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DESPERATELY SEEKING POLITICAL INEVITABILITIES

Given the messiness of the democratic process in the 21st century, one could be forgiven for wondering whether the consent of the governed is slowly but surely being overwhelmed by a 24-hour news cycle, endless snap polls, and never-ending political spin. At our election conference in New York a month ago, legendary pollster Scott Rasmussen, aside from preventing many of our Republican guests from hurtling themselves into traffic in despair, made one elegant and hopeful comment about America that resonated with our audience above all others – our people are always far ahead of our politicians. Whether it was the Stamp Act, the Declaration of Independence, or the Civil Rights movement in the '50s and '60s, the politicians have often shown themselves woefully inadequate at leading the people in the important secular issues of the day. It has been the voters that have elected politicians to reflect their will on a variety of economic, political, and social issues throughout history.

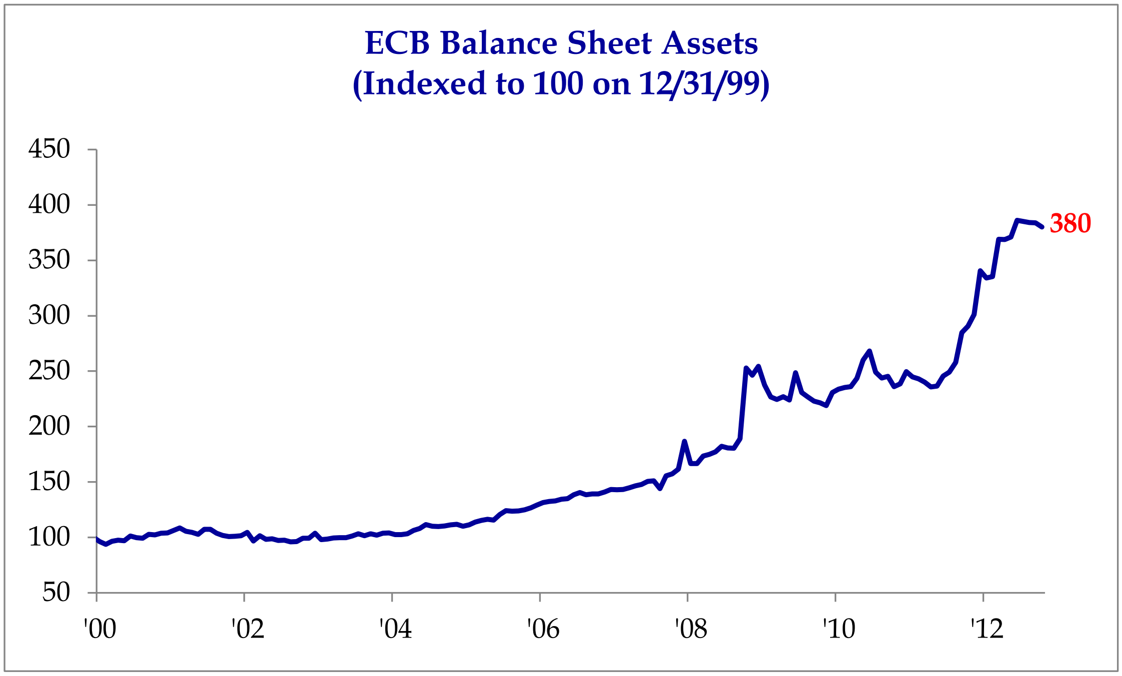
In thinking about the broad array of policy issues facing voters here and abroad, I started to wonder where the citizens of the world might be ahead of their elected officials and what investment implications that might have. In some ways, it's more obvious in Europe, where the Euro may be one of the greatest examples in the history of democracy of an "eat your peas" approach to governing in which an entrenched political elite with expensive tastes has strong-armed its people to do something they really never wanted to do in the first place. For those interested or hopelessly bored, the English version of the German weekly magazine *Der Spiegel* is often a good read and gives the average ugly American some insight into the hearts and minds of Europeans, or, well, German Europeans anyway. And so it was that, at the suggestion of a friend and a client, I read an article that listed, in almost stereotypical German fashion, the most "dangerous" politicians for the survivability of the Euro, a conglomeration of both famous and obscure somewhat-extreme elected officials from both the left and the right. What was most striking about the list of politicians who populated the list were their ages. With the exception of Silvio Berlusconi, who – as we all know – likes to associate himself with younger people, these Euroskeptics were all virtually youngsters between the ages of 38 and 50.

