Wealth through ingenuity.

On My Radar

October 25, 2012
By Steve Blumenthal

As I dive through a broad range of independent research each week, following are several ***bullet points*** I found important: This weeks focus is on Currency Wars and Inflation.

- **David Stockman - Fed arrogance (video)**
  http://rt.com/programs/capital-account/david-stockman-fed-arrogance/
  Now that the Fed has announced QE3 and Japan announced QE8, Brazil is threatening defensive measures and bringing talk of Currency Wars back. Capital Markets interviews David Stockman, former director of the Office for Management and Budget during the Reagan administration, about the malignant effects of Fed policy and lack of market-set interest rates.

  "The Fed and the lunatics that run it, and I use that word advisedly, are telling the world untruths about the cost of money…" David Stockman. Fast forward to the 1:04 minute mark to get an understanding of how things work and the mess we are in.

- **Currency Wars are escalating – James Rickards on Bloomberg (video)**
  http://www.bloomberg.com/video/rickards-likes-euro-on-u-s-dollar-europe-outlook-gxYjMCqwR1WUTvu4zMWzGg.html
  The big point to me are his comments around China's desire to diversify US dollar assets. The inflation Bernanke is creating is going abroad but it will come back to US in the form of higher commodity prices. I continue to believe more inflation is on the way. The seeds are planted, watered and starting to bloom. I believe it will start slowly, then hit us suddenly.

- **WSJ 10-22-12 QE3 Side Effects: Asian Policymakers Fight Back -** http://www.cnbc.com/id/49499309 **and China vs. the World: Trade Spats Mount and Spread -** http://finance.yahoo.com/blogs/breakout/china-vs-world-trade-spats-mount-spread-140905060.html
  While some might think this terse talk is bilaterally limited to relations between Beijing and Washington; the reality is, China's trade turbulence has taken on global proportions.

- **Jim Grant (video)**
  http://rt.com/programs/capital-account/jim-qe-infinity-great/
  Capital Account's guest, Jim Grant, founder and publisher of Grant's Interest Rate Observer, talks about the global unintended consequences of Federal Reserve policy post-QE3, or what he calls 'QE to infinity.' Hint: It is about the looming threat of runaway inflation.

- **Trade Signals – Note: Sentiment is Neutral and declining**
  On sentiment and risk management, my thinking is that long-term equity exposure should be hedged at points of Extreme Optimism and removed at points of Extreme Pessimism. Currently, sentiment has moved from the Extreme Optimism (Bearish) zone into the neutral zone. **You can access sentiment charts in the piece I publish every Wednesday on our website called "Trade Signals" www.cmgwealth.com or here.**

To be clear on my inflation position, I believe inflation is coming and represents perhaps our single greatest secular risk. The Fed is out of control, the EU, Japan and China are printing and Currency Wars are developing. Inflation is real in Brazil, Hong Kong and other parts of the world. I believe the debt deflation environment we face today will move to a secular period of inflation. It is On My Radar.

In next week's Blumenthal Viewpoint I'm going to share my ideas on how to profit in the period I see ahead.

I hope you find this information helpful.

With warm regards,

Steve

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PS: When I look at the world, I try my best to view it from a probability perspective. I read endlessly and have access to some outstanding hedge fund and independent investment research. Fortunately, if you dig deep enough you too have access to a great deal of information on the internet. This certainly wasn't the way it was in 1984 when I started in the business.

I believe we are in a challenging low return environment and that most individual investors hold higher return expectations; those expectations will not be met and investors will seek a better solution. I see an unprecedented opportunity for you to grow your advisory business.

With this piece I try to share some information that I have found to be important. To me the evidence is clear, but I most certainly could be wrong.

Whether I am correct or incorrect in my thinking, my overriding belief is that you can create and manage successful portfolios for the period ahead. This environment requires more work (mixing a diverse set of risk drivers and more active beta hedging) than exists in a secular bull market cycle, but also offers you the ability to separate yourself from the 98+% of your competition that is heavily weighted in the old 60/40 stock/bond construction model.

The good news is that the investment opportunity set has been greatly expanded and solutions exist. While risk is an inescapable companion in the investment process, I believe it can be quantified and minimized by expanding the asset classes you include in your portfolios.

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