



OAKWORTH
CAPITAL BANK

COMMON CENTS

This week, Treasury Secretary Jack Lew announced plans to redesign the \$10 bill, and replace the current headshot of Alexander Hamilton with a yet to be named woman. This comes at the heels of a push to remove Andrew Jackson from the \$20 bill. However, the Treasury announced the \$10 bill was due for a redesign before the \$20, so the \$10 bill it is. Fair enough, but I can't grasp why it would throw a wrench in the works to redesign the \$20 first. Caveat: I don't work for the government.

I think the real decision has to do more with the now relative obscurity of Alexander Hamilton when compared to Andrew Jackson, who isn't exactly the topic of discussion at cocktail parties these days either. Further, I believe the Treasury probably thought removing Jackson would cause some sort of rift in the South, and New Yorkers (Hamilton was one) would have more things to worry about than who is on a Federal Reserve Note.

While I sort of understand that logic, in my 47 years, I have yet to meet anyone who feels so passionately about Old Hickory that this would be an issue. Those that will be annoyed undoubtedly wear bright orange on Saturdays during the Fall, and we discount those types pretty heavily here in Alabama. Ha. Only a joke folks, sort of.

In fact, let's get rid of Jackson as quickly as possible, and put Bear Bryant on the thing for good measure. That'll show them. Shoot, you would probably be able to buy a car here in Birmingham with a Bear Bryant \$10 bill, even if you couldn't get a Moonpie with one in Knoxville.

All of this begs the question: does it really matter whose face is on the currency? Would having, say, Donald Duck on a duly issued, legal \$20 bill make it any less of a store of value or medium for exchange? You know, probably not.

Now, Lew's announcement this week comes at a time when an increasing chorus of people are questioning the long-term stability of our currency. While I think the picture on any particular bill is much ado about nothing, I am not sure I have read this much in one week about our currency, ever.

So, a couple of days ago, I wrote a piece which we disseminated to internal clients. I am going to do a fair amount of cutting & pasting here, so, if you have already read it, skip to the end if you would like. Here goes:

Recently, I have been reading about the impending collapse in the US dollar. The arguments supporting said collapse are compelling, when you take them at face value. However, when you take a step back, you can come to a pretty stark realization: the dollar has been collapsing, for lack of a better word, for a very long time.

Currencies are nothing more than a medium of exchange and, arguably, a store of value. Today, there isn't a better medium of exchange available in the world than the US dollar. It is, and will continue to be, the global economy's primary reserve currency until something better comes down the pike. As I type, there aren't any truly viable alternatives, at least as far as currencies go.

Inside this issue:

Something to Think About	1-4
Disclaimer	2

The dollar is currently the principal reserve currency in the world.

Robert C. Solomon

Something to Think About Cont.

As a store of value, the dollar has been something of a disappointment for a long period of time. In 1968, the year of my birth, a gallon of regular gasoline cost an accepted \$0.34; the price of gold was around \$39/ounce, and the median price of a new home sold in the US was \$24,700. In 2015, as I type, these numbers are: \$2.0242; \$1,185.30, and \$297,300. The underlying units haven't changed, but, obviously, the amount of dollars needed to buy the units have. This even as the supply of all these things is higher now than it was 47 years ago.

As such, you can very reasonably argue the dollar hasn't maintained its value all that well. In fact, particularly when you compare it to gold, you could even say its value has collapsed. But, as a medium of exchange it has been brilliant....arguably the best the world has ever seen, and I don't mean that lightly. The US dollar greases the wheels of the global economy like no other accepted currency before it, and there are far too many people with far too much to lose to see it collapse the way the doomsday prophets are predicting. Still, they have a point.

At some time in the future, our currency will no longer be the primary foreign currency reserve. There are no two ways about it. Dominant currencies have come and gone throughout history, and there is no reason to think ours will be any different. There just has to be something to take its place, and what will that be?