The broader point of this, it seemed to me, was that the political elite that was most insistent in creating their Utopian vision of greater Europe in which war would be impossible is now in the twilight of its political influence. Younger generations of Europeans who have not seen the horrors of a land war on the Continent have no such yearning to create yet another layer of bureaucracy from which a variety of rules, regulations, and taxes come not from their local capitals but from Brussels. A lifetime of traveling to Italy has taught me that the regional differences in countries that outsiders see as unified are so great that the concept of greater Europe seems an absurd fiction. It's hard enough to get many Italians to describe themselves as Italian, much less European. Garibaldi's "Italy" was only unified in 1861, it should be remembered. Sadly, we see more and more examples of regionalism in Europe every day – in just the last two months, we have seen the wealthier regions of Catalonia in Spain and Wallonia in Belgium seek greater independence if not outright secession. The greater point in all this is that when times get tough, there is a natural human impulse to become more provincial, not more cosmopolitan.

Der Spiegel: Europe's 10 Most Dangerous Politicians

	Name	Age	Position
1.	Alexis Tsipras	38	Leader of Greece's leftist Syriza party
2.	Markus Söder	45	Bavarian Finance Minister
3.	Silvio Berlusconi	76	Former Italian Prime Minister
4.	Marine Le Pen	44	Leader of the Far-Right Front National in France
5.	Timo Soini	50	Leader of the True Finns Party, Member of European Parliament
6.	Alexander Dobrindt	42	General Secretary of Conservative Bavarian Christian Social Union (CSU)
7.	Nigel Farage	48	Leader of U.K. Independence Party (UKIP), Member of European Parliament
8.	Heinz-Christian Strache	43	Head of Austrian Freedom Party
9.	Geert Wilders	49	Head of the Dutch Freedom Party
10.	Viktor Orbán	49	Hungarian Prime Minister

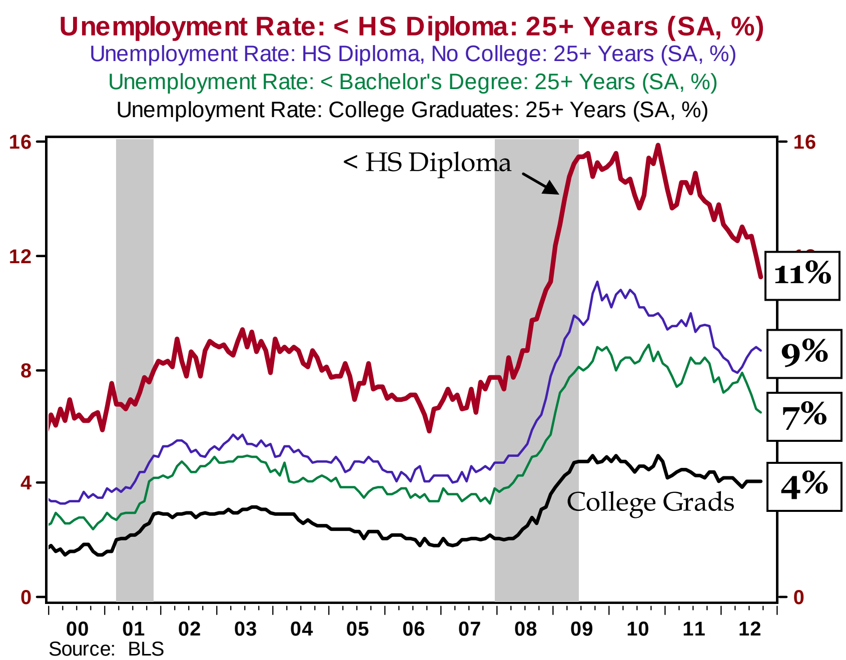
And so one wonders what the future of the single currency concept will be in a period in which the virtues of the Euro are difficult to discern for the average Hans, Pablo, or Spiros on the streets of the Continent. Strategas' Chief Economist, Don Rissmiller, has only half-joked that the "good outcome" for Europe may be, ultimately, that it becomes Japan – that is to say, the Eurozone stays intact but its standard of living erodes slowly over a long period of time. For the aforementioned political elite on the Continent, this might be seen as an acceptable trade-off for peace. The problem, of course, is that sooner or later, the people themselves may have a different vision of their own future. My business trips to Japan over the years have led me to believe that it would be hard to translate the word *kamikaze*, in spirit and meaning, into any romance language. While the Land of the Rising Sun is made up of a single, largely xenophobic culture in which social conformity stands as a virtue, Western Civilization is different. The same impulse that has made it so great – an unshakeable belief and respect for the rights of the individual – also stands as the Euro's long-term Achilles' Heel. In the short-term – say, over the next few years – it would make little sense to fade the survivability of the Euro – the fix, as they say, is in. The Continent's elected officials are committed to preserving the currency, and the ECB has made it clear, practically speaking, that its balance sheet will swell to whatever size is necessary to preserve it. No, the great risk to this grand experiment will come in the future, perhaps well into the future, at the ballot box.



