



Thanksgiving amid the Threats

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The Threat Is Here

Hong Kong, Hollywood (Florida), and the Cayman Islands

By John Mauldin | November 27, 2015

“Nobody in Europe will be abandoned. Nobody in Europe will be excluded. Europe only succeeds if we work together.”

– Angela Merkel, December 15, 2010

“Within our mandate, the ECB is ready to do whatever it takes to preserve the euro. Believe me, it will be enough.”

– Mario Draghi, July 25, 2012

“We have to safeguard the spirit behind Schengen,” Mr Juncker told the European Parliament on Wednesday. “Yes, the Schengen system is partly comatose. But . . . **a single currency does not exist if Schengen fails.** It is one of the pillars of the construction of Europe.”

– *London Telegraph*, November 25, 2015

We all have great cause for gratitude this Thanksgiving weekend, whether or not you celebrated that holiday in your home country. In the last month we have seen how violence can touch people far from the battlefields. If your only connection to the recent terrorist events came through watching the news, count yourself lucky. Others can only wish they had such distance.

Many have made comparisons with 9/11 these past two weeks. History never repeats itself quite so neatly, of course, but I too sense that we are poised at an inflection point. Significant events at different places around the globe seem to be converging. I suppose we will look back someday and be able to see clearly the connections among them. For now, we can only try to understand.

I think the entire situation in the Middle East, the refugee crisis, and the present state of the European Union have to be placed in a greater context if we are to understand what the confluence of these vastly different sociopolitical rivers will mean for the future of our economy and

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investments. I think we are coming to a period of time when geopolitical concerns, always on my radar, are going to require more attention. This has been apparent to me for some time, and I've been working to position Mauldin Economics to help you stay abreast of global developments. We will be making what I think you will find to be immensely helpful announcements in the immediate future.

But for today, in this week's letter, I'm going to let other people do most of the talking. I gave you my own thoughts on the Paris attacks and Europe's future last week in "[The Economic Impact of Evil](#)." Today I'll share some of the most interesting post-Paris analysis that has crossed my path over the last two weeks.

Please note that **I don't necessarily agree** with everything you'll read in these articles. I share them with you because I found them thought-provoking. I send these sorts of things to my [Over My Shoulder](#) subscribers routinely. If you do subscribe to *OMS*, look for the full text of some of the non-public items next week. For everyone else, I've included links to publicly available items where possible.

One bit of advice: don't hurry through these commentaries. Try to go through them slowly and thoughtfully. This is a good time to suspend your presuppositions and consider new possibilities.

We're going to start with a little bit of history from Charles Gave, who recalls being born and growing up in Aleppo, Syria, as the son of a French officer, giving us some context for today's crisis. Note that he wrote this for a French paper in September, and it was only recently translated into English.

Lament for a Vanished Middle East

By Charles Gave

It is desperately saddening to see the terrified population of the Middle East fleeing for refuge towards a Europe that has utterly forgotten what the region looked like just a few decades ago. Yet nobody can hope to understand the disaster that is unfolding if he knows nothing of the events that shaped the modern Middle East.

Through an accident of family history, I was born in the Syrian city of Aleppo 72 years ago, my father having been one of the few French army officers stationed in Syria at the time – 12 out of 500 – to have sided with the Free French forces of Charles de Gaulle, rather than with the Vichy regime of Philippe Pétain.

How can I possibly describe the Syria of my birth? It was a marvel of diversity, a true kaleidoscope of races and religions. All the great empires of the past – from the Mesopotamians to the Ottomans – had passed through, and all had left their traces. Clustered around the citadel of Aleppo, the oldest continuously inhabited city in the world, one found the Armenian quarter, next to the Jewish district, itself next to the Greek settlement. All were surrounded by Muslim areas, variously inhabited by Druze, Kurds,

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Alawites, Sunni, and Shia. And for the most part all these various peoples lived peaceably together, doing business with each other in good faith. Education was provided by the religious orders. Boys attended schools run by the Jesuits, and the girls were taught by Christian nuns – regardless of denomination.

