Last month, in part I of The Growth Slowdown of the “Sick” Economies, we explored why secular rather than cyclical factors are inhibiting economic growth in the advanced economies, even while the emerging economies retain a greater scope for growth. This month, we analyze more of the consequences of de-growth, particularly in the United States.

Among other things, it seems likely to me that the political feedback from a continued growth stall is likely to be far more adverse in the U.S. than in emerging economies, where living standards for average people can continue to advance.

As you may remember from last month, I cited the example of Bill Bonner’s backhoe to illustrate how well-established recipes for mechanizing work using equipment like tractors and backhoes can readily increase income for unskilled workers at an Argentine farm.

As long as oil is available at economical prices to fuel the tractors and backhoes, incomes in Bill’s Calchaqui Valley ranch in northern Argentina can continue to rise.

When the peasant’s income goes up, he buys more clothing in stores, gets a better pair of boots and his wife scrapes together a few centavos to buy mascara. Their purchases not only increase demand for a wide array of goods and services, they also increase the tax take for the government.

Given the vote-buying proclivities of governments everywhere, democratic or otherwise, it is only a matter of time until the higher level of economic growth fostered by Bill’s backhoe and others lead to the construction of more rural schools, the hiring of teachers and the pavement of more roads.

As their incomes rise and living standards increase, Bill’s gauchos are likely to be in a good mood. Nothing is guaranteed, but so
long as he doesn’t gratuitously insult and alienate his neighbors, they are unlikely to form an angry mob and burn down his house. There is a direct and unmistakable connection between his investments in new technology (new to that area that is) and economic advances that have made their lives easier and raised their incomes.

The very fact that Bill Bonner is a foreign millionaire presiding over a vast, semi-feudal estate in a remote province of Argentina makes it less likely that his Argentine tenants and neighbors would imagine that he is obliged by some principle of patriotism to invest in the mechanization of their lives and thus promote a continued growth in their living standards. He comes and goes all the time. It is only too obvious that he could go and not return. Even if some Peronist thug in the government Buenos Aires were to successfully conspire to steal his ranch, this would only be annoying and disappointing, rather than devastating for Bill.

In a world full of political hazards to fortune, Bill had the sagacity to “internationalize” his business and his finances. Unlike most of us, his assets are not entirely hostage to the whims of Barack Obama or Cristina Fernandez de Kirchner. To put it more informatively, the growth slowdown in the advanced economies may pose business and investment challenges for Bill, but he has escaped what awaits most successful Americans — the requirement to pay “more” of the costs of an already too costly government.

The ironic, and yes, frustrating part of this predicament is that those of us who are obliged to subsidize the declining marginal returns from a mismanaged and overspending government will achieve little to improve the lives of ordinary Americans. Politicians can impose higher taxes but they can do little to raise the real incomes of ordinary people in the “sick” economies.

But as we explored last month, in reviewing the argument of Professor Robert J. Gordon, boosting growth in advanced economies is more problematic. Gordon sees the disappointing productivity performance of the past four decades as an ominous hint that the latest installment of the Industrial Revolution has “fired a blank.” Information technology has had far-reaching consequences. But these do not include matching the tractor and the backhoe as instruments for raising the incomes of unskilled persons in the “sick” economies.

Information Technology Powers Today’s Businesses

To the contrary. The “megapolitical” effect of information technology has been to increase income dispersion — raising the earnings of the top 1%. How does information technology raise incomes at the top? Several ways:

1. Computers and the Internet increase the capacity of entrepreneurs and investors to monitor and control activities at a distance. For example, I am the chairman of three potentially fortune-making companies in Brazil. A century ago, this would have been impossible. It would have taken ages to accomplish what can be done in moments today. Business documents in Portuguese can be transmitted globally and roughly translated instantaneously using Google Translate or other apps. While these automated translators can be pretty rough on nuances, they do give you a useful sense of the terms of deals or topics under consideration.

Information technology permits the globalization of business. It arguably increases rewards for curious and proactive characters like yours truly. Although a certain amount of physical presence is required to do business anywhere, you can use information technology today to amplify the range of your entrepreneurial efforts. This comes out in the globalization of supply chains — “outsourcing” that permits enterprises to lower costs, producing higher rewards for entrepreneurs.

2. There is a high variability of work product undertaken with information technology. Unless the
operator of a tractor or a backhoe makes a serious blunder, the work he can do should be more or less equivalent to that of anyone else using the same equipment. Information technology is quite different. A computer programmer, for example, is a highly skilled artisan. It is unlikely that software programmers could be successfully unionized, as their work products differ so radically in value. In fact, more than a few small software companies have been purchased for hundreds of millions or more, simply as a way for larger companies to acquire talented programmers. If programming were like attaching bumpers on an assembly line any programmer would be just as good as the next. But that is not the case. Information technology increases the variability of work, and therefore contributes to income dispersion.

3. Information technology reduces the scale of enterprise. The article that you are currently reading was written using an application called Dragon Dictate. Decades ago, when I first began writing newsletters, I used an old-fashioned Dictaphone that was transcribed by a secretary on an IBM typewriter. This involved a lot of wasted motion. Each draft had to be retyped from scratch. The process was more time-consuming and far less efficient than it is today. Speech recognition today is far more advanced, but still has its drawbacks and its vocabulary still has its (sic) limitations. But it gets better with each update. Today, I can do my work without employing a stenographer or an old-fashioned English secretary like the one who used to transcribe my mutterings on the Dictaphone.

And this is only one illustration of a broad truth. It is possible to work with much skinnier, even “virtual” organizations. Whereas even Scrooge had to employ a bookkeeper, Bob Cratchit, to keep abreast of his affairs, today much of the accounting and control can be automated. Therefore, the scale of successful enterprise today can be much smaller than in the past. This has far-reaching consequences.

Compare these two corporations and eras:

The world’s largest corporation — 1950s: In the 1950s, when General Motors was the world’s largest corporation, it employed as many as 500,000 low-skilled Americans. This was the heyday of the blue-collar worker. Newly employed laborers on the GM assembly line found that they were paid double or triple what they could earn elsewhere. The problem from the point of view of shareholders was that the large scale of General Motors operations made the company a “sitting duck.”

