

## Europe

The 2008 financial meltdown is still going on across the pond. Back in 2008, the consumer and the American banks deleveraged. That process is underway, it's not fully complete, but we're a long way through that process. In Europe, they're in the midst of now facing the reality of what a welfare state gets you. They've had stagnant economies, out of control and intrusive governments and far too rigid union dominated work rules for decades. The pain they're currently feeling is a necessary deleveraging of government stupidity. This will put real pressure on European financial institutions and any other entity with great exposure to those credits. Once this deleveraging is complete, this process will help recalibrate and reignite the European economies, but as it unfolds there will likely be a few moments while we're all holding our breath as we all wait and see which way it plays out.

In the coming weeks and months we're approaching crunch time for the Euro zone to truly address their issues or just let it break apart. If they can address these issues, find true fiscal and political unity and calm the markets, things will quickly resume to normal but it'll induce a pretty big European recession. Will that spread to us is the big question. If they cannot, the Euro will crumble, but the ensuing drama will likely be much less spectacular than what everyone is bracing for. Plans are already being laid for this possibility as the political will is very weak globally. This is purely a political problem; it has nothing to do with economics.

This path wouldn't be the worst thing, it would be scary and would require a lot of adjustment to go back to individual currencies, but would also allow for each country to work out its own issues independently, which would go much quicker than having to agree with 16 other groups of politicians. At this point it appears the problem isn't limited to Greece or Italy, but has spread throughout the region. It is also possible at this stage of the process that the Euro doesn't survive its current form. Whether it

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## Rare Earth Metals

People commonly think of gold when we speak of rare earth metals. In the grand scheme of things, gold isn't all that rare. Let's compare gold to Rhodium – for each ounce of Rhodium that is mined in a year 114 ounces of gold is mined. That is a mind boggling difference. Funny thing about this difference is they're currently trading for about the same price. Gold is currently running at around \$1700/oz. while Rhodium is also very close to that level. You'd think an element that is over 100 times rarer would be priced exponentially higher. In 2008 Rhodium was \$10k/oz. This is another thing for us to think about, is it there have been new discoveries of this material or is demand falling off that much? Gold is priced today more as a hedge against inflation and a fear tool, where these other elements are actually used to manufacture products. Gold is in jewelry and high end electronics, but is priced outside of its use so there is a difference in the comparison.

There are a plethora of metals that are rare and used in various things. We have Neodymium that is used in cell phones; the price of this metal is down 22% this year since July. Cerium is used in flat screen monitors, it's down 47%. Lanthanum is used in electric cars and it's also down 47% on the year. The rare earth group of elements has 17 members in the family and unlike gold; they don't trade easily via an ETF or another liquid financial tool available to the masses. Trading in most of these commodities is limited to a number of transactions between bigger players in the commodity space. These rare elements have seen the biggest run up in recent years of virtually anything out there, some of them seeing price increases of 30 fold.

Now they're coming down to earth as global growth forecasts are cooling off and consumption of everything is expected to slow or contract. This forecasting business is a funny thing. Last time oil peaked in 2008 the forecasts were that US oil consumption would grow every year and oil prices would continue to climb indefinitely and we'd soon run out of oil. That didn't happen and then oil prices fell off a cliff. They're back on the climb but for different reasons and it's yet to be known how long lasting the climb will last. We've also discovered a lot of domestic energy sources so that too plays in to the equation.

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### Europe (continued from page 1)

breaks up completely, kicks certain countries out of membership, adds countries, etc. has yet to be seen. How ironic that just six months ago people all across the world were saying the U.S. Dollar will no longer be the reserve currency and the Euro may overtake it. In the investment world, memories and emotions are very short. In a surprisingly short period, this European debt process will be behind us and we'll all be worried about something else, likely something much less systemic in nature. There are always problems in the world so do not allow a set of problems to discourage you, there are always opportunities commensurate with the problems of the day.

As Europe plays out, think of the worst case scenario and the Euro breaks up and each country goes back to its own currency. That'll be a bad day, week or month as it unfolds, but everyone in those countries will continue to live as they do now, they'll just change how they run governments as their access to the capital markets will have changed dramatically, with many countries paying what they should pay for capital based on their spending habits. This is how the system should work anyway; the Euro has given spendthrift government's access to cheap credit on the backs of other nations. That is like the person with too much credit card debt borrowing on my credit history because we're related. That will never happen for individuals so it shouldn't for countries either. Should the Euro breakup happen, watch how quickly their governments learn to become efficient and dump asinine policies. This outcome could be a blessing for the world as it would put terror in the eyes of politicians worldwide to start working smart instead of continuing down the current path to the abyss.