Before the Conquest

Really “Most of the Christian sects had lived in the region since long before the Moslem conquest, and felt a perfect moral right to live in what was, after all, their home. In the Iraqi capital Baghdad, for example, half the 18th century population was Christian. The Assyrians of Northern Iraq claimed to have been converted to Christianity in the 1st century by Saint Thomas. In the mid-20th century they were a strong community – a true nation. Today there are almost none left. The survivors are in Sweden. In Egypt, the minority Copts, descendants of the original Egyptian population, held important positions in trade, the universities and in politics, with more than a few appointed ministers.

Throughout the region, the Jews were absolutely essential to society and commerce. Of course, Jews had lived in Iraq since the time of Nebuchadnezzar II. But they had also made up much of the population of Alexandria in Egypt ever since it was founded by Alexander the Great – it was in Alexandria that the Old Testament was first translated from Hebrew to Greek. Elsewhere, in all the great historic cities of the region – Cairo, Istanbul, Damascus, Aleppo – Jewish communities made up the network through which different peoples traded with each other.

Each community was an intrinsic part of the social system, and the result was a diverse and resilient society. Of course, once in a while there were problems, such as the Damascus pogroms at the end of the 19th century. But the authorities had little patience with trouble-makers, and quickly restored order.

Today, however, for the first time in history, there are no longer any Jews on the southern shores of the Mediterranean and, outside Israel, few in the Levant. Christians of all denominations have either disappeared, or are under severe pressure, with the Egyptian Copts facing daily attacks. The old social order has broken down completely. The question is: Why?

Family History

To answer, it will be necessary to highlight two historical missteps that have been slowly destroying the Middle East since at least the middle of the 20th century. The first concerns my family history. My grandfather, Ernest Schoeffler, was governor of the predominately Alawite province of Latakia during the French mandate. The Alawites, who are concentrated in north western Syria, are an offshoot of the Shia branch of Islam. Today, they control the political power in Syria, or whatever is left of it.

Conscious of the extreme diversity of the local population, my grandfather promised the Alawites that when the mandate ended they would have their own independent, or at least

autonomous, state. Indeed, he lobbied hard in Paris for each Middle Eastern population to have its own “state” as far as possible. He envisaged a Kurdish state, a Christian state centered on Beirut, a Jewish state around Jerusalem, a Druze state, an Armenian state and so on. The idea was that none of these mini-states would be powerful enough to dominate the others. And if there was trouble, the regional policemen – France, Britain, or even Turkey – would step in to re-establish order.

However, in 1936, the leftist *Front Populaire* was elected in France. My grandfather was summoned to Paris by the Minister of the Colonies, who informed him that thenceforth French policy would be to create a “Greater Syria”. And of course this Greater Syria would be a secular state, because the French left had one overriding obsession: to destroy religion. In response, my grandfather did something few people do today: he stuck to his principles and resigned.

Disastrous Policy

The French government proceeded with its plan to create a unitary state in Syria, with centralized institutions for the army, police, civil administration, justice, education, and health. The consequences of this policy were all too foreseeable. The main goal of each and every different community became to seize control of the apparatus of the state in order to protect its own community. In Syria, by far the largest community, at 60% of the population, was Sunni. To prevent the Sunnis, with their strength of numbers, establishing total dominance over the country, the Alawites, with the tacit approval of the other minority groups, established their own control over the state, which they have ruled ever since.

I have no doubt at all that the refugees fleeing Syria today are minorities terrified that the Alawites will lose power, which up until the Russian intervention looked highly likely. They know full well that if the Alawites were to fall, the Sunni reprisals would fall on all Syria’s minority communities, not just on the Alawites.

The fundamental historical error here was the attempt by the French and the British to create centralized states in the Middle East, states which both the Quai d’Orsay and the Foreign Office believed would, with a little diplomatic maneuvering, do their bidding. This was a total break with the Ottoman tradition. The Turks generally took a hands-off approach to running their empire, intervening only when someone did something especially silly. When that happened, the Janissaries were quickly sent in, and the old order promptly restored. By imposing centralized structures on communities with little in common, the European powers ensured that every local lunatic would attempt to take control of these structures and use them to impose their vision on the other minorities, all too often through “ethnic purification”. It was a recipe for chaos and civil war if ever there was one.