General Motors assembly lines were terrifically expensive to build and put in motion. Consequently, it was very costly to the company to allow them to sit idle. The high costs made GM vulnerable to “shakedowns,” known more politely as “strikers.” Unions could organize potentially violent confrontations to demand higher pay for their members than would have been justified by economics alone. They did. The staggering costs associated with the loss of
output due to strikes lead to extravagant, super-premium pay packages for unskilled workers.

**The world’s largest corporation — 2012:** Contrast that with the situation today, when Apple is the world’s largest corporation. Its iconic product, the iPhone, is designed in California and assembled in China. When not subsidized by a cell phone carrier, a new 16GB iPhone sells for about $650. It incorporates a variety of high-tech components sourced from around the world and assembled in factories in China. The assembly process costs about $20, or about 3.1% of the overall cost of the product. Note that by comparison assembly costs less than Apple’s new A6 processor, which costs about $28.

Because Apple’s production process is optimized globally, utilizing information technology to cut costs at every turn, the company has become the largest in the world, with more cash on its balance sheet than the U.S. government. Apple is focused on value creation rather than job creation. It employs only 40,000 people in the U.S. Outside of the sales staff, many, if not most, of Apple’s American employees have advanced degrees. The assembly process that accounts for just 5% of the retail cost of an iPhone employs 700,000 people in China, mostly former peasants with low levels of education.

If the iPhone were manufactured in the U.S., employing hundreds of thousands of workers with the education levels of Chinese peasants, on an assembly line reminiscent of those of GM from the 1950s, assembly costs would escalate far beyond $20 per phone. Some unskilled workers would undoubtedly earn higher incomes than they do today flipping burgers at McDonald’s. But Apple’s profit per iPhone would shrink as its labor costs rose. Analysts estimate that Apple has a gross margin of around 55% on every new iPhone sold.

The iPhone is a product that owes much more to its design and conception than to its assembly. To use the much-abused term, it was a “game changer.” It changed the mobile phone market. It changed personal computing. With its thousands of apps, it has put a hitherto unimaginable array of information in a portable device. It makes cell phone calls, sends and receives emails, updates stock prices, downloads reports on news, weather and sports; plays music and movies, takes notes, helps you find your way when you are lost and much more. But the one thing the iPhone does not do is raise incomes for unskilled people.

Information technology has made it easier for companies to make a lot of money for their shareholders, rather than their employees. The megapolitical conditions that prevailed in the 1950s made it easy for relatively unskilled persons to gain a high and rising middle-class standard of living in the United States. But the technology of the Information Age has made it harder for unions to organize, easier for businesses to minimize costs by outsourcing assembly and other low-value processes.

If you want to find people who benefit from the iPhone other than those who use it, you won’t find hundreds of thousands of United Auto Workers (UAW) on fat pensions in Detroit. The winners are unseen and mostly unheralded outside of an Apple shareholders meeting. But think of the scene, as reported on Bloomberg’s Tech Blog:

“While a small group of protesters marched outside Apple’s shareholders meeting this morning over labor practices in China, investors inside were mostly saying thank you. And with good reason.

“Take Rich Bleyle, a retired teacher attending the annual meeting from Buffalo, New York. He and his wife, Mary, spent $16,000 on Apple shares in 1997, about the same time late co-founder Steve Jobs returned to the company. Today, the couple has about $2 million worth of Apple shares.”

Of course, from the perspective of the critics, like Barack Obama, Rich and Mary Bleyle are among the nefarious 1% of the wealthy few who aren’t paying their “fair” share of the income tax.

**Obama the Cult Leader**

By now, you have probably realized that I am not exactly a partisan of Obama’s policy of financial repression. In my view, a big part of the reason that most rich people are successful is that they earned
Many of the billionaires I know are entirely self-made. I don't know Rich Bleyle and his wife, but if the Bloomberg reports are accurate, they earned their millions in Apple by investing $16,000 they could have wasted buying a new Chevrolet in 1997.

In my view, their shrewdness as investors entitles them to enjoy their success. They should not be punished by higher taxes.

Before I go any further in detailing my unrepentant opposition to higher taxes, I should perhaps detour here to admit that I was wrong in analyzing the probable outcome of the recent election.

I underestimated Barack Hussein Obama’s gifts as a cult leader who is able to con his victims with what seemed to me to be transparent lies. I forecast a Romney victory in the recent presidential election, mostly on economic grounds. I felt that the plunge in real income and the surge in inflation during Obama’s first term would make him the “Herbert Hoover of the Democratic Party.” Apparently not.

Ironically, Herbert Hoover prided himself over introducing accurate statistics to the national dialogue about the economy. Obama's contributions to statistics lie in another direction.

The so-called “Misery Index,” an indicator created by economist Arthur Okun (Chairman of the Council of Economic Advisers under Lyndon Johnson), is calculated by adding the unemployment rate to the inflation rate.

Heretofore the worst reading on the Misery Index — 21.98 — occurred in June 1980 under Jimmy Carter. If you were to consult official statistics, you would see that the worst reading on the Misery Index under Obama apparently occurred in September 2011 with a high of 12.97. But look more closely.

The Carter era statistics do not measure the same thing as those promulgated under Obama. If inflation under Obama were calculated by the same methodology that was employed during the Carter Administration, the September 2012 inflation rate would have been an uncomfortably high 9.6%, according to John Williams of Shadow Government Statistics (SGS).

And now consider the unemployment rate. In Carter’s day, so-called “discouraged workers,” a.k.a. the long-term unemployed, were counted in the unemployment rate. They no longer are. SGS calculates an alternate unemployment measure that adds back the long-term discouraged workers into both the labor force and the unemployment count. In September 2012, the SGS alternate unemployment rate was 22.8%.

In other words, the “real” unemployment rate under Obama alone was greater than the total “Misery Index” under Carter.

When measured by statistical methodologies commensurate with those employed in Carter’s day, a more accurate tabulation of the “Misery Index” under Obama in September 2012 was 32.4 — almost 50% higher than its previous all-time high of 21.98.

