

November 6, 2008




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MERITOCRACY WINS

Everyone in the world was an American on Tuesday night as Barack Obama completed his impressive conquest of history and the Presidency. When the TV networks placed California in the Democratic column at the stroke of 8PM in Los Angeles, the streets of a thousand cities exploded with cheers. This global moment of togetherness should have far more impact than the negative global moment, which resulted from the disaster on September 11, 2001, as this current positive impulse should push the world toward supportive interactions rather than drive it into a collective defensive crouch. In one swift motion, the United States has reclaimed its legitimacy and the Statue of Liberty can look with pride again across New York Harbor. The problems of the world are still there. Obama's victory does not solve any of them, and it might even aggravate some of them, but new eyes will examine them and new ideas will follow. His success places America back on the pedestal that it first claimed 400 years ago, when the country was nothing but a wilderness waiting to be shaped. The land of opportunity is still here. Anyone can succeed and anything is possible.

Obama's victory over McCain and his sidekicks George Bush, Sarah Palin, and Joe the Plumber was also the triumph of meritocracy over mediocrity. America has attracted the best to its graduate universities and to the creative jobs that are available in its scientific, financial and corporate sectors, but underachieving glad-handers have often dominated its politics. As de Tocqueville first noted, because Americans value hard work and search for wealth, they hold elites in contempt and worship the diligent bourgeois businessman. Ordinarity was valued above exceptionalism. With the growing complexity of

society and the economy, it has taken more and more education to achieve financial success, thereby creating an educated elite; a meritocracy has developed to lead American society. This has battled with de Tocqueville's common man. Often this struggle has held America back. The victory of Barack Obama, representing the educated elite and the possibility of growth and change, over the Republicans, representing small town America with its 'Joe six-packs and hockey moms' solidity and conservatism, was one that will bring an open dialogue with the world and an embrace of the future.

What impact will this have on the trajectory of the US economy and the dollar? In the near term, the answer will be, "not much," as the shocking deflation of the global credit balloon won't stop until the bad credits are expunged from the balance sheets and capital accounts. If anything the Democratic desire to protect the voting populace from the rigors of joblessness and bankruptcy will slow the collapse of this balloon, but it is likely that the efforts to help the losers will be too late. After the economy hits the bottom sometime before next summer, the transfer of monies to the consuming classes, hopefully through infrastructure jobs and cheap mortgages, will get the US economy going again. The success of Obama's efforts will be apparent when the equity markets start climbing and the dollar starts dropping. Although we expect to see this by next fall, growth will probably remain under pressure for the whole of next year. But we are sure that Obama's example and his embrace of the future will increase the flow of emigrants to America's shores, allowing her to outpace Europe in the decade ahead. 

CYCLICAL PERSPECTIVE

Although the euro has fallen sharply since this summer, it should have at least six months more months of weakness ahead before it reaches a major low. For the past few months, we have been focusing on the dollar cycles, looking at the impact of global liquidity on the strength of the dollar. The cycles seem to argue that the dollar should benefit from the liquidity situation for at least another two months and possibly as long as eight months. In order to get a full picture of the EUR/USD cycles, we should look at the other half of the pair.

Although the EUR/USD and the USD/JPY are both driven by the liquidity cycles, the euro is also influenced strongly by its own economic cycles. Since the inception of the euro at the start of 1999, we have witnessed a period of relative prosperity within the Eurozone. The positive impact of lower interest rates and the resulting construction boom in Southern and

insular Europe offset much of the industrial and export downturn, which primarily impacted Northern Europe, in the global mini-recession of 2001 to 2003. As a result, European rates did not decline significantly and the negative business conditions did not push the euro down very much. There was a minor slowdown in 2005 and into 2006, which brought business confidence down and longer interest rates as well, but the impact of this was minor as global liquidity was flooding out of the US at the same time, offsetting much of Europe's weakness. The situation is far different today, as dollar liquidity is extremely tight and the European business indicators are turning deeply negative as well. The interest rates cycles argue for at least another year of decline ahead of us, and an economic recession is coming in 2009. The euro should have much more to drop. 