A Wahhabi Project

This brings me to the second historical misstep. For most of their history the Sunnis of Syria and Egypt were peaceful, tolerant people, who lived in tribal groups under the

authority of elders who did a reasonable job of maintaining order. This tradition crumbled in no time in the face of the pan-Arab socialism propounded by Egypt's President Gamal Abdel Nasser and Syria's Baath Party. As a result, the Sunnis were easy prey for the puritan Wahhabism exported by Saudi Arabia in reaction to the rise of pan-Arab Socialism. Wahhabism is by far the most retrograde of all the different sects of Islam. When Ibn Saud created Saudi Arabia by federating the tribes of the Nejd and Hijaz, he did so with help of the Wahhabi clergy. Now, for the last 50 years, money has flowed in a torrent from Saudi Arabia to the rest of the Middle East, Africa, South East Asia, and Europe to build Wahhabi mosques: "schools" where the only things taught – and only to boys – are the Koran and religious extremism.

The goal of this project is to "purify" the Middle East, returning the region, and eventually the rest of the world, to an "original" form of Islam unpolluted by non-Wahhabi religion, or indeed by any influences from the last 1,400 years. Isis is nothing but a Wahhabi project.

Extraordinarily, this project has enjoyed the unstinting support of French diplomacy under the guidance of Jacques Chirac, Nicolas Sarkozy, and now François Hollande. I cannot imagine that this support for the most regressive of Sunni religious movements is due to the fact that close to 10% of the French electorate is Sunni, and that 90% of those vote for the left. That may explain French policy under Hollande, but it cannot account for the policy stance under Sarkozy and Chirac. There can only be two explanations: sheer stupidity, or that French presidents, both of the right and left, have been "captured" by France's arms exporters.

At the end of this little historical survey – very much influenced by the family history of the writer – the reader must ask what can be done to stop the rot. The answer is simple. First, the West must clearly identify the enemy, which is not the Muslim religion, but the Wahhabi sect. And it must immediately break off all relationships with the states, such as Saudi Arabia and Qatar, which are exporting this virulent form of extremism.

That means closing western embassies in those countries and expelling their citizens from ours. Of course we will have to stop accepting donations from these countries to finance our electoral campaigns, which require ever-increasing amounts of money to win votes for candidates of ever-decreasing legitimacy. That would be very bad news for our media industry, so it may never happen. And needless to say, we must also stop selling these countries warplanes, helicopters, missiles, radars, tanks and other weaponry. That might be sad for our defense industries, but one does not prosper by selling weapons to one's enemies. As Lenin said: "The Capitalists will sell us the rope with which we will hang them". *Plus ça change...*

The Cumberland View: Barriers Rising

My friend David Kotok of Cumberland Advisors wrote three excellent articles in the last two weeks. I suggest you read them in order: [Paris](#) (11/16), [Paris 2](#) (11/19) and [Paris 3 & Thanksgiving](#) (11/22). Here is a short section from Paris 3.

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In terms of economic effects, how do we distinguish a major terrorism event from what has become an unending sequence of smaller events? In the United States, 9/11 was a major event. Those of us who were in the financial markets and economic and investing businesses remember the period from late 2001 to early 2003. The 9/11 shock rattled an already weakened economic structure and caused serious setbacks to US markets, investments, and economic growth. In the US, we experienced a recession.

Are the rounds of terrorist activity in Paris the French equivalent of 9/11 in financial and fiscal, security, military, and legislative terms? Therein lies a fundamental question.

If the answer is no, then this is just another event in a series of ongoing terrorist activities that have hit developed markets and major economies worldwide. If the populace is inured and has become accustomed to these events, then sequential events will have only mild negative impacts on growth. In that case, the research papers that reflect this outcome are correct.

On the other hand, if this is a major change in France – and we think it is – the French economy will go through a significant adjustment process. It will do so in an atmosphere of increased security, greater civil restrictions, and more military spending. In an environment of economic activity suppressed by fears of additional terrorism, financing that spending will certainly require France to exceed the Eurozone-mandated debt cap.”

Border obstacles will multiply. One of the Eurozone’s strengths has been to level the playing field by making its currency universal in 19 countries and by dropping border barriers. Thus, more efficiencies have been created in the European economy. When border barriers come up again and those efficiencies are reversed, there will be higher costs and reduced productivity. In summary, the economic outcome will be negative.