Given the sheer size of the global economy, there are only two potential alternatives as I type: 1) the euro, and; 2) the Chinese renminbi/yuan. The former has some pretty well known issues of its own, what with Greece and the rest of southern Europe given it the fits. At some point, it will break up, if for no other reason than the Germans tire of propping up fiscal basket cases along the Mediterranean Sea. Once it breaks up, the euro will not be large enough to be the dominant global currency, particularly if the British don't become part of the group. That leaves us with the Chinese, and whatever is behind Door #2 when it comes to its overall financial system. Shoot, its currency isn't even convertible. So, how does it go from illiquid to primary reserve currency in such a short period of time as to precipitate a wholesale collapse in the US dollar?

No one has been able to answer that for me.

Then there are those who will suggest a basket of currencies might take the place of the dollar, something akin to the IMF's SDRs (special drawing rights). However, the problem with that is SDRs are comprised of primary reserve currencies, as defined by the IMF:

"Today the SDR basket consists of the euro, Japanese yen, pound sterling, and U.S. dollar. The value of the SDR in terms of the U.S. dollar is determined daily and posted on the IMF's website. It is calculated as the sum of specific amounts of the four basket currencies valued in U.S. dollars, on the basis of exchange rates quoted at noon each day in the London market.

The basket composition is reviewed every five years by the Executive Board, or earlier if the IMF finds changed circumstances warrant an earlier review, to ensure that it reflects the relative importance of currencies in the world's trading and financial systems. In the most recent review (in November 2010), the weights of the currencies in the SDR basket were revised based on the value of the exports of goods and services, and

Disclosure

This report does not constitute an offer to sell or a solicitation of an offer to buy or sell and securities. The public information contained in this report was obtained from sources and vendors deemed to be reliable, but it is not represented to be complete and its accuracy is not guaranteed.

This report is designed to provide an insightful and entertaining commentary on the investment markets and economy. The opinions expressed reflect the judgment of the author as of the date of publication and are subject to change without notice; they do not represent the official opinions of the author's employer unless clearly expressed within the document.

The opinions expressed within this report are those of John Norris as of the date listed on the first page of the document. They are subject to change without notice, and do not necessarily reflect the views of Oakworth Capital Bank, its directors, shareholders, and employees.

Something to Think About Cont.

the amount of reserves denominated in the respective currencies that were held by other members of the IMF. These changes became effective on January 1, 2011. In October 2011, the IMF Executive Board discussed possible options for broadening the SDR currency basket. Most directors held the view that the current criteria for SDR basket selection remained appropriate. The next review is currently scheduled to take place by the end of 2015.”

In other words, the US dollar is still the dominant world currency even in a world of SDRs for international payments. As such, the dollar still rules supreme, even if indirectly, and will continue to do so until the Chinese open up their currency for full convertibility AND its financial system to international scrutiny. It is anyone's best guess when the Communist Party of China will agree to such things, particularly since doing so will crush its export driven economy (due to massive demand in the global currency markets driving up the value of the Chinese currency, making the country's exports less attractive). However, a lot of folks think this is coming sooner rather than later.

Still, this isn't something the Chinese will throw on the international markets by surprise. Investors will have a lot of time to prepare for any such move, particularly US investors. We will likely have more than enough time to increase our gold and international allocations. Heck, silver and individual currencies will likely be in the offing as well. That is the beauty of the US dollar: it is highly liquid, and you can buy just about anything you want with it. Further, the guys with the biggest guns refer to it as: legal tender for all debts public and private.

All of this is a long winded way of saying, there might be a day of reckoning for the US dollar, but that doesn't mean we will suffer the economic Doomsday many are predicting. Heck, the British pound was the world's dominant currency for a century or more, and the UK has a pretty decent standard of living and way of life, even if it no longer enjoys global economic hegemony and the road wasn't always smooth...the 1950s were particularly difficult. However, the British got through it, and so will the Americans....when the time eventually comes, which it will.

Again, currencies are used for two things: 1) as a medium of exchange, and; 2) as a store of value. The US dollar has been pretty bad at #2, and awesome at #1. It will continue to be awesome at #1 until the Chinese decide they want to take on that responsibility, and they won't want to do so until their domestic economy is more geared towards domestic consumption and services, and away from exports.....we have more than a few years left, which is and will be enough time to adequately prepare and diversify. After all, for all its economic strength, close to 40% of China's population still lives and works on farms, and the per capita income is roughly on par with the Dominican Republic, and well below that of Mexico. Yes, you read that correctly, and it underscores the problem with China providing the global economy with liquidity....it just ain't ready yet.