Recognizing this, I forecast a Republican triumph in the presidential election of 2012. I reasoned that since the misery measured on the Misery Index was real, its effect on the behavior of the electorate ought to be the same, whether or not it was reflected in widely reported headline economic statistics, or only in footnotes followed by connoisseurs of the fine print like me. Apparently, I was wrong.

Exit polling among voters on Election Day showed something I would not have expected. As the New York Daily News reported, Obama “won reelection Tuesday in large measure because growing numbers of Americans believe the economy is improving.”

Apparently, the bogus statistics had more credibility with many voters than they had with me. By and large, voters who favored Obama believed the carefully cultivated conceit that the economy is recovering. This is notwithstanding the fact as reported in the Washington Post that many voters believed that “inflation is a big problem.” Some 37% of voters cited inflation and rising prices as “the biggest economic problem.” So in that sense, I was correct in forecasting that the escalating cost of living would trouble the electorate, even though the official consumer price index rose by only 2% year-over-year.
This leads to another puzzle highlighted by the 2012 election.

While voters were not hoaxed about the reality of inflation, contrary to all past political experience, they tended not to blame Obama for rising prices. By a majority of 53% to 38%, the voters blamed former President George Bush as more responsible than Obama for the economy’s problems. Even 12% of Romney voters suggested that Bush was more to blame than Obama for the weak economy.

Evidently, Obama achieved a feat that eluded Jimmy Carter and Herbert Hoover. He persuaded voters that his predecessor was to blame for their economic woes, and he managed to tar his challenger as less likely to succeed in correcting problems than he.

This is where the puzzle gets interesting. The fact that the voters did not hold Obama responsible for delivering a Misery Index that far exceeded what was experienced under any of his predecessors could mean that they doubt that anyone could have done better.

Or it could also mean that America’s electorate is no longer motivated by the middle-class ambitions of enterprise and self-reliance. As the late Mancur Olson was fond of pointing out, “Values reflect what used to pay.” Maybe the stall in middle-class incomes has gone on so long that many Americans have simply abandoned the ambition to get ahead.

Lane Kenworthy, an academic at the University of Arizona, has written a provocative article, “It’s Hard to Make it in America: How the United States Stopped Being the Land of Opportunity.” He argues that in recent decades fewer Americans born in the bottom fifth of incomes have managed to end up in the middle fifth or higher. He also argues that statistics show that inequality of opportunity is widening — exactly what you would expect from my analysis of the megapolitical impact of technology on income dispersion.

Furthermore, when compared to 10 other advanced democracies (i.e. “sicks”), Kenworthy says, the U.S. “has less relative intergenerational mobility than eight of them; Australia, Canada, Denmark, Finland, Germany, Norway, Sweden, and the United Kingdom all do better. The United States is on par with France and Italy.”

Perhaps lots of Americans have given up? They no longer imagine themselves becoming successful, and hence are prepared to sign on to a political program that promises to punish success, while subsidizing failure with means tested entitlements.

Times have changed. When Carter sought reelection against Ronald Reagan (with a much lower real Misery Index than Obama’s), Reagan famously claimed the allegiance of millions of working class, “Reagan Democrats.” His 1980 presidential campaign brochure advised “strong leadership in economic policy means lower taxes, more jobs, and less inflation.”

It also said: “Gov. Reagan has an economic program for America that will work because it’s a comprehensive program. A program that recognizes the interrelationships and complexity of our economy… One that combines the wisdom of leading American economists with common sense.”

The 1980 Republican campaign connected with voters with an economic plan that seemed credible in the circumstances. Reagan and Carter faced an electorate that was 88% white; only 12% black and Hispanic. The Asian-American vote was too small to measure.

Reagan won, capturing 56% of the white vote 14% of the black vote; 37% of Hispanics. 55% of men voted for Reagan, but only 47% of women. Among union households, 45% backed Reagan (the so-called “Reagan Democrats”).

The Republican campaign in 2012 lost the argument over the economy, even as it failed to connect with the growing array of hyphenated Americans.

Despite the fact that the majority of the electorate saw the nation on the wrong track, with an undeniably weak economy, exit poll interviews showed that 54% approved of the way Obama was doing his job. And the electorate was almost evenly split on the question of whether Obama or Romney could do a better job to improve it.

In other words, Romney failed to persuade voters
that he had a more convincing plan to deal with their problems than did the incumbent.

Normally in American politics, voters blame economic distress on the incumbent. The incumbent is the issue, not his challenger. In this election cycle, Obama’s campaign succeeded in making the challenger an issue. I was surprised at how successfully Obama’s camp was able to define Romney as an unsympathetic personality who would pose a threat to many had he taken office. Even my own daughter refused to vote for him on the grounds that he was “anti-woman.”

If the 2012 presidential election had been held a century ago, Romney would have won in a landslide. He took 59% of the white vote and a large majority of men. A century ago almost the entire electorate was comprised of white men.

If the electorate of 1980 had cast their ballots in 2012, Romney would have won. 59% of the white vote would have been 52% of the total. Indeed, the last candidate who took almost 60% of the white vote, George H. W. Bush in 1988, won a 425 electoral vote landslide over Michael Dukakis.

No longer. In 2012, Caucasians comprised only 72% of the U.S. electorate, with 28% accounted for by African-Americans and other minorities. I was not surprised that 19 out of 20 African Americans cast their ballots for Obama. That is what happened in 2008. I was mildly surprised, however, that the participation rates among African Americans were higher than usual.

Many Republican strategists and pollsters were banking on the expectation that participation rates among Democrat-leaning minorities would tail away in 2012, as they had in 2010. In fact, voting among non-Caucasians increased by two percentage points from 2008.

I was dumbfounded that three out of four Asian Americans voted for the incumbent. Apparently, the results were driven more by demographics and group affinity than by economic interest.

Asian-Americans are generally a successful, high-income group. In fact, their median income is higher than that of white people. Other things being equal, they are less likely to be found among the 47% of the electorate famously labeled by Romney as considering themselves “victims.” Yet the anti-immigrant posture of the Republican Party drove almost three-quarters of the over-achieving, high-income Asian-American community to vote for Obama.

Clearly, identity politics has trumped economics when high-income hyphenated American groups vote like poor people.

