a harbinger of imperial fall. It is no coincidence that the Soviet Union withdrew from Afghanistan in the annus mirabilis of 1989. What happened 20 years ago, like the events of the distant fifth century, is a reminder that empires do not in fact appear, rise, reign, decline, and fall according to some recurrent and predictable life cycle. It is historians who retrospectively portray the process of imperial dissolution as slow-acting, with multiple overdetermining causes. **Rather, empires behave like all complex adaptive systems. They function in apparent equilibrium for some unknowable period. And then, quite abruptly, they collapse.**

The single most commented-upon letter that I have written was called "Fingers of Instability." Longtime readers know it well, and I would suggest new readers take the time. It contains extremely important concepts for understanding why financial markets can advance smoothly for so long, and then all of a sudden there is chaos. The fingers of instability distributed throughout the sand pile of the global economic system end up getting triggered by some event that may in itself be quite minor. Yes, there are many factors contributing to an unstable global sand economic pile (think massive global debt, wanton overleverage, mischievous central banks with immoderate views of their importance, etc., etc.), but it only takes that fateful final grain of sand, dropped on just the right spot in the pile, to bring the whole thing cascading down.

What Niall is talking about is something that goes far deeper than another financial crisis like the one we recently experienced. What he is pointing out is that countries in financial distress are more constrained than normal in their actions. They have less ability to respond to crises. And some countries in crisis react in very unpredictable ways. Let's talk about a second-order problem stemming from the fact that Japan is doing what it feels is necessary to keep from suffering a deflationary collapse. Understand, I'm not being critical of the Japanese for taking the actions they have, because I simply don't know what other choice they have. That's what makes their situation

so difficult.

Japan's major economic competitors – Germany, Korea, and China – will all have to respond, or their businesses will lose competitive advantage. Okay, we have seen large-scale currency movements all our lives. We adjust. That's what businesses do.

Except, China and Russia have just signed an agreement for Russia to export rather massive amounts of energy to China, and they will take payment in yuan rather than dollars. A yuan that is going to be falling in value against the dollar as China responds to Japan.

In an ideal world for Russia, the Russian central bank would simply take the Chinese currency and add it to their reserves. But that would trigger a rather large "oops" that was not in the equation when they signed that deal. The yuan they are going to get is going to be losing value on the international market, and Russia is going to need hard currency (i.e. dollars) to pay down its large dollar-denominated debt and buy equipment to maintain and increase its ability to produce energy. And that equipment is generally sold in dollars and not in renminbi.

Couple that situation with the real potential for oil to go below $70 and Russia would have significant budgetary problems. And as David Hale pointed out recently in a private letter, if the US and Iran actually settle their differences over nuclear armaments later this month and sanctions are lifted, that could bring another 1–1.5 million barrels of oil a day onto the world energy markets. (He suggests it would have the same effect as a $400 billion global tax cut.) Mexico is committed to increasing its output, as are other countries, including the US. Sub-$70 oil is not out of the question, and in a global recession we could touch $50 easily. And while that would be good for consumers everywhere, it would certainly put a strain on Russia and other oil-producing countries. In fact, the scenario portends a major crisis for Russia.

And while we're not as worried about Venezuela or other smaller oil producers, Russia is a potential problem, simply because it is so unpredictable. As noted above, the Japanese population is willing to take a great deal of pain. I don't think we can say the same thing about the Russians at this point.

There are some geopolitical thinkers I respect who argue that all this could trigger a regime change in Russia. And others who argue that it will make Vladimir Putin even stronger and that he will want to double down on his policy of destabilizing Ukraine sooner rather than later. Putin does not strike me as being willing to step aside in the manner of a Boris Yeltsin. I doubt he will go gently into that good night. He is a wildcard on the geopolitical stage.

Russia has been willing to let the ruble fall rather precipitously rather than supporting it with their dollar reserves, which they are saving for other purposes. Even though the Russian economic situation is deteriorating due to sanctions, the Russian people have so far seemed to tolerate the downturn. As noted in last week's *Outside the Box,* the West in general and the US in particular are blamed for Russia's woes multiple times daily in the Russian media. Given the unpredictability of the current Russian leadership, there is simply no way to guess the outcome. That should make you nervous.

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The Fragile Eight

The 2008 crisis demonstrated that the global economic system is far more connected than most imagined. There has been no real deleveraging since that time as nations everywhere have doubled down on deficits and debt. European banks are just as leveraged to sovereign debt as they were before the crisis hit.

The recent Geneva Report on global deleveraging highlighted what the authors termed the "fragile eight" countries of Brazil, Chile, Argentina, Turkey, India, Indonesia, Russia, and South Africa as an "important source of concern in terms of future debt trajectories." China and the "fragile eight" could find themselves in the unwanted role of hosts to the next phase of the global leverage crisis, it warned.

The accumulation of household, corporate, and government debt in both the emerging and developed worlds has been made all the more troubling by stubbornly low and slowing growth rates. The global capacity to take on more debt is rapidly diminishing because of the combination of low growth and low inflation, if not outright deflation, that we are beginning to see in major countries.

There seems to be a stubborn unwillingness on the part of authorities to recognize the problems that come along with swelling sovereign debt. We are coming ever closer to the point at which countries are going to have difficulty raising debt at interest rates that makes sense, absent the ability to create a shock and awe campaign like Japan's. And few countries (actually, none come to mind) have the ability to monetize their debt to the tune of 200% of GDP, as Japan is setting out to do, without causing a dramatic currency collapse.