While it can be argued that the stakes of our current Presidential election are high, Americans, mercifully, face no such existential questions about their future. Still, there is one issue with broad economic and financial market implications in which the public seems well ahead of its elected officials – the use of natural gas and its potential to render the country energy independent. Of all the structural problems facing the U.S. economy, the most serious and most difficult to correct in terms of our future growth may simply be the fact that, three years after the financial crisis, we are still overwhelmingly and dangerously dependent upon consumption. Popularly defined as the sum of Consumption, Capital Spending, Government Expenditures, and Net Exports, or GDP=C+I+G+(X-M), many institutional investors are surprised to learn that nearly 71% of America's GDP is still driven by consumer spending. Given all the economic and financial drama in the context of significantly higher unemployment over the past few years, our continued dependence upon consumer spending may seem hard to fathom. This is, of course, until one considers how much "G" (or government spending) was used to support "C" (or consumption) over the past few years. Whether it was a tax credit for first time homebuyers, cash for clunkers, or cash for caulkers, the

Administration's solution, it seems, was to prescribe as medicine largely what got us sick in the first place. At least for now, the odds of using fiscal policy to smooth out any future economic weakness are exceedingly long regardless of who wins the election three weeks from now. In the future, economic growth in the U.S., it would be safe to assume, will be far more dependent upon capital spending and exports (I and X) if we'd like to grow.

There's nothing wrong with this, of course. This is an approach to economic growth that served us well in the decades immediately following the end of World War II. The problem now, however, is that less than 15% of our economy is in manufacturing and, unlike in the postwar period, our global competition in this sphere is steep. Given the size of our debts and unfunded liabilities, growing our way out of our structural problems may be the only effective way of dealing with them. The way America chooses to grow also has important implications for the social fabric of the nation. As the chart below shows, there is a yawning gap between the unemployment rates of those who are college-educated and those who are not. At 4%, the unemployment rate for those with a college degree remains remarkably low. Those without a high school diploma, on the other hand, are three times as likely to be unemployed and face an unemployment rate of 11%. For some, such a discrepancy leads to a rather pat belief that everyone should pursue higher education. This is, without question, a consummation devoutly to be wished but seems unrealistic in a country of 310 million people. Maintaining a large and vibrant middle class was less of an issue 40 years ago when those who didn't get a college education could earn a nice living in manufacturing. As many of these activities were offshored, many of these same people could work in the trades supporting housing in the '80s, '90s, and first part of the '00s. Unfortunately, as it stands now, there is no natural industry to soak up such a large population of potential workers.



Population Breakdown by Education (25 Years & Over, 2011)

	Thous	% Total
Less than HS Diploma	25,040	12%
HS Grads, No College	61,911	31%
Less than Bach. Degree	53,250	26%
College Graduates	61,343	30%
	201,543	100%

While it could be claimed that there is potentially no shortage of candidates for the role of America's leading industry, the most obvious, it would seem, would be to take advantage of the vast natural resources with which America has been blessed. With natural gas prices hovering around $3.30 in the U.S. and LNG prices of $18 in the world's third largest economy, Japan, the market's invisible hand is screaming for domestic production of natural gas for export. While the U.S. has fewer than 60 billion barrels of proved natural gas reserves (only about 4-5% of the world's total), the Department of Energy has estimated that nearly 400 billion barrels are recoverable using existing technologies. Of course, drilling can be controversial and there are environmental concerns which must be balanced with the desire for economic growth. But here, too, the polling suggests that the American public is far more in favor of shale gas as a potential step-function productivity enhancement for the country than are its political power brokers. While there is very little daylight between Republican A and Republican B when it comes to energy policy – that is to say, it's a "drill baby drill" party – the differences among Democrats are far greater. While there is no doubt a large and vocal environmental lobby within the party, there are also large numbers of rank-and-file union Democrats in blue states that poll almost exactly like Republicans when it comes to the issues of fracking and energy independence. In this regard, there may be far more bipartisan support for greatly exploiting our natural resources to create a vibrant export industry or to make our own manufacturing more competitive than is popularly believed.

