A Rocket Full of Rocket Fuel

-J. Kevin Meaders, J.D, CFP®, ChFC, CLU

February, 2012—Welcome to the crazy world of 2012. If you had a chance to read my last missive, *Why We Are Bullish* (Oct, 2011), you will be happy to know that our opinion has only strengthened since then (you can find a copy under the Kevin's Newsletters tab of our website).

I know the media bombards you with negative news about Greece and the Euro. And why shouldn't they? With the media, the name of the game is exposure—they want more viewers, they want more readers, and they want those they have to come back again and again. More exposure translates directly into more dollars for advertising.

Perhaps you remember last summer when the government was in danger of shutting down because of Congress' failure to raise the debt ceiling? Or maybe you remember when the U.S. lost its AAA rating? Can you imagine the nightly news opening with "Wow, today everything was great. There's nothing new to report since yesterday. Why don't you just go enjoy the rest of your evening?" No, the simple truth is: *worried people tune in….regularly.*

When Greece seems in imminent danger of default, the market drops. When Sarkozy and Merkel meet in Brussels and announce another round of bailouts, the market rallies. When Merkel goes back to Berlin, gets chastised by the Reichstag, announces the need for more Greek austerity and then backpedals on the Brussels announcement, the market drops again. Aren't you sick and tired of this yet? I know I am.

Here's what's really going on: It's simple. Large European banks (and others) loaned Greece more money than they can possibly ever pay back. These banks (Greece's creditors) don't want to lose their money (imagine that). They want the European Central Bank (Europe's Fed) to guarantee the loans and make them whole—just like our Federal Reserve Bank did for Citigroup, Goldman Sachs, AIG, and others. Because the European Union is made up of many different countries with disparate cultures, the medicine (poison) has not gone down as smoothly as it did here.

[Speaking of, recent court-ordered disclosers by the Fed about the 2008 financial crisis show that Americans, on the other hand, were so misled and defrauded that while Congress was arguing over a mere $700 billion in TARP funds, behind closed doors and in secret, the Fed was actually expanding their balance sheet by more than $7 trillion[1], much of which went to overseas banks. Apparently, the Fed not only has license to print our money out of thin air, they can then distribute unlimited sums to their worldwide friends in secret and without any congressional or presidential approval. Nice.]

[1] NY Times, January 26, 2012

In any event, Greece is becoming more brazen in its attitude toward repayment and, of course, austerity measures are not at all popular with the Greek citizenry, if Molotov cocktails are any indication. All of a sudden, the naïve bureaucrats in Brussels have finally discovered the very obvious fact that a Greek peg will not fit into a German hole.

Any international traveler can testify that these two cultures—from economic, technological, educational, industrial, productivity and efficiency standards—are worlds apart. Fusing their currencies into one was hopelessly optimistic at best.

Thus, as I've said for well over a year now, Greece's default seems inevitable, and the sooner the better. Greece's default and exit from the European currency will mean a new start for Greece, free from debt, sound a wake-up call to the other PIIGS, and actually strengthen the Euro as a currency.

Despite what you hear on TV, the Euro is not in danger of crashing, the international financial system is not going to collapse, and Armageddon is not around the corner. In fact, as we expected, the news is quite promising.

Here's what's true: There is somewhere in the neighborhood of $10 trillion sitting idle in cash, just in this country alone. It's not earning much interest, if any. Investors (and companies) are skeptical because they've been burned twice—once after the dot.com boom/bust in 2000 and 2002 and again in 2008 after the real estate boom/bust and financial system crash.

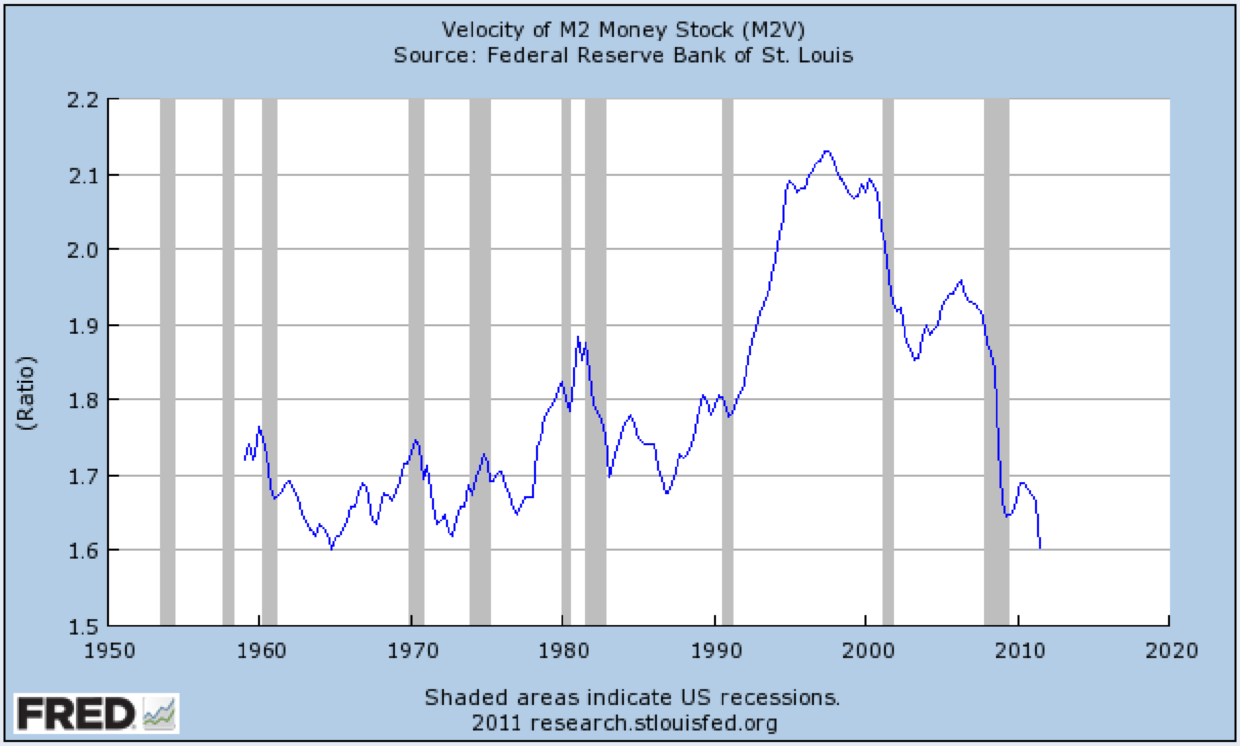
So the real question is: how long will investors idle in cash? From our study of history, we believe that sooner or later—as the market picks up—people will start to pour out of cash back into stocks, which will drive the market higher.