It is something of a small miracle that Romney’s share of the Latino vote was higher than his portion of the Asian-American vote. In spite of his inflammatory suggestion that immigrants brought illegally as children to the United States by their parents should “self-deport” themselves, Romney’s share of the Latino vote dropped by only 13%, from the 31% garnered by John McCain to 27%.

The most obvious take away from the election is that the Republican Party and its presidential candidate were tripped up by changing demographics.

Conceivably, if Romney had been a better candidate and better advised he might have minimized the demographic liability with a shrewder selection of his vice presidential running mate. Florida Sen. Marco Rubio on the ticket would’ve almost certainly brought Florida’s 29 electoral college votes into the Republican camp.

And a Latino on the ticket could have bumped the Republican percentage of the Hispanic vote closer to the 40% garnered by George W. Bush in 2004. An additional 13% of Latino electorate would have been a swing of 1,575,000 votes — enough to make Romney the winner of the popular vote and probably enough to tilt some closely contested states like Virginia into the Republican tally.

Another conclusion that I suspect is yet to be demonstrated by events is that the fond desires of voters of any and all ethnicities to treat Washington as a wishing well from which they can enjoy easy answers to life’s predicaments is destined to be disappointed in the next four years. All the fantastic hopes and promises of the campaign are destined to collide at the dead end of declining growth.
Romney suffered many embarrassments in the 2012 presidential campaign. By having lost, he spares himself the added embarrassment of proving that there are not millions of jobs to be conjured up by “talking tough with China.” Nobody knows how to rekindle the kind of robust economic growth the United States enjoyed in the middle of the last century. Ethnic affinities and sexual politics aside, we probably face several more disappointing presidential terms before this unwelcome lesson can be learned.

The crux of my argument is that while voters may choose to believe whatever they please, the actual range of choice is far more narrow than most people suppose. As I argue above, inequality in the ability to earn income is a consequence of the nature of productive economic processes given current technology.

**Income Inequality Will Stick Around**

No one can choose to effectively reduce income inequality unless they are a divine genius on the order of Leonardo da Vinci who can conjure up new technologies, in the manner of the assembly line, which produce the same effective output no matter who is using them.

But even that fond wish has its logical limits. Imagine a technology like a microphone that makes everyone sound like an opera diva or a winner of American Idol. Would that make everyone a rock ‘n’ roll star? No. The markets are not deep enough to absorb the musical output of everyone who picked up a “Magic Mike.”

If everyone could perform beautiful music effortlessly that would merely kill the music industry. There would no longer be any rock ‘n’ roll stars. Although we don’t see it that way, the music market thrives on the fact that everyone cannot sing an aria like Pavarotti or a pop song like Sinatra or Carly Simon.

The more closely you examine it, the more likely it seems that the “middle-class” democracy is an unstable construct that flourished in a rare moment of history and may now be destined to disappear.

The record of recent decades suggests that “disruptive” technologies facilitated by microprocessing are better suited to creating wealth for a narrow segment of the population while undermining the market for unskilled labor than they are to indiscriminately raising incomes for everyone.

This month’s recommendation of 3D printing pioneer 3D Systems Corp. provides a case in point. It is already apparent that 3D printing is a growing field, still in its infancy. As Charles suggests, as 3D printing is perfected it will have disruptive implications for existing businesses.

While the owners of 3D Systems Corp. may make out-sized gains reminiscent of those booked by Rich and Mary Bleyle in Apple, to the extent that 3D printing takes hold, it will eliminate semi-skilled jobs in manufacturing and transport. In other words, income inequality seems destined to expand.

Governments can choose to make incomes more equal by reducing everyone to poverty. But if the ambition is to make the economy prosper, the degree of economic inequality that entails is likely to grow to a level far greater than the median voter would welcome.

The result to be expected is more aggressive income redistribution, on the Greek model (as it was pursued prior to 2009). Politicians will predictably offer patronage jobs at high wages, with early retirement on unaffordable pensions. It is just as predictable that such palliatives will not stand the test of time.

Notwithstanding the special currency leverage the Greek government enjoyed from its membership in the European Union, Greece went broke. That same destiny awaits other governments, even the United States, that undertake spending that does not pay its way.

**Growth Will Slow, No Matter What**

In previous issues, we have explored the biophysical limits to growth, which most emphatically assert themselves in the diminished supply of cheap oil that provides the energy to fuel economies. I believe the steady fall away in the supply of cheap oil is im-
plicated in many of the economic problems we have experienced to date.

For example, I doubt it is a coincidence that the 30% decline in the average annualized growth of U.S. “total factor business productivity” since the early 1970s began around the time of peak conventional oil production in the U.S. and the oil price shock of the Arab oil embargo.

As the rate of growth of world crude oil production declined from 7.9% in the early 70s to 4% through 1980, to 1.3% through 2005 to 0.1% through the current period, the price of oil rose steeply. Oil was selling for just over $10 a barrel in 1998. In 2001 it was $20. Today it is $87.

Because of the high correlation between oil prices and the cost of food, the nearly 10-fold surge in oil from 1998 to a high of $145 per barrel in July 2008 had a devastating impact on the finances of sub-prime mortgage holders, culminating in the world financial crisis in the autumn of that year.

As the price of food and commuting rose, many economically marginalized consumers cut back their discretionary spending, including their now unaffordable mortgage payments. This led to a whole chain of unwelcome consequences: debt defaults and crises for banks and surging deficits for most of the governments of oil importing countries.

As Gail Tverberg put it, “the governments of many oil importers find themselves with huge budget deficits, and declining ability to fix these deficits. This pattern is precisely what we are seeing today in many of the Eurozone countries, the United States, Japan.”

Some economic optimists, as exemplified by my friend Porter Stansberry, believe that horizontal drilling technology will outsmart the dynamic of de-growth implied by peak oil. Indeed, Porter has even projected that an economic boom stimulated by a massive increase in the output of “tight” oil from the Bakken field in North Dakota and similar shale formations will ignite a clamor for a third term for Obama.

This unlikely scenario seems was reinforced in November when the International Energy Agency, the Paris-based extension of the OECD, published its World Energy Outlook 2012.

Among other things, the IEA forecasts that the United States might become the world’s largest oil producer within five years and become a net exporter around 2030.

