

Something to Think About



OAKWORTH
CAPITAL BANK

COMMON CENTS

Over Christmas of 1990, my brother-in-law and I got into a rather lengthy discussion about the upcoming First Gulf War. That the US was going to invade Iraq was pretty much a fait accompli; however, the ultimate amount of force and time required to beat the Iraqis wasn't, at least not to John Q. Public.

At the time, I was 22, single, and without dependents. He was 31, married, and my first nephew was around 5-months old. As such, if things drag on a little longer than anticipated, I was far more apt to get the call for military service than he, far more. While I didn't truly anticipate having to go to the Middle East, there was still that outside possibility, and, frankly, I wasn't real keen on it.

Of course, I spouted off idealist sayings like "no blood for oil" and the like, and he countered with far more pragmatic things along the lines of "national best interests." I would like to say we agreed to disagree, but I am not certain we ever really agreed on anything. You see, where the rubber met the road, I wasn't of a mind to fight and die for the Kuwaiti royal family, and he basically didn't have to worry about it.

In a lot of ways, your perspective changes when you have a dog in the proverbial fight. Now, fast forward to today.

Currently, when people ask me about geopolitical affairs, they ask about one of two things; 1) the situation with Russia and the Ukraine, and/or; 2) ISIS. Folks don't seem all that interested in the upcoming dismantling of the current structure of the euro. 3 years ago, I predicted: "the euro as we know it will not exist in 5 years." With 2 years remaining on that prediction, I feel pretty good about it. But, you know something, whether Greece, Portugal, et al, stay in the Eurozone really won't have much of a personal impact on me, or really the long-term health of global economy for that matter.

It will just be kind of interesting to see how the Europeans deconstruct the currency they worked so hard to get, and how the Greeks, et al, perform with their own currencies and monetary policies. In the end, I believe it will be best for everyone involved, even if there is some short-term pain.

So, Russia or ISIS? Which is the bigger threat to the global economy? Let me give you what I submitted to the Montgomery Advertiser for this Sunday:

Which is a bigger threat to the global economy: Russia or ISIS?

While the folks in Europe might feel differently, ISIS is a bigger threat to the global economy than the Russians. Frankly, I don't think it is even close.

The reason is pretty simple: no one really wants to go to war with Russia over the Ukraine. The Germans don't; the French don't; the British don't, and the US really doesn't. Where the rubber meets the road, if the Russians really wanted to take over the Ukraine, no one would be able to physically stop them before the Russian flag was flying over Kiev, again.

You don't need to be a military expert to come to this conclusion. All you need is a map. Further, do you think the Poles really want German battle tanks streaming across their country to come to the Ukrainians' rescue? I don't.

Inside this issue:

Something to Think About	1-3
Disclaimer	2

**The secret of politics? Make a good treaty with
Russia.**

Otto von Bismarck

Something to Think About Cont.

Right now, the Europeans and the Russians are playing a chess match to see who saves face. German Chancellor Angela Merkel understands this, even if the US State Department doesn't. Whatever the final negotiations end up being, the West would be wise to avoid getting embroiled in Eastern European affairs.

The endgame here is simple: the Russians want a buffer zone of pro-Moscow, or at least somewhat friendly, governments, between it and Western Europe. Given their history, it is understandable for them to be somewhat paranoid.

But as for ISIS? The endgame here is: it wants a global caliphate, and takes a pretty extreme and literal interpretation of the Koran to determine what to do with folks that feel otherwise. In essence, its aim is the destruction of non-Islamic culture, specifically its strict definition of what it means to be Islamic.

The real problem here is we can't seem to agree on who our allies are in this fight, or even how to conduct the fight. Interestingly enough, US Central Command has announced plans for an Iraqi led offensive this April, or May, to retake the city of Mosul. It has even estimated the number of Iraqi troops which will participate.

To say it is unusual to announce a major offensive, including the number of troops involved, a couple of months ahead of time would be an understatement. It gives a whole new meaning to the question: really? Do we think ISIS is just going to sit around and wait on it? Or do you think, perhaps, ISIS will have a battle plan ready, as well as a whole host of fresh recruits under arms.

So, what happens if the well-telegraphed offensive fails, and the Iraqi army collapses like it did last year? Leaving behind enormous amounts of US war material and small arms technology? I'll tell you what: Katy bar the door. The Saudis, the UAE, the Egyptians, the Kuwaitis, and Jordanians are going to have a conniption fit, and we won't know who is who and what is what by the time the dust settles.

