

Something to Think About



OAKWORTH
CAPITAL BANK

COMMON CENTS

People have asked my opinion about a lot of different things this week, and with so much going on in the world around us, I have had a hard time focusing on one issue. There are simply so many. So, I have decided to do something a little different this week, and throw a bunch of darts against the wall to see if any stick.

Here goes nothing:

- This week, the largest Bitcoin exchange, Mt. Gox, filed for bankruptcy after announcing it had lost some 750,000 of its clients' Bitcoins, and some 100,000 of its own. Lost or stolen? Right now, from what I can tell, no one knows for absolute certain. You know, does it matter? Frankly, stolen would be almost preferable than lost, because it gives some kind of permanence to a quasi-currency that only exists in the ether. If someone steals it, it must be real. If it simply vanishes, did it ever really exist? Deep, huh? You know, I hate to say it, but it should sound some kind of alarm with someone, somewhere, when the largest Bitcoin exchange actually got started as platform for trading playing cards for a game called *Magic: The Gathering*. This is a 2010s version of the decidedly uncool, in my opinion, Dungeons & Dragons game which was sort of popular in my youth. Here is what Wikipedia has to say about Mt. Gox: *"The Mt. Gox website was originally founded by Jed McCaleb as an online exchange for buying and selling Magic: The Gathering cards, a popular trading card game. Its name was an acronym of Magic: The Gathering Online eXchange. McCaleb changed the site to a Bitcoin exchange, and as it began to take off in 2011, he sold it to Mark Karpeles. Under Karpeles' ownership, the site grew to handle 70% of the world's bitcoin trades by April 2013."* Listen, I am not here to tell you I am crazy about the use of intrinsically worthless paper currencies. However, I am even less fired up about a currency you can lose, or can be stolen without anyone noticing for years, and that trades on an exchange originally built for guys dressed up like wizards trading "magic cards." You can't make this stuff up.
- The situation in the Ukraine has gone from bad to worse, and a lot of people have expressed concern Western Europe and the United States haven't responded in some form or fashion. Why the United States has to respond to anything is beyond me. What would you have us do? Economic sanctions? Okay, the Ukraine is a pitifully poor country, which is almost irrelevant in the global economy. In 2013, the US exported less than \$2 billion in goods & services to that country, and imported a shade over \$1 billion. All told, our annual trading relationship with the Ukraine is equal to a little less than 5% of Bill Gates' net worth. So, is it worth it to the United States, or Western Europe for that matter, to "do something" when Russia would undoubtedly be less than thrilled? After all, the Russians have a lot of guns, soldiers, tanks, and nuclear weapons.

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The Ukraine is a long way away from the US, and Moscow, quite literally, has the capability to obliterate any troop convoy the US might attempt to otherwise invade or occupy the Ukraine. This isn't Syria, Iraq, Kuwait, or Afghanistan. This is an incredibly sticky wicket, which Washington wants no part of...for good reason. In the end, I fully expect the powers that be will negotiate a division of the country. Everything to the West of the Dnieper will be the Ukraine, and everything to the East will revert back to Russia, yes revert. Vladimir Putin could probably give a fig about Kiev, but he certainly cares about the Crimea and Sevastopol, where his Black Sea fleet is located. I, for one, sure don't want to go to war with the Russians over the Black Sea fleet, and no one else does either. That is why foreign governments have been mum about the whole mess, and the markets have ignored it.