This is where people are missing the boat; too many people are just looking at the problems. I'm fully aware of the issues, but also looking at the opportunities out there today. Even though we're really defensive right now and watching events unfold seeking the right opportunity to exploit, we're simultaneously looking at opportunities we haven't seen since the bottom of 2008, some even better than then. When the tide turns as it always does, there will be great gains to be had for those not paralyzed by fear and who can see the most likely outcome.

There are businesses now trading at going of business valuations that certainly will not go out of business. Some will go out of business, so great care must be taken here. There are also huge multinationals that are trading at the best prices we've seen in 30 years due to the European turmoil. Some of these global dominators are being punished simply because of where they are headquartered. Turmoil is our friend, embrace it, we cannot control it but we can profit from it.

This will likely go down in history as the biggest storm in CT on Halloween ever. Not only is this my daughter Samantha's birthday but the date of our monster storm that took Connecticut off of the grid for the better part of two weeks. We were warned by the weather folks that this would be a big snowstorm on a typically dry or rainy day, but boy what a whopper it was. Syracuse is used to getting snow and rough winter weather on this date, Connecticut is not.

We woke up to almost 2 feet of snow and the inability to get out of our driveway. We were lucky, we only lost 7 trees and had no damage to our home and thankfully, we have a generator. I never fathomed power would go out for 75% of the state and remain out for the better part of 10 days for many of us. For the first few days, there were so many tree's down, we couldn't travel our road, a few neighbors and I were out and about on our road with our machines clearing trees off the road so the utility crews could eventually get in to restring the wires. There were some we couldn't move, and others were hung up on the trees and phone lines, so for about a week or so our road was a one lane road with a plethora of road blocks to drive around.

It was amazing to see the neighborhood troops pitching in and how friendly people suddenly become when a disaster is at hand. For the first few days of the storm we had difficulty buying gasoline for our cars, generators and other machines. I witnessed gas lines where you had to wait an hour for the privilege of buying petrol, something we haven't seen since the early 70's. Being the impatient fool that I am, my theory was to buy gas at midnight where there would be no wait. I was wrong, but the wait was only 5 minutes so it was worth my while. Thirty miles south in New Haven County the world was perfectly normal, it's amazing how compartmentalized our world still is.

We didn't have electricity or phones, but the television worked fine, thank-you Direct TV! Even our cell phones were out, to my surprise the cell towers only have 40 hours of backup on them. It was a blessing in disguise to be turned off from the never-ending blaze of technology. Cup was in heaven, I wasn't tied to a phone or a laptop for 10 days as they were completely useless. I've since stopped the alarms whenever an email arrives and just watch it every few hours to be available to you. That has really added to our quality of life and I'm thankful to have it out of the storm.

It was a joy to be in the dark for a while and we were fortunate to have a lot of friends and family over taking showers and getting hot meals. If you tried to contact us during the first 2 weeks of Nov and haven't heard back it's because we didn't get your message or emails so please reach out again and we'll be happy to help. ☺

## Noteworthy News!!!

- Congratulations to Ben Camerota on his new job with Nerac! ☺
- Congratulations to the Motoh/McCann families on the birth of baby Josephine! The first princess in the family! ☺
- Congratulations to the Scarpelli family on their recent move south to sunny Florida!
- Congratulations to the Drozd family on their recent move west to sunny Arizona! ☺
- Congratulations to the Palermo family on the purchase of their new home! ☺
- Congratulations to All About You Home Care Services for earning inclusion into the 2011 Home Care Elite!
- Our condolences to the Place/Long/DeGaetano/Bobey families on the passing of Jeanette, a wonderful woman, wife, sister, mother, grandmother, aunt and friend.
- Our condolences to the Opinsky family on the passing of Phyllis, a wonderful woman, wife, sister, mother, grandmother, aunt and friend.
- Our condolences to the Berg/Famigletti families on the passing of Rocco, a wonderful man, husband, father, grandfather, uncle and friend.
- Our condolences to the Maddalena family on the passing of Betty Ann, a wonderful woman, wife, sister, mother, grandmother, aunt and friend.
- Our condolences to the Stager family on the passing of Robert, a wonderful man, husband, brother, father, grandfather, uncle and friend.
- Our condolences to the Shedd/Rivera families on the passing of Arthur, a wonderful man, husband, father, grandfather, uncle and friend.
- Our condolences to the Arigoni family on the passing of Frank, a wonderful man, husband, father, grandfather, uncle and friend.

