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CMEFS WEEKLY INVESTMENT NEWS

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Hello and welcome to this week's edition of Investment News.

Before we go into this week's discussion, let's see how the CMEFS Flexible fund has done for the year thus far as compared to the All Share Index (ALSI)

Fund	Last week Thursday	This week Thursday
ALSI	-8.37%	-6.00%
CMEFS Flexible Fund	+1.02%%	+0.96%

The idea of the "great currency reset" was introduced in the general newsletter this week and I would like to take this idea a bit further in this week's edition of investment news.

As this topic was covered so thoroughly in a recent publication by Nick Hubble, for The Daily Reckoning Australia, I thought it would be useful to reproduce it (almost) in full below. Almost, because the original ran to 7 pages!

What I enjoyed was the validation of much of what I had arrived at quite independently in my thinking (who wouldn't? ☺) and you will see much of what I have spoken of in earlier newsletters in this recent article by him.

Here's the article.

After millennia of financial and economic strife, central bankers and politicians have finally figured it out.

There was never any need for recessions, bankruptcies, unemployment, or bear markets.

All you have to do is print and spend enough money to cure all such ills. There's an easy way out after all!

No doubt you're chuckling at the idea. But let me ask you this — how does the current delusion actually fail?

Where does this charade end? When does the music stop? What'll the reckoning look like?

Usually, that moment is triggered when someone stops paying their debts. That's what sparked the Subprime Crisis, the Asian Financial crisis, and countless others. Someone defaults, kicking things off.

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For a company to go bust, it needs to default on debt. That's the point at which things fail in our modern economy. Mostly because borrowing is part of almost every firm's operations these days. And borrowing does bring with it many benefits.

But in our modern post-COVID-19 world, things look very different.

Central banks and governments are keeping the firms that would go bust alive by helping them to roll over their debt. They can borrow more money to pay back the debt that comes due. So, they can't go bust.

This is great news, at first. The employees stay employed and the business survives. It's like a patient on life support.

But what's wrong with it? What are the negative consequences?

There are some obvious ones. Small businesses without access to central banks are in trouble.

But the real pain is outside the stock market. So, it matters less to central bankers, no doubt.

But let's think more broadly and simplify a little to expose something else. What I really fear, deep down.

If printing money and lending it out to every company at risk of failure is good economic policy, why haven't we been doing it all along? Why has anyone ever gone bankrupt? Why have we had recessions?

If you can keep companies going indefinitely, through any crisis, by assisting them to roll over their debts, which staves off bankruptcy, why not do so forever?

What is wrong with it? Where is the reckoning? I'm not sure. But there are a few possibilities worth exploring.

Part of the answer is a type of stagnation. Which is tough to explain.

The economy is constantly changing. Blacksmiths become welders and horsepower becomes a measure for combustion engines.

But what happens if you keep the blacksmiths from having to change? What if you encourage the horse-related industries to survive by rolling over their debts? What if nobody goes bust?

I think you get economic stagnation. You lose the efficiency gains and prosperity which the turmoil of the economy allows. And if resources aren't freed up, they can't be put to alternative and more productive uses. They can't be reassigned to make better things in better ways. Productivity stops going up — the source of GDP growth.

In a world like this, it's tough to find booms and economic gains. Because resources are being used for unproductive things — in attempts to prevent failure instead of allowing new booms.

So perhaps the reckoning comes in the form of poor economic growth. A bit like in Japan, where companies are kept on life support in notoriously odd ways.

Given my lockdown life consists of a steady stream of nursery rhymes for my newborn daughter— I can't help thinking about all this in terms of nursery rhymes.

Just as the 'Ring a Ring o' Roses' rhyme is about the Black Death, I can't help wondering whether the 'They all rolled over and one fell out' song is actually about a debt crisis. With bond markets rolling over and someone falling out.

The question is, who will it be? Who fails in a world where money printing saves all?

Top of the list of casualties is the value of money. If more of it is being printed, and it's being put to unproductive uses as described above, well that suggests stagflation. And that would be a reckoning! But there's another obvious way the reckoning could play out.

Before the system reaches its reckoning, it could be reset. And we could begin again, with a new system. This might sound obscure or vague. But it's so common historically speaking that it has a name — a currency reset.

A currency reset is what happens when the global financial system maxes out. That can happen in many different ways, depending on what the current currency system looks like.

In a debt-based currency system, as we have now, the amount of debt gradually rises until it is simply not palatable. We're at that point in much of the world. Hence the 0% interest rates and 100-year government bonds to forestall the problems this much debt creates. Once we hit too much debt, the world's leaders turn to a currency reset to rejig the system. More on what this means below.

Gold-based currency systems max out on trade deficits.

A common currency system, like the euro's, features a similar currency reset for the same reason — fixed exchange rates between those on the common currency.

For fixed exchange rate regimes, however, they're fixed, the reset comes in the form of a devaluation for those who are struggling.

Fiat reserve currency systems, as we also have now, tend to provide the reserve currency-issuing nation with an exorbitant advantage. But that leads nations astray over time as they abuse the advantage — it turns out to be a double-edged sword.

The prospect of losing the reserve status unceremoniously is a dangerous one. Which is what creates the need for a more ceremonious change in how the financial system works — a currency reset. Bretton Woods and the Nixon shock were examples of this.

All in, we had five or six currency resets in the last century, depending on how you count them. I think another one is drawing near. And it isn't just me.

University of Texas professor James Galbraith put it like this:

‘*So the whole financial system will have to be reset. This is not an ideological point but a practical necessity for re-establishing a functioning economic system*.’

He was focusing on the level of debt for his reasoning.

Do you see that a currency reset is a good thing? In the end, at least. It’s a tumultuous moment, but only because the existing system has run its course. The chaos would be worse if the existing system were allowed to continue to break down. That bodes hyperinflation, usually. Or some other breakdown. Instead, you can opt for a currency reset.

It’s a bit like board games. When you play Monopoly with your family, you don’t kick-off where the last game ended. It is reset back to zero each time. Otherwise, the losers would refuse to play.

The economist Galbraith is expecting a debt jubilee — huge debt forgiveness. Wiping the slates clean, as they call it. That’s what happened for thousands of years when economies hit their current imbalances, with too much debt. The Rosetta Stone records one such debt jubilee.

Another option, coming out of the IMF, is for its SDRs to become the global reserve currency instead of the US dollar. An SDR is like a bag full of different currencies, tied up and labelled ‘1 SDR’. They derive their value from what’s in them but can be used as a type of international money.

That’s plan A, as I see it. It allows an orderly transition away from the US dollar into a version of the world favoured by…is there a term for it which doesn’t sound kooky? Globalists, elites, internationalists…

What fascinates me is how quickly debates about currency resets turn into ideological ones. Gold bugs favour gold as a reserve currency. Patriotic Americans favour keeping the US dollar. Anti-Americans want a multi-polar world. Creative thinkers think it should be energy-backed, somehow. And crypto enthusiasts favour cryptocurrencies.

Perhaps it’s just a case of everyone talking their own book?

All international currency systems have an inbuilt bias in them. This leads to a tendency towards something — too much debt, persistent trade imbalances, reliance on institutions that can be co-opted, and much more.

This tendency leads them to be maxed out eventually as well. They’ll stop working eventually. And then we’re back to a currency reset again. That’s why they’ve always happened historically.

And we’re due one soon.

End of article

I hope you enjoyed the read. Until next time then, do take good care of yourselves. Kind regards, Nine, Charles, and the rest of the team at CMEFS.