One of the quotes at the beginning of this letter was from Jean-Claude Juncker, president of the European commission, who asserts that a breakdown of the EU’s 26-country open border system, known as Schengen, would put the whole union in peril.

“We have to safeguard the spirit behind Schengen,” Mr Juncker told the European Parliament on Wednesday. “Yes, the Schengen system is partly comatose. But . . . a single currency does not exist if Schengen fails. It is one of the pillars of the construction of Europe.”

His remarks followed a comment by Mark Rutte, the Dutch prime minister, who will assume the rotating EU presidency in January.

The EU risks suffering the same fate as the Roman empire if it does not regain control of its borders and stop the [“massive influx” of refugees](#) from the Middle East and central Asia, the Dutch prime minister has warned.

Rutte said southern EU countries had yet to implement policies agreed to stem the flow,

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which has exceeded 850,000 arriving by sea so far this year, according to the International Organisation for Migration. (Source: [The Financial Times](#))

The newspapers of Europe are full of open disagreements between Eastern European countries and “Old Europe.” Rutte wants tiny Greece to take 100,000 refugees, but I don’t see a similar offer coming from him with regard to his own country.

Maybe cooler heads will prevail when everyone realizes they are actually threatening the existence of the European Union, but then again maybe local politics will trump all else. That is why it is so important for us to pay attention. And now let’s move on to our next thought leader.

Gavekal: An Expensive War Is Coming

Louis-Vincent Gave of Gavekal (Charles’ son) always thinks clearly. He sees several steps ahead, too. Here is an excerpt from a report he sent Gavekal clients on Nov. 27, “[Financing Europe’s Soaring Defense Costs.](#)”

François Hollande has rightly made it clear that France is at war. And wars cost a lot of money, as keeping an army in the field and airplanes in the air is expensive. There is a reason for the military adage “amateurs talk strategy; professionals talk logistics”. Moreover, fighting a terrorist organization involves both military costs and large domestic security costs. As such, the increase in security spending for the war against ISIS guarantees that France will fail to meet its European Union budget requirements for a long time to come; an increase in deficit spending that will rightly be mostly financed by European Central Bank money printing. The implication is that the financial cost of the increase in France’s defense spending will be shared across the eurozone.

But at this juncture, it looks like this is about all that will be shared. The events of the past 10 days remind us that Europe’s institutions cannot cope with a crisis. Hence, the default mode of policymakers in such a situation is to fall back on individual nation-states. Hollande’s immediate reaction to the Paris attacks was to fire up the French jets before talking with any other European leaders (he met David Cameron yesterday and will see Angela Merkel tomorrow). He also called for a closing of borders even though restrictions on travel within the Schengen Area ended 16 years ago.

(Incidentally, Louis and Charles will be featured speakers at my **2016 Strategic Investment Conference** in Dallas next May 24-27. We’ll be opening registration soon. [Click here](#) for more information.)

Refugee Economics

The ongoing refugee crisis in Europe is both heartbreaking and frightening. It’s heartbreaking because we all know that most of the refugees are innocent victims, driven from their homes by events beyond their control. We want to help them, but it’s frightening to know terrorists could be hiding in their midst.

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As I mentioned in “The Economic Impact of Evil,” I break with some of my conservative friends on immigration questions. I think *properly controlled* immigration is good for everyone. But I also want secure borders and thorough screening to keep out those who would harm us. Right now, the great argument is whether the US government’s refugee screening process is sufficient. [This article from the Cato Institute](#) (generally, the terms *right-wing* and *libertarian* are associated with the Cato Institute) describes the process in detail and concludes Syrian refugees pose no serious security threat. Here’s an excerpt:

The first step for a refugee is to arrive and register in a UNHCR refugee camp outside of Syria. The UNHCR then refers those who pass the first stage of vetting to the U.S. government refugee process (as described above). The National Counterterrorism Center, the Terrorist Screening Center, the Department of Defense, the FBI, Department of Homeland Security, and the State Department use biometrics and biographical information gleaned through several interviews of the refugee and third-party persons who know him or could know him to make sure applicants really are who they claim to be, to evaluate their security risk, and to investigate whether they are suspected of criminal activity or terrorism. Numerous medical checks are also performed. During this entire screening process, which takes about three years for Syrians, the refugee has to wait in the camp. If there is any evidence that the refugee is a security threat, he or she is not allowed to come to the United States.