Don’t hold your breath. I think the IEA forecasts are wildly unrealistic. Among other things, they project a heroic improvement in the efficiency of U.S. oil consumption with total liquids use (oil equivalent), forecast to plunge from 18.8 million barrels per day to just 10 Mbpd by 2030. That supposes a 3.5% annual decline in consumption for the next 18 years.

The IEA forecast that the oil intensity of the OECD countries will improve significantly over coming decades is rubbish. Legacy inefficiencies are deeply embedded in economies, particularly that of the United States. It is all but impossible to radically improve the efficiency of energy use in the U.S. without deploying trillions in capital that we don’t have to install new infrastructure.

Proof of the difficulty of rapidly improving legacy inefficiencies and energy is provided by the economies of the former Soviet Union. Notwithstanding the record high oil prices exceeding $145 per barrel in 2008, the former Soviet republics continue to have very high energy consumption per capita and relative to GDP when compared with European countries. They had high incentives to improve the efficiency of their energy consumption, but they couldn’t do it because it just isn’t that easy.

Just about the only way to radically reduce U.S. energy consumption in keeping with the IEA forecast would be for the country to suffer a deep depression. As I suggest below, this unhappily is not as unlikely as the infatuated American electorate supposes.

Furthermore, the IEA suggests that its prediction for a huge increase in “tight” oil supplies and natural gas liquids can occur with only a modest increase in oil prices. This seems unlikely.

For one thing, according to Bernstein Research the marginal cost of oil production has been increasing at a 12% annual rate net of inflation. With the cur-
rent marginal cost being $92 a barrel, if future cost escalation compounded at just 7% annually, that implies a production cost of $169 per barrel in 2020 and $467 a barrel by 2035.

Another factor underscores the unlikely character of the IEA projections. Getting “tight” oil out of the ground is so expensive with fracking and horizontal drilling that monthly net cash flows from the Bakken region tend to “run in the red” — even with oil priced around $90 a barrel. This puts producers in the position of requiring debt financing to expand production. Some have even postponed production entirely until its profitable.

From my perspective, you are still looking ahead at decades of de-growth that will erode living standards of most people in the “sick” economies, bankrupt governments and make it ever more challenging for you to enjoy the fruits of your success.

Seen from the perspective of generally accepted accounting principles (GAAP), the real, or GAAP-based federal deficit has averaged about $5 trillion per year since 2004. With a view toward confusing negotiations over the “fiscal cliff,” Obama’s Treasury Department has withheld publication of the GAAP-based accounts for the U.S. government for 2012 until the end of January 2013.

SGS projects that the deficit for 2012 “likely topped $7 trillion.” The relevance of this statistic and the reason that could not be published before the fiscal cliff questions are kicked down the road is that it explodes the gag. When you consider the actual deficits of the U.S. government, it is apparent that no conceivable tax increase could ever bring them into balance. The U.S. government is hopelessly insolvent.

The result to be expected is a long-term extension of quantitative easing. In other words, the only answer for the need to finance unpayable obligations is that the government will continue to create money out of thin air to pay its bills.

Sooner or later, that will lead to hyperinflation. You should buy into 3D Systems, the company my colleague Charles De Valle will recommend below.

You should also buy gold, and look to international-ize your finances and business life so that you are not wiped out with the middle class in Obama’s coming hyperinflation.

Look out below,

James Dale Davidson

Get into the Next Disruptive Trend Early

By Charles De Valle

The greatest innovations that took the world by storm were all disruptive by nature.

In other words, they were powered by unforeseen trends that completely changed the way business was done in this country.

These disruptions changed everything.

So today, I want to introduce you to a major disruptive technology that most people know nothing about yet. This tech is already disrupting the way medical companies operate. And it’s going to change the manufacturing sector in a massive way.

The Future of Manufacturing

Imagine a world where you can buy a product online… and then a 3D printer in your house begins to build the item right before your eyes.

No longer would a company have to invest heavily in increasing its manufacturing output or buying raw materials, because 3D printers would allow people to manufacture what they buy at home.

Or imagine drafting a new product… and then manufacturing it at home.

With 3D printing, an entrepreneur could have the opportunity to “test” sales of his product on the market,
without risking hundreds of thousands of dollars pre-ordering it from a manufacturer and hoping that sales can eliminate the loss.

This all might sound a bit far-fetched.

But believe it or not, 3D printers have been in development since 1984 when inventor Charles Hull came up with a process called stereolithography to print 3D objects using a special polymer.

Over the years, scientists have learned how to print 3D objects using various plastics, metals, glass, concrete and even chocolate. They’ve even learned how to “print” human cartilage. Researchers are already working on methods to “print” electronics. This would let someone ultimately use a 3D printer to create things like smartphones or TVs.

The potential for 3D printing is amazing. And the more you look into the possibilities, the more you begin to see that 3D printing may very well be the next disruptive phenomenon.

It will change the way the world operates and does business. Indeed, it’s already having that effect. Look no further than the hearing aid industry.

In the last two years, nearly every hearing aid manufacturer switched their build process to 3D printing. Why? Because it let them easily (and affordably) customize the fit of hearing aids for each individual buyer.

And what we’re seeing today is just the beginning.

The advent of 3D printing could allow a shoe retailer to print you a customized pair of shoes… or a clothing store to print you a customized pair of jeans. In fact, virtually anything can be customized to your exact specifications with 3D printing.

In a consumer society, this is key. Everyone wants to be an individual. So they customize everything they can. They want whatever they have to exude their personality, not their friends’.

But that’s not cheap to do. However, 3D printing would make it cheap.

This won’t happen overnight, though. These 3D printers today are roughly where the copier was when Xerox introduced it in 1959. In other words, we’re at the ground floor of the next technological disruptive technology. And I’ve found the perfect company to ride this trend all the way to the bank.

Your Opportunity to Get in Early on the 3D Printing Revolution

This company is 3D Systems (NYSE:DDD).

3D Systems designs, develops, manufactures, markets and services 3D printers and related products, print materials and services.

The 3D printing field, as I mentioned above, is in its infancy. 3D Systems’ only real competitor is a company by the name of Stratasys.

I love this because 3D Systems isn’t forced to share its market with 10 other companies. As long as 3D Systems keeps ahead of the industry, its growth is virtually guaranteed. Over the last three years, it’s kept ahead of the competition by swallowing up the most promising companies in the 3D printing market.