I have this argument all the time with fellow analysts. I get that "austerity" in a deflationary or even disinflationary environment is not exactly pro-growth. And if a country's debt is low and there is growth, then you can get away with increasing debt. But there is a limit to the amount of debt that a country can take on, and we are approaching it in country after country. This trend is not good for global economic growth or stability. The second-order unintended consequences, such as those Niall describes, are very difficult to contemplate.

The world is not going to come to an end. I will be writing this letter and hopefully you will be reading it in 10 years. But economies and markets are going to get more fragile and volatile in the meantime. This is not the time to be a full-throated bull in the equity markets. And given the potential dollar bull market, there is going to be pressure on most commodities. Corporate debt, especially high-yield debt, is priced for perfection. When I look out over the horizon, I simply don't see perfection. At a minimum, you should not be long high-yield debt. And if you're running a business, you should get all the debt you can, even if you bank the cash, at today's low rates for as long a term as you can get it. Take advantage of this unbelievably forgiving debt environment.

Let's close by singing along with the last few lines of Fogerty's song again:

Hope you got your things together,
Hope you're quite prepared to die.

Looks like we're in for nasty weather,
One eye is taken for an eye.
Well, don't go 'round tonight,
It's bound to take your life.
There's a bad moon on the rise.

It may be slightly more hopeful to say, "Hope you got your hedges together, hope you're quite prepared for a bear market." Until next week…

Home for the Holidays

Here comes my favorite holiday of the year, Thanksgiving. Last year some 50 friends and family gathered as I spent the day cooking for everyone. I even made cakes and other sundry items the day before. Sadly, I can't do pies or decent yeast rolls. The good news is, there are plenty of bakeries that will supply me. Along with prime rib and turkey and lots of other stuff, I generally cook between 7 to 10 pounds of mushrooms (with two different sauces), and it is a rare year when there are any left. So here – for the first time, and I know you have been patient! – I shall reveal the secrets of one of my mushroom recipes.

I start with perhaps 4-5 different types of mushrooms, depending on quality and availability, but I try to find baby portobellos and shiitakes to add to the mix. While it is heresy to some, I remove the stems. I slice the mushrooms in large pieces, leaving the small mushrooms whole. I chop up a large sweet onion and simmer it in a stick (or two) of butter in a very large frying pan. If you can get Kerry Gold butter (salted) from Ireland, it really does make a difference. When the onions are soft, start adding the mushrooms along with a very high grade of olive oil. Don't use the cheap cooking stuff. Seriously, we're talking gourmet here. Since I am working with a very large frying pan of mushrooms, I typically add another stick of butter in the process. Somewhere in the process I add whipping cream. (No, this is not heart-healthy. Your arteries will clog just watching me cook it.) Then I add a generous portion of a good Chardonnay (don't do cheap wine!). I probably use about half a bottle. Try to find a very buttery, oaky Chardonnay.

I like to chop up a generous amount of fresh rosemary and toss it in, and I add lots of fresh-ground black pepper. The "secret" seasoning is Cavender's Greek Seasoning. (Cavender's is my all-purpose seasoning for just about everything.) Depending on your taste, brown sugar can give the mushrooms a little extra flavor. Last year, for some reason, we didn't have brown sugar, so I used real maple syrup, not the imitation kind. I'm talking the purest stuff. I may go with that again. The crowd seemed to like it.

Add garlic to taste. And of course salt. Depending on what I am serving the mushrooms with, I might add a little Worcestershire sauce or Liquid Smoke. Whatever excess sauce the mushrooms have not soaked up makes an excellent gravy for the prime rib or smoked turkey (on holidays I serve both). This makes a relatively sweet and savory pan of mushrooms, whose sauce is distinct from the other brown sauce I prepare (with red wine, aged balsamic vinegar, LOTS of garlic, etc.). Both pans disappear quickly.

Sorry, I don't have exact measurements. I cook sort of like I do economics – I just go with

what feels right. Over the years my cooking, at least, has improved. I'm not so sure about my economics.

It's time to hit the send button. I'm taking some of the family out to my friend Monte Bennett's ranch in East Texas this afternoon, where we will enjoy seeing the variety of exotic game he has, and some of the kids will go wild pig hunting. While that may sound a little brutal to some, feral pigs are a serious and very destructive pest in much of Texas. There are some 2.6 million of them. They can destroy a farm or golf course almost overnight. They cause an estimated $500 million a year in damage in Texas alone – about $200 per pig. To say they breed like rabbits is an understatement. A sow can have 20 to 25 piglets a year. Some counties have semiannual pig hunts. Even if you kill 70% of the pigs in a region, the remaining ones can have piglets fast enough to replace all those lost in just 2½ years. It's a constant battle, and lately it seems the pigs are winning.

They are wily creatures and come in all sizes and shapes. As big as they are, it is hard to find them. This article from *Scientific American* will give you a little color on the issue for those who might object to killing pigs. As you can see from the picture below, we are not talking Bambi or cute little Babe from the movie.

And while I doubt that I will personally kill anything, the kids will have fun. It's not that I object to killing a feral pig; it's just that I can't hit the broad side of a barn. (I'm more dangerous to my fellow hunters.) And you have to hit these big suckers dead on to drop them. Otherwise you just annoy them, and they get dangerous. An adult boar can be a *very* dangerous animal – those tusks aren't just for show. They can and will kill dogs and other animals that you want to keep alive. Monty has a ranch full of exotic sheep and deer (some 30-odd breeds) from all over the world (as well as the odd kangaroo), and he would like to keep them healthy. Call it an odd type of community service.

Have a great week. And even if you aren't in the states, get with some family and friends,

enjoy a special meal, and count your blessings.

Your going to ignore his diet on Thursday analyst,

John Mauldin

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