If you ask them, "what are you waiting for?" The standard answer is "I'm waiting for the market to calm down," or "I'm waiting for the market to act normal." If you drill down logically, you will realize that this mentality is self-defeating. In financialese, this translates to "buy high, sell low."

The fact that unfathomable amounts of money are sitting idle in cash underscores the significance of the chart below, which represents the velocity of money in our economy. Velocity can be thought of as the number of times a dollar is used, or turned over, in our economy.[2] I like to think of it as economic activity.

To me, the following chart is very revealing. Notice that our current level of inactivity has not been seen since 1964.

[2] Velocity also takes into account the size of the money supply, which would also account for lower activity, but not nearly to the extent experienced. Velocity is a ratio of nominal GDP to a measure of the money supply.



What does this mean? It means that money today is lazy; it's not doing much, even though the Fed has been printing it like there's no tomorrow. It means people aren't really investing—in anything…yet. I think of it as a rocket full of rocket fuel, just waiting to be ignited.

We think a reversal of this trend is simply inevitable. When even a third of the $10 trillion sitting in cash re-enters the market, the fuse will be lit. Velocity will increase, further stimulating the economy, which encourages more investment and so on and so forth. That is good news for stocks and the economy in general. And this will be great news for accounts at Magellan Planning Group, because we're already positioned to take advantage of the coming wave.

So Where Do We Go From Here?

In the big picture, whether Greece is bailed out or not is almost insignificant. If Greece defaults, the international markets will falter briefly until the world realizes that it is almost a non-event, the drama having been greatly exacerbated by the bondholders. If the Euro powers come together to restructure Greece's debt, nothing is solved; only postponed. In this event, "crisis fatigue" will eventually set in and the daily back and forth will fade into background noise much like the insurgency strikes in Afghanistan today.

I can remember when the first female Palestinian suicide bomber blew up a bus full of people after months of exclusively male bombings—the world was emotionally shocked, but the Dow was up over 260 points that day. I can see the crisis fatigue already setting in with regard to the Greek/Euro "crisis." Thus, the media will need to turn to something fresh. A conflict with Iran would do nicely.

About J. Kevin Meaders

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Kevin Meaders graduated from Oglethorpe University in Atlanta with a double B.A. in Philosophy and Political Science, and then obtained a law degree from Georgia State University College of Law, focusing on estate planning and trust law. He has earned the designations of Certified Financial Planner (CFP®), Chartered Financial Consultant (ChFC) and Chartered Life Underwriter (CLU). He holds a General Securities Principal and Registered Representative registration and Investment Advisor Representative registration through ING Financial Partners (member SIPC).

About Magellan Planning Group

www.magellanplanning.com

Magellan Planning Group was established in 2000 to provide a service uniquely tailored to the needs of our affluent Atlanta community. We concentrate on *personalized* retirement planning through tri-disciplinary coordination:

- Financial planning with our Certified Financial Planner™ to prepare a retirement plan that takes into account your needs and expectations. We are a fee only asset management firm with a $500,000 minimum relationship.

- Estate planning with our in-house Attorney-at-Law to determine and prepare the documents needed to minimize family liability and maximize privacy. (www.magellanlegal.com)

- Tax planning through a relationship with our in-house CPA to manage tax obligations throughout the year and prepare a tax return that takes into account current tax laws. (www.magellantax.com)

Our relationship doesn't begin and end with the preparation of a plan and the appropriate documents. We establish close personal relationships with our clients and their families and maintain those relationships through regular 'check-ups', market commentaries and educational Lunch & Learns.

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