Since the second-half of 2009, 3D Systems made 31 different acquisitions. It has acquired companies to support the demand of parts and services, help expand its 3D printer penetration and technology platform, branch out into healthcare, launch consumer solutions and expand its integrated 3D authoring solutions.

At the end of the day, 3D Systems is acquiring companies to create a seamless customer experience. 3D Systems wants to be the one-stop 3D printing shop.

To get there, the company is focusing on five growth initiatives:

- **Initiative 1:** Accelerate 3D printer penetration through a steady stream of new products and ongoing channel extension.
- **Initiative 2:** Grow revenues from its healthcare acquisitions.
- **Initiative 3:** Extend on-demand parts services through organic growth, acquisitions and investments in technology and capabilities.
• Initiative 4: Build a consumer presence in the entire content-to-print experience.

• Initiative 5: Integrate computer-aided design, capture, inspection and manufacturing tools onto to a single platform to serve all ideation to production needs.

It started working on the first three initiatives years ago. And those first initiatives are primarily responsible for the company’s record revenues and earnings growth in 2012.

Healthcare solutions is, by far, the company’s fastest growing category. For the first nine months of this year, revenue increased 82% and made up 14% of its total revenue.

And that growth is projected to continue for years to come.

Several weeks ago, 3D Systems said it developed the next generation of custom 3D printed hand brace devices.

Its scan-to-print technology is set to replace traditional labor-intensive, cumbersome hand brace devices with 3D printed braces that are personalized to the patient.

This product is set to launch during the second half of 2013. And it’s just one example of how 3D Systems plans to keep growing its earnings.

By 2017, 3D Systems believes its 3D printing will reach the mainstream consumer.

And the company is positioning itself as the dominant 3D printing solution on the market. Over the past two years, it’s introduced 11 new printer products. And MAKE Magazine said that 3D Systems has “the simplest to use and most reliable to operate 3D printer” on the market today.

But what I really love about the company is that 3D Systems lets you take advantage of bleeding-edge advancement, without the risk associated with new industries or startups.

Despite an amazing outlook, 3D printing is not in the mainstream. Yet, 3D Systems is making money right now. It registered double-digit revenue growth for 11 straight quarters. And its earnings per share minus one-time items is projected to grow by 138% for 2012 alone!

A recession isn’t going to reverse that trend either. In a recent conference call, the company was asked whether the fiscal cliff or a European recession would force it to scale back earnings projections. Quite the contrary, the company increased its projections, even knowing full well that the global economy is facing a rough patch in the years ahead.

That’s the power of the 3D printing industry.

This is more than hype. In a few years, 3D Systems will begin hitting the mainstream consumer with affordable printing solutions and everyone will be talking about 3D printers.

And 3D Systems shares will soar, much like Apple’s shares soared a few years after they introduced the iPod.

This growth can be yours, if you get in early. Right now is the perfect opportunity to buy into this company that is set to bring the world its next “disruptive” trend.

So go ahead and snatch up shares of 3D Systems today, but don’t chase shares past $45.

Portfolio Review

Now that the elections are finally over… what next?

Tough times, that’s what.

The first thing that should go without saying is that with Obama re-elected, nothing has fundamentally changed about the outlook for the U.S. economy.

Jobs aren’t being generated fast enough. Our GDP is at stall speed. Interest rates will stay obscenely low. And ObamaCare — along with its fees (or should I say taxes) is a done deal.

And this bleak outlook could last for much longer than most people think. That’s why our portfolio consists of stocks that help you grow and protect your wealth by capitalizing on tremendous growth overseas.

How to Tap into Chile’s Social Security System

Since recommending Chilean pension provider Administradora Provida (NYSE:PVD) in June of 2012,
shares have rocketed 44.6%. It also pays a handsome 7.5% dividend every year.

Now, I’d like to address a question reader Dave P. sent in about PVD.

“Why has Chilean stock symbol PVD gained so much value so much over the last few months? Is it because there is a buyout offer? At what price should I sell it or should I hold it?”

Dave, there are definitely rumors of a buyout offer on the table for PVD. But this is old news, and no one knows if it will happen.

The fact is, PVD is an extremely safe and well-managed institution that’s taking advantage of the tremendous growth in Chile.

At this point, it’s likely any buyout offer would be for more than the shares are worth today. So it’s worth holding on to longer, especially since it pays out a hefty dividend yield.

**Buy When There’s Blood on the Streets**

Another foreign company we recommended is Brazilian energy producer **Cia Energetica (NYSE:CIG)**.

Earlier this year, we had a nice gain on the company. But after the Brazilian government revised its tariff structure, which will modestly reduce Cia’s earnings, the stock plummeted 40%.

This is what I call a classic overreaction. There is no way that this new law will lower Cia’s profits by 40%. It has too many assets that aren’t affected by Brazil’s new tariff scheme.

Profits could fall 10%, maybe 20% at most, once the new regulations take effect. Which means PVD’s stock is undervalued by roughly 20% to 30%.

So you have a great opportunity to buy more shares and average down your price. This isn’t something we normally advocate, but this is a classic case of panic selling.

The fact remains that nothing has fundamentally changed about the trends that will drive Cia’s earnings higher in the years ahead.

We recommended Cia because of the robust growth of electricity demand in Brazil. This demand has been growing all year long. And with lower electricity prices next year, demand should pick up.

This is something those panicked investors didn’t think about.

Right now there’s blood in the streets, and I suggest you take advantage of it. Once investors realize Cia is doing just fine, share prices will do nothing but climb.

And you stand to make a good sum of cash.

**Riding Brazil’s Consumer Boom Has Never Been So Easy**

When we first recommended **Ultrapar (NYSE:UGP)**, we told you it would make money as more Brazilians enter the middle class and begin buying things like cars… makeup… detergents… and all the other perks we take for granted.

And this is exactly what’s been happening.

On November 7, Ultrapar reported that its revenues grew 9% in the third quarter compared to last year. That’s decent, but what really thrills me is that its net earnings grew three times faster than revenue.