Finally, what about gold? That can be used to facilitate trade, right? Well, sure, but gold is too cumbersome for today's massive international transactions, let alone the tremendous volume of them. Further, if the rest of the world demanded the US either pay in gold or back the dollar with gold, we would simply require the rest of the world to do the same. This would lead to a surge in demand for the shiny stuff, because a lot of monetary authorities simply don't stock it any longer. For instance, according to the World Gold Council, only 1% of China's foreign currency reserves are in gold. Japan keeps about 2% in the stuff. The Swiss come home around 7%; the British about 10%, the Saudis and Mexicans are also at 2%; the South Koreans store away 1%; the IMF says the Brazilians are also around 1%, and the Canadians don't even have that much. So, you can imagine what would happen if the US said: "okay, we will pay you in gold certificates, but you have to pay us the same way." Let's just say the rally in gold would be on, and it would be very easy to imagine gold prices surging 5-10x. Why? Because the central bank demand for gold to back the massive global monetary base would be probably as great as the amount of gold in existence.

And guess who owns the most, at around 261.5 million troy ounces? If gold rallied to even \$5,000/ounce, which I think would be on the low side, the US would have, get this, \$1.3 trillion in gold reserves alone, which would be more than enough to keep the dollar from collapsing outright and overnight, as the doomsday prophets seem to suggest. So, time is on our side there as well.

Something to Think About Cont.

In conclusion, yeah, the dollar won't always be the world's primary currency reserve, and some bad things could happen in the domestic economy when the shift occurs. However, that is still some time away, and the prospect just doesn't keep me up at night...nor should it you.

The same could be said about whose picture is on the \$10 bill. However, it is and will be much easier to find a replacement for Alexander Hamilton's portrait than finding a replacement for the US dollar in general.

I suppose I might be coming across as somewhat cavalier here, and I understand that. There will be those who don't want to change any of the pictures on any of the bills, and I can appreciate that. Really I can. In a lot of ways, it is much ado about nothing. However, it is also like having a title in a company: fancy titles don't mean anything unless you don't have one.

To that end, there are a lot of people who have contributed mightily to our nation who don't happen to be dead, white, male, or Protestant. Yes, all of the people on our current paper currency were mostly Protestants, if only due to the fact they weren't Catholic, let alone any other established global religion. *To that end, Washington's religious beliefs were, and remain, somewhat ambiguous, whereas Jefferson and Franklin were largely Deist later in their lives, and Deism isn't exactly evangelical Christianity, by a long shot.*

So, I am not certain the Treasury needs to limit the \$10, \$20, or \$50 just to women or woman (I am keeping \$1, \$2, \$5, and \$100 out of the mix because those are kind of sacrosanct in my opinion). Let's open it up on a rotating basis to folks from just about every possible demographic who had a deep, profound, positive impact on American society. There isn't any shortage of folks who would be worthy; however, I am scared the Treasury is going to back itself into a corner by trying to shoehorn the most PC female onto the \$10 bill, assuming it is a permanent placement, when it should open up those 3 notes to everyone of any shade or gender on a predetermined, rotating basis.

This would solve a lot of problems without forcing the Treasury to find the perfect candidate every time. Further, if a particular selection ticks someone off, and they will, nothing is permanent here. I can't imagine the downside on this, other than a break with a tradition which really doesn't mean that much to many people....particularly Jackson and Grant from the extremely informal, limited poll I have done.

With that said, personally, I am fine leaving the \$10 bill the way it is; Alexander Hamilton was a great American and a Founding Father of our great nation. I am sorry to see him go, even though I don't exactly gaze upon his face and ponder his many great achievements every time I pull a ten spot out of my pocket. However, if we are going to make changes to our currency, then let's do it right, and open the floodgates to all great Americans. As it stands, and how this proposed change comes across to me, it seems as though the Treasury is a willow in the perceived political winds, as opposed to taking a firm stand.

In the end, the bottom line is this: ultimately, the portrait on any of our Federal Reserve Notes doesn't matter as much as whether or not the note itself; 1) is an effective method of exchange, and; 2) is at least somewhat of a store of value. That is what the US dollar is, and will continue to be for the foreseeable future.