## Question & Answer

Ask any financial question you have and we'll address it here.

*Q: Why can companies bill my phone bill for services and products?*

This is a great question and it is known as cramming. There are a plethora of firms that have gotten into bed with phone companies (utility providers) and they can bill for their wares through your phone bill. This is arguably the most highly complained about practice from consumers. The issue boils down to consumers not really paying attention and reading the details. Nobody wants to read anymore as the details are in a 2 font — (that little blurb are the words 2 font, in an actual 2 font size) not to mention very long and boring to read. If you ever can't sleep, just read a legal disclosure and you'll be out in 5 minutes. They're working on new rules to make cramming more difficult so that should ease some of the pain in the process. The key is to be aware and be diligent; there are lots of firms out there trying to separate you from your money so it's up to you to keep the defenses up and yourself safe. ☺

## Rare Earth

*(Cont'd. from page 1)*

There is a lot of interest in rare earth materials as they go in products all across the world that we all covet and use, some of which are sensitive to government operations and security concerns. Yttrium is used in fluorescent lights, Europium in cockpit displays, Gadolinium in night vision goggles and MRI machines and Neodymium is also used in wind turbines. All types of these metals are used in computer and battery applications worldwide. They range from hard drives to processors to polishes for flat screens.

In an effort to artificially keep prices high, we see China stopping production of about 50% of the world's annual light rare earth material production. China's state owned mining operation owns about 50% of China's mining capacity so they can shut it down easily. There are hundreds of smaller mining companies across the country where the government has much less and fractured control of production and there is a different tactic for them. The Chinese government is issuing new rules and mandating inspections and permits for materials that have been mined for decades. If a firm fails to follow the rules, the Chinese government may simply come in and confiscate the materials. China is in so many ways like the Wild West was here many years ago.

This effort to rally falling prices is manipulative, period. They claim they're balancing supply and demand, which has some truth to it but rather than let prices naturally find balance, they'd prefer to keep them high. This manipulation is similar to how they keep their currency undervalued against ours, to make their exports cheaper on the global stage. This seems to be their way, but it's worrisome over the long term.

Prices will find balance in the markets, the more governments try to influence prices, the longer it takes for reality to set in and prices to do what they're going to do based on market metrics. This also sets the stage for bubbles and collapse. The last time we saw this was when our government decided that subprime mortgages were necessary to give low income people the ability to buy houses they couldn't afford. They mandated banks offer subprime mortgages and pushed them through Fannie & Freddie. We all know where that went, but if the government hadn't intervened and just allowed the market to do its thing, underwriting would never have deteriorated and we'd have never had the housing bust.

Most of us never hear about these rare earth materials as we don't interact with them directly. We use the products they're used in or used to produce. So many people today are dependent on these things it's something to be familiar with. We all use a computer, cell phone and a battery today so it's important to us all how this system works. Not all of us use electric cars but we do count on electronics so much these metals are a very important part of our existence. It's important we have a steady, even supply of these materials until alternatives are found.



## Money Quiz

What is the translation of unemployment rate to actual jobs? As of Nov 2011 the unemployment rate is 9.0%. If the unemployment rate goes down 1%, how many Americans go back to work? We did not have a winner on last month's quiz.☺ The average rate on a 30 year fixed rate mortgage today is 4.12%, a long way off from the 18.45% in Oct of 81! The winner will enjoy a meal on us at Ruby Tuesday. ☺ 11/28/11:9

## The Political Folly

The pain we're all feeling today with the global financial gloom is purely politically induced. If government were judicious with its spending of our money, we would never have arrived at this point. It's politicians not being adults and bowing down to political pressure from unions, special interest groups and other powerful lobbies to spend money we don't have to make promises to get elected or re-elected.

This is a hard trend to reverse, but it needs to be done. We have a system of global politics that is paralyzed by complicated laws and powerful lobbies. When anything is to be cut, you hear outcries from whatever fact is impacted by the cuts, regardless of how necessary they are. We have a fundamental problem where governments are spending more than they're taking every year in and it's escalating as time unfolds. Projections show the problems going away with economic growth, but that is a pipe dream.