This means the company is keeping more money for every product it sells, which expands its margins. That gives Ultrapar the cash flow to introduce new products… buy out competitors… and to keep steadily increasing its dividend for years to come.

**An Opportunity at Home**

It’s obvious that the real economic growth isn’t happening in America, it’s overseas.

But that doesn’t mean there aren’t opportunities in the U.S. for you to take advantage of.

Remember ObamaCare?

Well, that law is going to funnel hundreds of billions of dollars into the healthcare sector. At the same time, it’s forcing hospitals and drug companies to cut costs, improve treatments and become more efficient.
If you can find a company that can meet those demands… you’ve found an opportunity to make big bucks.

That’s why we own a small drug company called TapImmune (OTCBB:TPIV).

TPIV is currently testing a drug that triggers your immune system to attack cancerous cells or tumors. But here’s the kicker: this drug ensures no damage to healthy cells.

Again, this could revolutionize cancer therapy in this country. But it’s still years away from hitting the market.

And with TVIP being as small as it is, its shares can go up and down in price for no reason at all.

This leads me to a question reader Brian C. asked:

“Could someone tell us what’s happening with TapImmune? [The] price is really taking a dive.”

Brian, earlier this month, the company enrolled its first four patients (it’s only accepting five) into Phase 1 clinical trials with the Mayo Clinic. These trials try to determine what proper dosing is and what the side effects might be.

The trial isn’t set to end until June of 2015. But you don’t have to wait that long to see what’s happening. Once it accepts the fifth patient, the Mayo Clinic will start compiling and releasing its preliminary results as they come in.

If you want to follow the action, simply go to this website: http://clinicaltrials.gov/ct2/show/results/NC TO1632332?term=her2%2Fneu+vaccine&rank=3

You should expect to see TapImmune’s share price react as preliminary results start coming in. At the first sign of bad results, we’ll sell this stock. But if TapImmune’s drug passes Phase 1 with flying colors, its stock could easily climb to $1 a share or more.

That’s more than eight times our return on investment.

Our recommendation is that if shares fall below 10 cents, buy more.

Just realize this is a speculative investment. So don’t put all your eggs in this basket.

---

**Short the Ugly**

While the outlook for TapImmune is promising, there are companies that aren’t doing so well.

That’s why we recommended shorting Education Management (NasdaqGS: EDMC).

As you know, today there are more people enrolled in higher education than ever before. As a nation, we carry more college debt than credit card debt.

The bottom line is, colleges are doing great. But not Education Management.

Everything that could possibly go wrong for the company is. It’s on the verge of losing its accreditation. And it’s being hammered with lawsuits that it’s bound to lose, or go broke trying to fight.

Since recommending you short the stock back in May, we’ve made 73.5%.

And we’re going to cross our fingers and hope this company’s sheer incompetency makes it go bankrupt.

So long as the economy muddles along, the Fed will keep interest rates low and the printing press on.

Its goal is to try to spur lending (with consumers already overloaded with debt), while also eroding the value of your savings account by giving you a yield that can’t keep up with inflation.

The only way to offset that is by getting into stocks that pay you a return above the rate of inflation.

**A Hated Dividend Darling Everyone Should Own**

That’s why we recommended you buy tobacco producer Altria (NYSE:MO).

This is a company with a very simple business model. It plants tobacco, then harvests and refines it into cigarettes and smokeless products, which it sells and keeps 42 cents on every dollar it brings in as profits.

It’s an easy to understand and lucrative business model. And it’s one that the government has been unable to shut down no matter how hard it has tried (especially in the ’90s).
Let me tell you: keeping a business alive when the government wants nothing more than to shut you down is a feat most other companies can’t accomplish.

And despite all of that pressure, Altria still managed to raise its dividend by an average of 8.7% on 46 separate occasions over the last 44 years.

It’s done this by innovating. The company realized that the cigarette business was in a permanent decline. So it introduced smokeless tobacco products that are seeing very robust sales. It also expanded into the growing wine market to diversify itself.

And it’s paying off for us.

Since recommending the company in June of 2010, we’ve realized a 74% gain. And there’s much more to come in the years ahead.

There’s Nothing Better Than Tax-Advantaged Income

Let’s face it: Uncle Sam taxes your average dividend at a rate of 5% or 15% if you’re above the 25% income tax bracket.

But by getting income from a municipal bond, you can avoid the dividend tax rate.

That’s why we recommended you snatch up Van Kampen CA Muni Income Fund (NYSE:VCV) and the PIMCO CA Muni Income FD II SBI (NYSE:PCK).

Both of the California municipal bond funds pay you a tax-advantaged yield of more than 6.5% a year. An average income stock would have to yield nearly 8% to beat that.

Since recommending these funds in August of 2009, we’ve made returns of 46.7% on PCK and 40.6% on VCV.

With the prospect of higher dividend taxes coming next year, we see even more investors piling into these funds. So we should make a lot more money.

A Precious Way to Make Money

While income stocks give you a great way to make money in a world of zero-percent interest rates, the fact is the policies the Fed and government are pursuing today will eventually decimate the dollar.

That’s the goal — to inflate our debt away so that it’s easier to pay off later. Looked at in that way, it makes sense why the government would pursue that strategy.

But it comes at your expense.

Eventually, every dollar in your pocket will lose a massive amount of purchasing power.

That’s not the fate we want for you.

That’s why we added some precious metals exposure into our portfolio by buying the SPDR Gold Trust Shares (NYSEArca:GLD) and Canadian silver exploration company Orko Silver (TXSV:OK.V).

The more money the Fed prints, the more value your precious metals gain.

But this gain isn’t just limited to these two metals. The price of oil will also climb. However, we didn’t want to strictly buy an oil fund. Oil prices are extremely volatile.

A safer way to make money from booming oil prices is to buy into the companies that provide the specialized equipment the oil companies need to extract it.

That’s why we recommended deep sea oil rig producer SeaDrill (NYSE:SDRL). We’re up a modest 6% since introducing it to you. But there’s no reason why prices won’t go much, much higher.

If you recall, SeaDrill has virtually cornered the offshore drilling market.

And with every major oil company looking to expand production in offshore oil finds (especially Brazil), demand for SeaDrill’s rigs will keep growing for years to come.