Few ISIS soldiers or other terrorists are going to spend at least three years in a refugee camp for a 0.042 percent chance of entering the United States when almost any other option to do so is easier, cheaper, and quicker.

If the United States still takes in [10,000 Syrian refugees](#) in 2016, and the number of refugees rises to 4.5 million, a mere 0.22 percent of them – one out of every 450 – will be resettled in the United States. That number is still so small and the process so well monitored that potential terrorists are unlikely to see the refugee system as a viable way to enter the United States.

I’m sure some readers won’t agree, but do take time to read the full article. It gave me somewhat more confidence, though that does not mean we should not be concerned and perhaps take the extra steps that have been suggested by Congress.

Inside ISIS

I must confess, I do not know how human beings can commit the atrocities we see from ISIS fighters. I can’t conceive what happens inside their heads. Do they do it for the pre-teen slave girls they get? (The slave trade in girls and women is a major funding component of ISIS) The money? They are paid well. Are they just twisted SOBs? Yet understanding their motives is critical if we hope to end the terrorism threat.

The Guardian ran [this Nov. 16 story](#) by Nicolas Hénin, a French citizen whom ISIS held hostage for 10 months. To me, that is a much stronger credential than the supposed “expert”

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talking heads we see on the news channels. Some of his description:

They present themselves to the public as superheroes, but away from the camera are a bit pathetic in many ways: street kids drunk on ideology and power. In France we have a saying – stupid and evil. I found them more stupid than evil. That is not to understate the murderous potential of stupidity.

It struck me forcefully how technologically connected they are; they follow the news obsessively, but everything they see goes through their own filter. They are totally indoctrinated, clinging to all manner of conspiracy theories, never acknowledging the contradictions.

Everything convinces them that they are on the right path and, specifically, that there is a kind of apocalyptic process under way that will lead to a confrontation between an army of Muslims from all over the world and others, the crusaders, the Romans. They see everything as moving us down that road. Consequently, everything is a blessing from Allah.

Over at Quartz, Emma-Kate Symons wrote that “[ISIL is the European Union of terror organizations](#).” Most of the Paris attackers were French and Belgian citizens who grew up in the continent’s Muslim-dominated ghettos.

“The perpetrators of the attacks are Europeans, Belgians and French,” says French-Iranian sociologist Farhad Khosrokhavar, author of ‘Radicalisation’, and director of studies at Paris’s EHESS (Ecole des Hautes Etudes en Sciences Sociales).

“They come from the “banlieues” (suburbs) in France and their equivalent in Belgium. They are motivated by an unquenchable hate for the Europe that has given birth to them, and more or less badly educated them.

“This is the Europe of terrorists and in a perverse sense these terrorists are more European than the Europeans: they have created the Europe of Jihadists when Europe cannot even equip itself with a police force and a unified intelligence agency.

“This hate encompasses all of Europe. It knows no national borders, making all Europeans a target in their will to punish.”

Khosrokhavar, who makes these arguments in an article in *Le Monde* available only to subscribers and in French, writes that Europe is home to a “jihadist reserve army whose members are the young underclass of the suburban centers or the poor inner-cities.”

These young people identify with Jihadism less for religious reasons than for reasons of identity. Islam has become a symbol of resistance for them when no other ideology can supply the same kind of “soul” or notion of the “sacred,” especially when the appeal of other ideologies such as the extreme left’s has been exhausted.

How do you reverse the hate drilled into these young heads? I don't know, but we had better find a way soon.

The Threat Is Here

Rosa Brooks, a Georgetown law professor and former Pentagon official, has a [Foreign Policy article](#) that throws cold water on just about everyone.