A perfect example comes locally at Bantam Lake. The state has been at war with the town of Morris for an annual \$25k stipend to help with the boat launch operational costs. This wasn't possible because the state is broke so the boat launch closes. This all happened over the past few years. Now suddenly the state has about \$2,000,000 to buy a private business across the lake to turn with plans to turn it into a new boat launch. They could have paid 25k for 80 years and not removed a tax paying business from the tax rolls. The state doesn't need another property to maintain either. This is just another example in a long line of pure stupidity in government finances.

Here is a simple example of our federal government's budget this year:

U.S. Tax revenue: \$2,170,000,000,000.00  
Fed Budget: \$3,820,000,000,000.00  
New Debt: \$1,650,000,000,000.00  
National Debt: \$14,271,000,000,000.00  
Recent Budget Cut: \$38,500,000,000.00

Now let's remove 8 zeros and pretend it's a household budget:

Annual family income: \$21,700.00  
Money the family spent: \$38,200.00  
New debt on the credit card this year: \$16,500.00  
Outstanding balance on credit card: \$142,710.00  
Total budget cuts: \$385.00, this is the magnitude of the problem with public debt and why the markets are so manic depressive lately. This is happening in Europe, all of America and in most of the developed world. It is painful; they're spending almost double the income.

## Time to Laugh

There is plenty to worry about today so here are statements intended to make you laugh. Enjoy! ☺

- If you don't read the newspaper you are uninformed, if you do read the newspaper you are misinformed, Mark Twain
- Suppose you were an idiot. And suppose you were a member of Congress. But then I repeat myself, Mark Twain
- I contend that for a nation to try to tax itself into prosperity is like a man standing in a bucket and trying to lift himself up by the handle, Winston Churchill
- Do not argue with an idiot. He will drag you down to his level and beat you with experience.
- A government that robs Peter to pay Paul can always depend the support of Paul, George Bernard Shaw
- You spend the first two years of a child's life showing them how to walk and talk, and the next 16 years to shut up and sit down.
- Giving money and power to government is like giving whiskey and car keys to teenage boys, P.J. O'Rourke
- Politicians and diapers have one thing in common. They should be changed regularly, and for the same reason
- I don't make jokes, I just watch the government and report the facts, Will Rogers
- The early bird may get the worm, but the second mouse gets the cheese
- If you think health care is expensive now, wait until you see what it costs when it's free, P.J. O'Rourke
- Talk is cheap, except when Congress does it, anonymous
- The only difference between a tax man and a taxidermist is that the taxidermist leaves the skin, Mark Twain
- Evening news is where they begin with "Good Evening" and then proceed to tell you why it isn't.
- What this country needs are more unemployed politicians, Edward Langley
- How can one careless match start a forest fire while it takes a whole box to start the campfire?
- We hang the petty thieves and appoint the great ones to public office, Aesop
- The sole purpose of a child's middle name is so (s)he can tell when (s)he's really in trouble
- We have enough gun control, what we need is idiot control



## Inspirational Quotes

- Now is the time, needs are great, but your possibilities are greater, Bill Blackman
- Be not ashamed of mistakes and thus make them crimes, Confucius
- To understand the heart and mind of a person, look not at what he has already achieved, but at what he aspires to do, Kahlil Gibran
- We must not say every mistake is a foolish one, Cicero
- Pep without purpose is piffle, author unknown
- Acknowledge that you failed, draw your lessons from it, and use it to your advantage to make sure it never happens again, Michael Johnson
- Never giving up and pushing forward will unlock all of the potential we are capable of, Christy Borgeld
- My life is my message, Mahatma Ghandi
- Only those who do nothing at all make no mistakes....but that would be a mistake, author unknown



**We can piece the puzzle together  
and make your money work for you!**



## Outworked!

Are we allowing our kids too comfortable of an existence today? We're blessed to live where we do and have what we have, mostly very comfortable and indulgent. A concern that is beginning to become apparent is that a lot of our youth have a feeling of entitlement and subsequent laziness. The world is a very competitive place and for those who are not willing to put in the blood sweat and tears, reality can be painful. Our youth are generally very smart and capable, idealistic but somewhat isolated from economic reality. Many of today's youth have never had a score in a sporting event as a child, were always told they were the best of the best in everything regardless of actual ability. These kids also were pushed to follow their dreams. All of this is important, as long as it's within the bigger context of reality and as long as they understand just how competitive the real world is. I fear many of our youth will not succeed simply because they'll be outworked by people who are currently struggling with poverty, those who emigrate here from places with no opportunity or even from people in foreign countries who stay there as the marketplace today is a global one. Make sure your kids have a work ethic so that they'll never get outworked, that alone will

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