The answers to these weighty issues will come, as they say, in God's time. This might not make them investable in the short-term, but for those with truly long-term time horizons, it would seem that European equities might be a value trap while U.S. stocks an incredible bargain.

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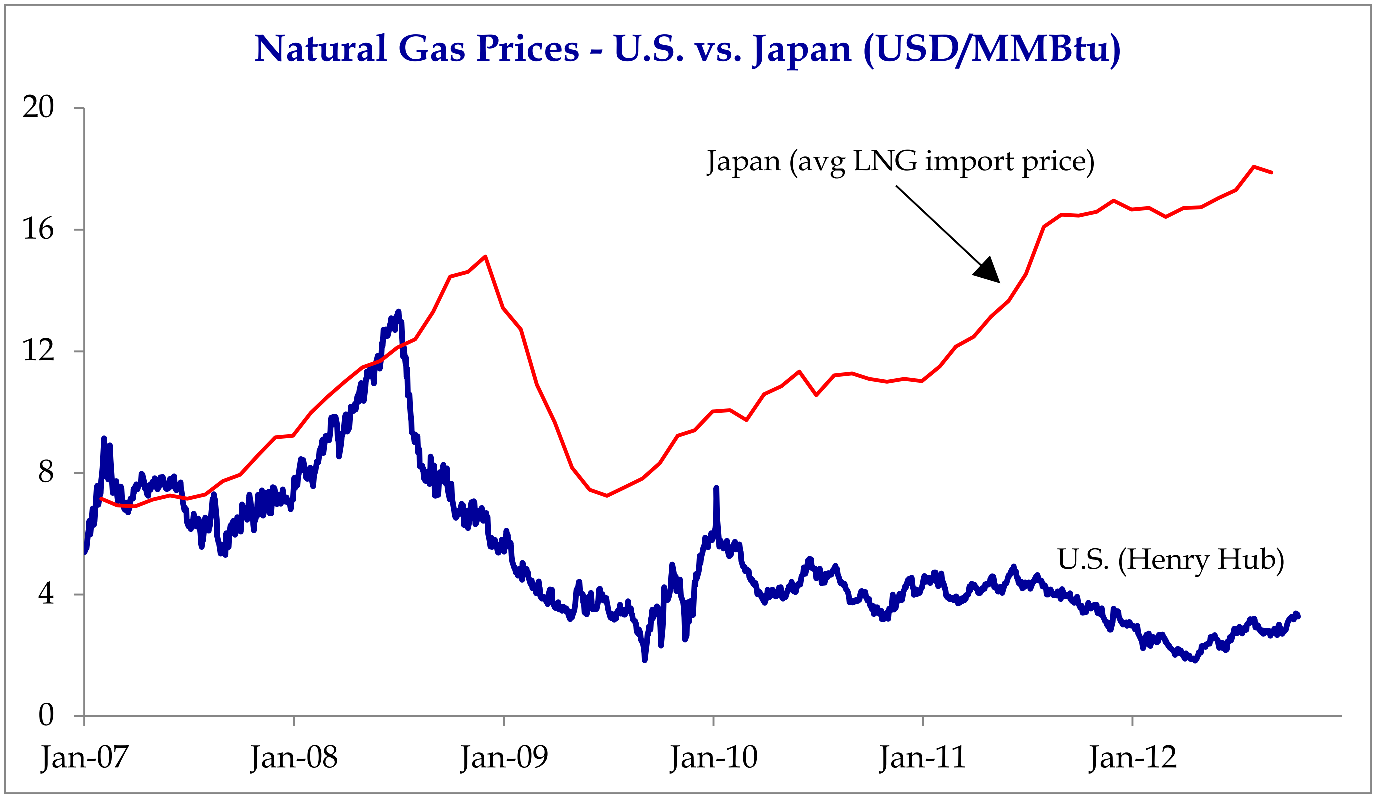