Basically, the Pentagon can't let this offensive fail. As a result, you can reasonably expect a significantly larger, permanent US military presence in Iraq moving forward. This will require a lot of money and a lot of will. So far, Washington hasn't really shown a strong willingness for either.

That is why ISIS is a bigger threat. It has the ability to more immediately force the rest of the world to do what it doesn't want to do.

Yep, that about sums it up for me. However, my perspective might have something to do with it. You see, I am now 46 and have a teenaged son. Although he will be too young for military service for some years, the other night I looked at him and wondered that same question: Russia or ISIS? If I had to choose, and if he had to choose, would it be to fight for the Ukrainians or against ISIS? After all, the military ain't looking for me, as it already has a gracious plenty myopic, middle-aged men.

Disclosure

This report does not constitute an offer to sell or a solicitation of an offer to buy or sell 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.

I will cut to the quick and say I would be far more bitter, far more, about a gold star service banner hanging in my window stemming from action in the Ukraine. I mean it isn't even close, at all...and, you know something, I doubt this would make me unique, as the below table from gallup.com would suggest.

Critical Threats to the United States

I am going to read you a list of possible threats to the vital interests of the United States in the next 10 years. For each one, please tell me if you see this as a critical threat, an important but not critical threat, or not an important threat at all?

	% Critical threat	% Important but not critical threat
Islamic militants, commonly known as ISIS, operating in Iraq and Syria	84	12
International terrorism	84	13
Development of nuclear weapons by Iran	77	16
The military power of North Korea	64	26
The military power of Russia	49	41
The conflict between Israel and the Palestinians	49	41
The conflict between Russia and Ukraine	44	45
The economic power of China	40	44

Feb. 8-11, 2015

GALLUP

Hmm. You know, when I see tables like this one, I have to wonder about how we digest information in our country. 64% view the military power of North Korea as a critical threat to the United States? Hey, you know, I am not trying to downplay this, but the only reason why North Korea still exists is because it has enough 1970s and early 1980s era artillery pointed at Seoul to make life a veritable hell on earth for the 45-60 minutes it would take for US and South Korean missiles to wipe Pyongyang off the map. Hey, it might be old stuff, but it can still do a lot of damage. Still, no one honestly believes the North could win a war with the South, particularly one which lasted more than a few days, maybe a week or two. It doesn't have the logistics, technology, manpower, or supply chain necessary. The North Koreans know this, as do the Americans and South Koreans.

They lob a few 2-stage rockets over Japan every now and again to get much needed hard currency to pay for imports from China. It simply can't counterfeit enough US \$100 bills and produce enough dope, seriously, to pay for everything its broken economy needs.

In any event, the biggest threat to the global economy this year is still a stupid Federal Reserve. If it adopts an overly restrictive monetary policy in the face of tepid global economic growth, and absent any real official inflation in the US, we would be well within our rights to egg Janet Yellen's house, or maybe even let the air out of her tires.

After that, you know, this planned offensive in either April or May just might be it. Greece? Naw; they won't figure out that jigsaw puzzle until next year, with the ECB flooding the markets with liquidity in the meantime. Yeah, this offensive, if it actually happens, would get my vote.

If the US Air Force doesn't completely obliterate ISIS fixed formations before the Iraqi army stumbles forward like the Keystone Cops, we are going to be raising cash in our clients' portfolios like crazy....with one exception: we might just double down, metaphorically speaking, on energy. Why? Because the disruption caused to Iraq's crude oil production, some 3 million barrels per day, would cause prices to soar. Further, the Allies, if there are any allies, would likely blow up, or otherwise disable, Iraq's wells to keep them from falling into ISIS's hands. Seriously. After all, \$50 times 3 million equals \$150 million times 365 equals \$54.75 billion....which buys a lot of stuff, particularly nasty stuff when you are trying to take over the world. Shoot, even a 2-stage North Korean missile works okay for the money if you are only trying to hit Haifa or Tel Aviv from Mosul, as opposed to Washington.

In the end, we are going to keep more than an eye on this situation, as it has the potential to, as the kids might say, get "real" in a hurry. Of course, there is always the potential I am reading too much into it, but I suppose it is a matter of perspective. You see, we/I/you/me have a dog in the hunt, in more ways than one.