A Currency Designed to Fail

You already know how I feel about the dollar. But believe it or not, there is another major currency that is in much worse shape — the euro.

The euro was originally conceptualized as a way to
unify European countries that had a long history of fighting wars with each other.

But there was just one problem…

The currency was designed to fail because the EU never formed a true fiscal union. And no currency has ever survived very long without a fiscal union.

Over the last few years, small steps have been taken to make a real union happen. But we don’t see how Greeks, Germans, Italians and other proud cultures will ever give up their nationality to a sovereign entity they simply don’t trust.

Not only does that not inspire confidence in the euro, but it could lead to its downfall. That’s why we recommended the Market Vectors Double Short Euro ETN (NYSEArca:DRR).

If the euro implodes, we stand to make a 200% return. If the euro nations simply splinter off and keep the currency intact, we could make 50%-60% returns.

Perfectly Positioned for a Changing World

As you can see, we’ve made every effort to position the Strategic Investment portfolio to maximize on the unique situations that are driving the world today.

And as more opportunities arise, you’ll be the first to know.

Until next month,

Charles Del Valle

<table>
<thead>
<tr>
<th>Strategic Investment Portfolio</th>
<th>Date Added</th>
<th>Price on 11.29.12</th>
<th>Purchase Price</th>
<th>Dividend Yield</th>
<th>Total Returns</th>
<th>Currency Adjusted Total Returns</th>
<th>Advice</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>NEW BUY</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3D Systems Corp. (DDD)</td>
<td>New</td>
<td>New</td>
<td>New</td>
<td>New</td>
<td>New</td>
<td>New</td>
<td>Buy - up to $45</td>
</tr>
<tr>
<td><strong>STRATEGIC INVESTMENTS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administradora de Fondos / Pensiones Provida (PVD)</td>
<td>6/6/12</td>
<td>$104.50</td>
<td>$74.48</td>
<td>_</td>
<td>44.55%</td>
<td>44.55%</td>
<td>Buy - up to $106</td>
</tr>
<tr>
<td>Altria Group Inc. (MO)</td>
<td>6/9/10</td>
<td>$33.15</td>
<td>$20.05</td>
<td>5.3%</td>
<td>85.0%</td>
<td>85.0%</td>
<td>Hold</td>
</tr>
<tr>
<td>Cia Energetica (CIG)</td>
<td>8/23/11</td>
<td>$11.45</td>
<td>$14.21</td>
<td>4.5%</td>
<td>-7.1%</td>
<td>-7.1%</td>
<td>Buy - up to $15</td>
</tr>
<tr>
<td>Education Management (EDMC)</td>
<td>5/2/12</td>
<td>$3.48</td>
<td>$12.31</td>
<td>0.0%</td>
<td>71.7%</td>
<td>71.7%</td>
<td>Hold Short</td>
</tr>
<tr>
<td>Market Vectors Double Short Euro ETN (DRR)</td>
<td>1/26/11</td>
<td>$44.88</td>
<td>$43.10</td>
<td>0.0%</td>
<td>4.1%</td>
<td>4.1%</td>
<td>Buy - up to $46</td>
</tr>
<tr>
<td>Orko Silver (OK.V)</td>
<td>8/24/12</td>
<td>C$ 1.60</td>
<td>C$ 1.50</td>
<td>0.0%</td>
<td>6.67%</td>
<td>6.67%</td>
<td>Buy - up to $1.50</td>
</tr>
<tr>
<td>PIMCO CA Muni Income FD II SBI (PCK)</td>
<td>8/7/09</td>
<td>$10.83</td>
<td>$9.14</td>
<td>6.7%</td>
<td>45.4%</td>
<td>45.4%</td>
<td>Buy - up to $11</td>
</tr>
<tr>
<td>Rockwell Automation (ROK)</td>
<td>10/29/12</td>
<td>$78.49</td>
<td>$70.25</td>
<td>2.67%</td>
<td>11.73%</td>
<td>11.73%</td>
<td>Buy up to $77</td>
</tr>
<tr>
<td>SeaDrill (SDRL)</td>
<td>7/31/12</td>
<td>$39.21</td>
<td>$38.79</td>
<td>_</td>
<td>1.96%</td>
<td>1.96%</td>
<td>Buy - up to $43</td>
</tr>
<tr>
<td>SPDR Gold Trust Shares (GLD)</td>
<td>1/20/11</td>
<td>$168.71</td>
<td>$131.57</td>
<td>0.0%</td>
<td>28.2%</td>
<td>28.2%</td>
<td>Buy - up to $175</td>
</tr>
<tr>
<td>TapImmune, Inc. (TPIV)*</td>
<td>5/2/12</td>
<td>$0.11</td>
<td>$0.17</td>
<td>0.0%</td>
<td>-43.0%</td>
<td>-43.0%</td>
<td>Buy - up to $0.15</td>
</tr>
<tr>
<td>Ultrarap Holdings (UGP)</td>
<td>9/26/12</td>
<td>C$ 21.06</td>
<td>C$ 22.38</td>
<td>2.3%</td>
<td>-5.90%</td>
<td>-5.90%</td>
<td>Buy - up to $26</td>
</tr>
<tr>
<td>Van Kampen CA Muni Income Fund (VCV)</td>
<td>8/7/09</td>
<td>$14.08</td>
<td>$11.88</td>
<td>6.9%</td>
<td>44.8%</td>
<td>44.8%</td>
<td>Buy - up to $15</td>
</tr>
</tbody>
</table>

NOTES:
The Strategic Investment Portfolio is an equally-weighted strategy and does not include taxes or dealer commissions, if any. “Total return” includes capital gains, dividends, interest payments, and stock splits. “Total Return (currency adjusted)” is equal to the “Total Return” adjusted for any gains or losses due to currency fluctuation on securities listed on non-U.S. exchanges. “The Purchase Price is based on the first closing price after the recommendation's release. Sources for price data: Yahoo Finance, and websites maintained by securities issuers. Dividend yield is based on trailing 12-month distributions. Stop-losses: The Strategic Investment Portfolio maintains a 25% trailing stop-loss on every stock, ETF and bond recommendation. The 25% stop-loss is waived for any security listed in the portfolio marked with an asterisk(*)