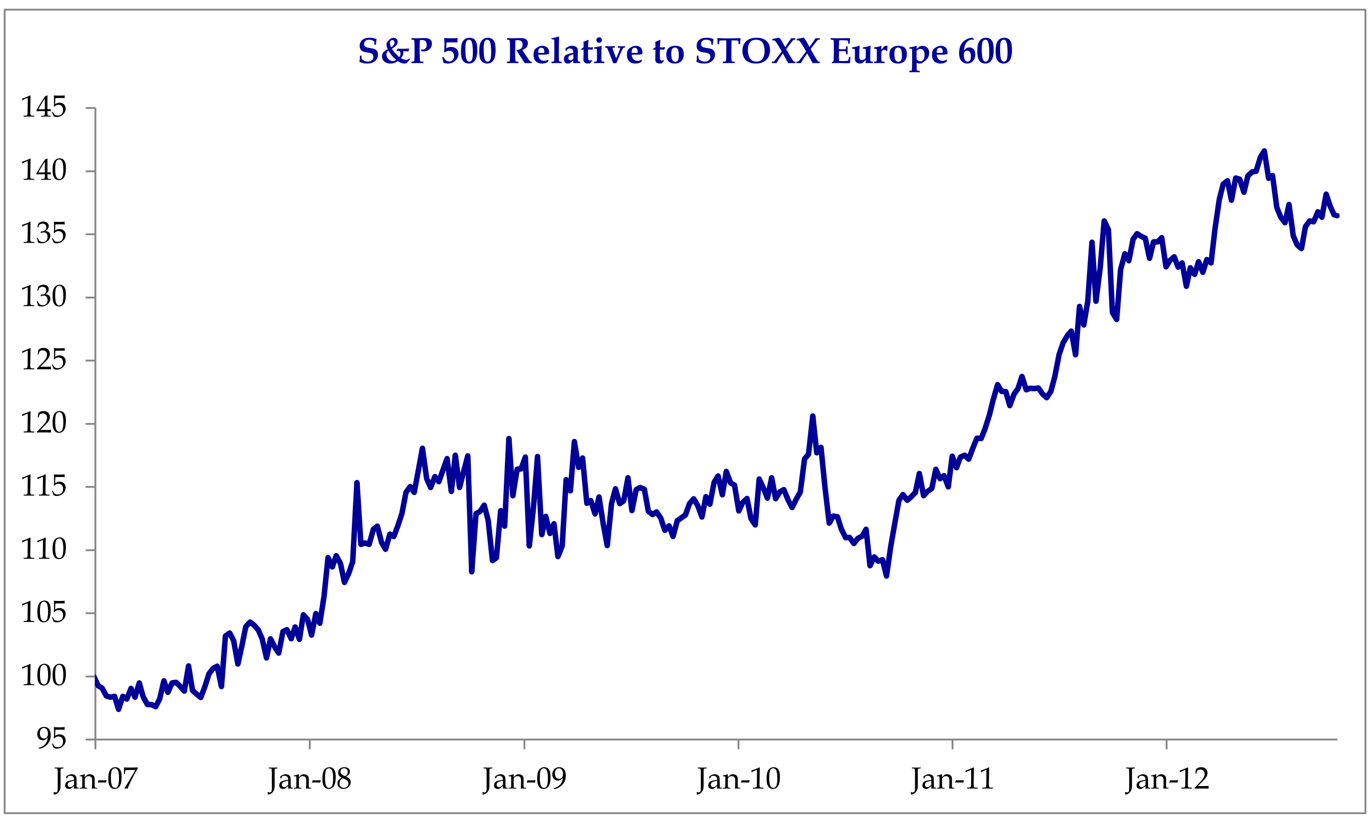

Natural Gas Prices - U.S. vs. Japan (USD/MMBtu)
Japan (avg LNG import price)
U.S. (Henry Hub)
20
16
12
8
4
0
Jan-07
Jan-08
Jan-09
Jan-10
Jan-11
Jan-12


S&P 500 Relative to STOXX Europe 600
145
140
135
130
125
120
115
110
105
100
95
Jan-07
Jan-08
Jan-09
Jan-10
Jan-11
Jan-12