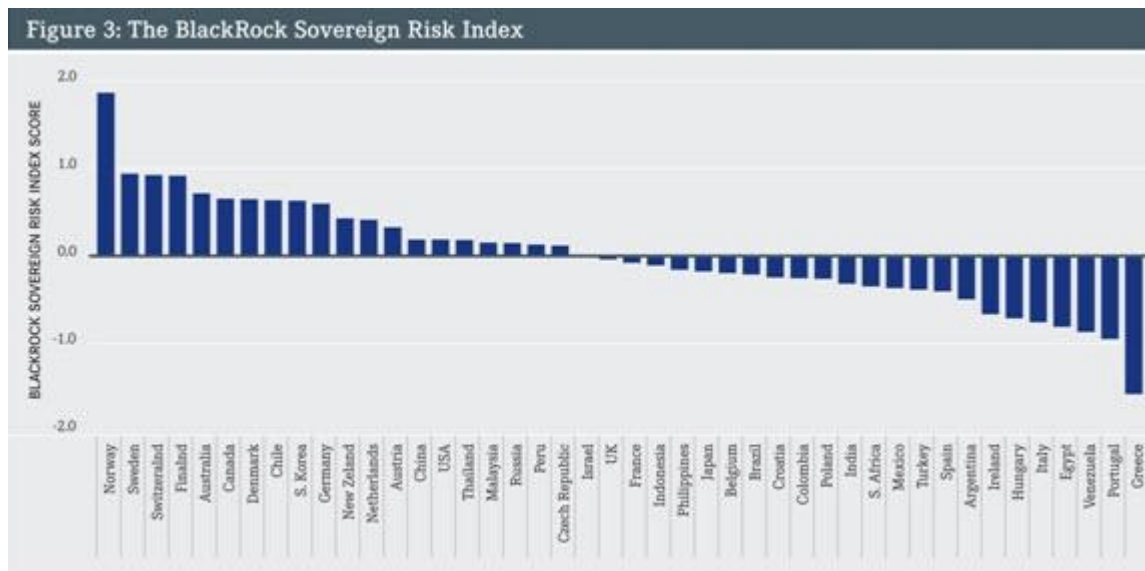


A DIFFERENT KETTLE OF FISH

WEB BUZZ 2011.09.06

Sovereign countries worldwide have come to the rescue of their respective private economies, primarily their financial sectors, thereby increasing their debt to such an extent that many question their viability. We are in a true global government finance bubble. The question becomes who bails out the really too big to fail governments?

The following chart is BlackRock's index of the risk included in most of the countries we care about.



Sources: IMF, Eurostat, Bloomberg, World Bank, United Nations, BIS, Central Bank Websites, Consensus Economics, EIU, Euromoney, PRS Group, Moody's, Standard and Poor's, Fitch.

Adapted from seekingalpha.com

You might note that the U.S. is in the upper third of group quality, about on par with China. We are not aware of the criteria that BlackRock used; however, from our viewpoint the U.S. is much more credit worthy than some of those listed as being better.

Now, just who is left to bail out the various governments if something else goes wrong? Maybe Warren Buffett? That's a joke, son. He is big, but not that big.

Most are looking at Germany to take care of their European partners. Unfortunately, there is no one around that is big enough to take care of us. On the other hand, most of the rest of the world depend on our consumers, so maybe a combination of China and others can do the deal. Doesn't this possibility reveal just how stupid our economic policies have been over the last 70 years?

The question we asked is not the important thing to have answered, however. What this global government finance bubble means is that the world as we have known it for the last 70 years is over. As John Mauldin's most recent book proclaimed, we are at "The End Game." Inflation and debt buildup is over. Deflation and debt deleveraging is the name of the game for as far as we can see.

Caution, quality, and safety remain the hallmarks of any good investment strategy as we transition to a much different economy.