By now, the script is familiar: Terrorists attack a Western target, and politicians compete to offer stunned and condemnatory adjectives. British, Chinese, and Japanese leaders thus proclaimed themselves “shocked” by the Paris attacks, which were described variously as “outrageous” and “horrific” by U.S. President Barack Obama; “terrible” and “cowardly” by French President François Hollande; “barbaric” by Indian Prime Minister Narendra Modi; “despicable” by U.N. Secretary-General Ban Ki-moon; and “heinous, evil, vile” by U.S. Secretary of State John Kerry, who possesses a superior thesaurus.

The Paris attacks were all these things. One thing they were not, however, was surprising.

Occasional terrorist attacks in the West are virtually inevitable, and odds are, we'll see more attacks in the coming decades, not fewer. If we want to reduce the long-term risk of terrorism – and reduce its ability to twist Western societies into unrecognizable caricatures of themselves – we need to stop viewing terrorism as shocking and aberrational, and instead recognize it as an ongoing problem to be managed, rather than “defeated.”

Politicians don't like to say any of this. But we're not politicians, so let's look at 10 painful truths.

You can follow the link and read her 10 truths for yourself. I saved this article for last because it leads right to my own conclusion. If Brooks is right that terrorism has to be managed instead of defeated, there are huge implications for everyone's investment strategies.

I said last week that the Eurozone cannot long survive as presently configured. That's only the beginning. There's a good chance the West may shortly find itself embroiled in yet another Mideast incursion.

Persistently low oil prices could make the present instability spread. The US economy will shortly find itself dealing with higher interest rates and possibly a recession.

Russia under Putin is getting more aggressive. China's growth is decelerating. Most of these drastic shifts weren't on the radar screen even six months ago. I may be wrong on this, but I really think we are about to enter a new stage of history. It is more than technological transformation. The world in which those wonders are being created is changing in radical ways, too. Surviving the change with your assets intact will likely take a different approach from the one you are used to.

I'm not turning into a doomsayer, and I'm not heading for the hills. I am simply saying that

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we need some new thinking in this environment. Following the money flows won't be enough. We'll also have to follow a much more twisted – and harder to predict – geopolitical logic in the coming years.

The good news is that I know we can do this. Right now we're working on some new Mauldin Economics resources to will help you navigate through these rough waters. I'll tell you more soon.

Hong Kong, Hollywood (Florida), and the Cayman Islands

The schedule in the subhead above sounds hectic, but it's not really. I'm not scheduled to fly until early January, when I will spend five days in Hong Kong. More on that in future letters. In late January I will be the keynote speaker at the big ETF conference (ETF.com), where a few thousand people will gather to talk about portfolio design in the world of ETFs. I'm really looking forward to that. Then I'll return to the Cayman Islands for a speech in early February. I know I have to get to New York and maybe Washington DC sometime betwixt and between; but for me that is a rather sedate travel schedule – which is good, because I need to be spending most of my time researching and writing my new book.

We had a smaller than usual Thanksgiving (last year there were 50 people) as only four of my children could come this year, but we still had fun and good food.

My newest granddaughter just came home from the hospital this week after more than three weeks in the NICU. When I first went to see Riley, one day after she was born, I was concerned, as she was very thin and jaundiced, and I wondered how she could even survive. The nurses were very reassuring, telling me that there was no real problem. I was amazed at the high-tech nature of the Neonatal Intensive Care Unit at this small hospital in Tulsa. But a little over three weeks later she had gained all the weight she needed, and Abigail and Stephen were taking her home.

Abigail's sister Amanda sent me a picture of Riley sitting in the lap of her 2½-year-old sister Addison. Riley has clearly filled out just fine over the past 3+ weeks.



What a world my seven grandchildren will be growing up in. Technological marvels all around them, and trying to figure out how to become adults in the midst of all the insanity of global politics and economics. I wonder how we will reinvent the concept of work as more and more of our current jobs are taken over by automation and robotics ... which will of course create brand-new industries. It's all so very complicated, but when you look into the faces of your children and grandchildren, you really do want to try to help them make some sense of it.

And with that, it's time to hit the send button. You have a great week. I'm thinking that maybe the new James Bond movie should be in my future. Plus Thanksgiving leftovers...

Your thankful for all he has analyst,

A handwritten signature in blue ink that reads "John Mauldin". The signature is written in a cursive, flowing style.

John Mauldin

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