- I went to the dentist this week, and we started talking about the future of healthcare in the US, as he has decided to go completely paperless in his office. We talked about insurers and Obamacare, and a whole host of other topics. I droned on about the lack of adequate supply of healthcare given our insatiable demand, and he touched on our litigious society and his belief many healthcare professionals game the system by ordering too many tests and charging too much. Basically, it was all subjective conjecture, substantive only to college students and others who haven't mentally graduated. However, one thing we did agree on was this: moving forward, if Americans truly want lower cost healthcare, they will have to get used to not having healthcare on demand. Period. It might take a couple of months to get an MRI, or 6-weeks to get the root canal. That sort of thing. We can make everyone have insurance all we want, where the rubber meets the road, if we honestly want lower costs, we will have to expect less access.
- Last week, we entertained some clients over a happy hour at a legitimate, local brewery here in Birmingham. This wouldn't have happened a few years ago; frankly, it couldn't have happened, because there really wasn't, what I would call, a true brewing industry in the state. Yes, there were a couple of brewpubs, but they produced average beer in some quantities. However, the State changed some laws in 2008-2011, which has led to something of a brewing explosion across Alabama, but particularly within a 60-mile radius of the Birmingham metro area, in terms of volume. Here is what Wikipedia has to say about "Brewing in Alabama": There are twenty-four active breweries in Alabama, a U.S. For much of the 20th century, and until the law was changed in 2009, beer with an alcohol content greater than 6% (alcohol by volume) was unlawful in the state, primarily due to Prohibition-era laws remaining un-repealed. The Brewery Modernization Act was signed into law in 2011, reforming many former restrictions on breweries' ability to provide a tap room and restrictive regulations regarding brewpubs. The Legal ABV limit of beer in Alabama is currently 13.9%. According to *The New Yorker* when discussing beer production, "from 2011 to 2012, annual production grew faster in the South than just about anywhere else, with the fastest-growing producers including Alabama (first out of all fifty states)..." While you have to take Wikipedia cites with a pound of salt sometimes, consider that last line: Alabama has the fastest growing beer producing industry in the US, according to the *New Yorker*. That is saying something: imagine what can happen when government gets out of the way of industry. Further, from the goodpeoplebrewing.com website: "Good People is now enjoyed by folks in Alabama and Tennessee, most of whom we don't actually know yet. And, according to BeerAdvocate, a leading voice in the beer community, the four highest-rated beers in the South are ours." Remember, this industry didn't even exist in Alabama a couple of years ago.
- For anyone who still harbors fantasies of a socialist utopia, please consider the events in Venezuela. Despite the world's largest proven oil reserves, the country seems to be on the verge of collapse. Inflation is through the roof, and consumers can't find basic necessities. The government restricts the flow of capital, and the official exchange rate for bolivar/US dollars is about 10% of the black market. Given the price controls on many consumer items, producers, wholesales, and retailers have to sell their wares for less than what it costs to either make or import them. Voila. How did this happen? But this doesn't compute, does it? If Venezuela has all this oil, it should have plenty of dollars and foreign currency reserves, right? It

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should, but the mandated price for a gallon of gasoline in that country is about \$0.15-0.20. You read that right. Then Hugo Chavez bartered oil for good & services the country didn't readily produce. For instance, it trades oil to Cuba for medical and military expertise. Then Chavez nationalized many, if not most, industries, severely discouraging foreign investment. As such, Venezuelans can't get their money out of the country, and no one wants to invest there because they can't make any money (due to price controls) and the threat of the government simply taking the investment. As a result, get this, the Venezuelan economy has fallen in US dollar terms a whopping 63% over the last 5 years (3Q 2008—3Q 2013); that is a massive decline in Purchasing Power Parity, no matter what the powers that be in Caracas has to say....which often sounds something like this (from the 11/11/2013 USA Today): "This is for the good of the nation," Maduro said, referring to the military's occupation of Daka (an electronics retailer). "Leave nothing on the shelves, nothing in the warehouses ... Let nothing remain in stock!" Now, that, my friends, is what socialism truly sounds like, not what the pseudo-intellectual idealists in this country say.

- This week, US Defense Secretary Chuck Hagel announced plans for a smaller US military moving forward, with greater emphasis on technology and less on actual troops. From a purely economic standpoint, if the US spends more money on technology and less on salaries than it does currently, this could actually be additive to the GDP equation of $C+I+G \pm \text{Net Exports}$. Huh? Yeah, for GDP purposes, procurement ends up in the G, and paychecks don't; they end up back in C. However, this isn't going to happen overnight, and the Pentagon is going to let this happen by attrition in our overseas deployment. For example: currently, the US spends more than South Korea does in protecting South Korea, despite the fact South Korea has twice the people of North Korea, and its economy is about 10x larger; that sort of thing. IF military paychecks are spent in South Korea, and elsewhere overseas, guess what, that doesn't add a thing to US GDP. So, for all the worrywarts out there, the proposed cuts aren't necessarily disastrous for the US military complex, even if they could be for folks looking to make the military a career or a source of secondary income. The end result is a topic for future discussion.

Well, there you have it; some random thoughts on some random topics on a Friday afternoon. Where the rubber meets the road, with all that is going on in the world today, you know, the S&P 500 was up a tidy 1.30% this week. Soma, anyone?

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