Thoughts from the FRONTLINE
John Mauldin's free weekly investment and economic newsletter

The Trouble with Trade

By John Mauldin | July 31, 2016

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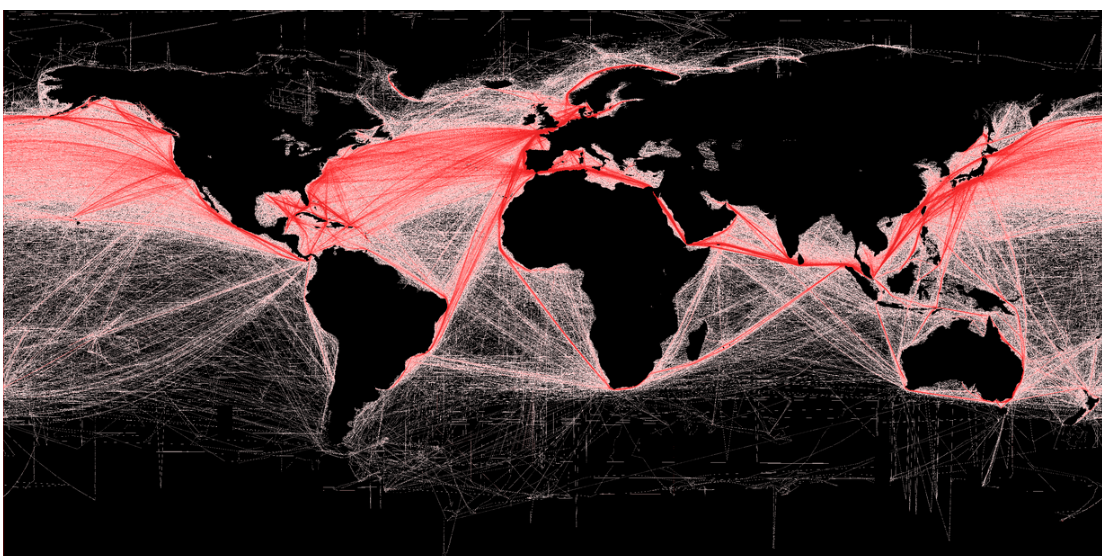
> "When goods don't cross borders, armies will."
> – Frequently attributed to Frédéric Bastiat

> "Free trade agreements are trade agreements that don't stick to trade."
> – Ralph Nader

> "The future has arrived. It's just not evenly distributed yet."
> – William Gibson, circa 1993 in an interview (original version of the quote)



The political speech-fests are finally over. Republicans and Democrats conducted largely violence-free quadrennial conventions – but not because everyone loves each other. The disdain was palpable, both within and between the two parties.

On one topic, however, both campaigns agree: global free trade has jumped the shark. We haven't seen this kind of protectionist rhetoric in a long time, at least from major party candidates. Globalization is taking the blame for a wide variety of ills. The trouble with all this dissing of globalization and free trade is that, like some generals, both major political parties are fighting the last war, not the ones we face today and tomorrow. And the Libertarian Party seems to think that the correct philosophy by itself will cure the problems, which it may do in the long run; but philosophy doesn't pay the bills or create jobs in the short run.

However, we should recognize that aimless, disorganized criticism isn't necessarily wrong. Real economic problems led to Donald's Trump's GOP nomination. Ditto for the strong Bernie Sanders run against Hillary Clinton. People aren't just imagining their pain.

I have used the quote from William Gibson several times this year at the opening of the letter: "The future is already here. It's just not evenly distributed yet." I decided to do a little research on the quote and found that the popular version actually comes from an interview in the documentary *Cyberpunk.* The quote evolved over the next few years to today's form. Most versions that you read, including the one I'd been using, did not have the final word *yet* at the end of the sentence. And yet (he wrote with a smile), for the purposes of today's letter, that is the key word. We are going to talk about the negative public sentiment that is surfacing in the developed world and why the benefits of globalization are unevenly distributed.

I should note that I'm going to flesh out this whole concept in several chapters of the book I'm writing about the changes coming in the next 20 years. We are actually going to see large changes in the nature of globalization, and they are going to have a profound impact on the future of work.

Here I have to offer a mea culpa. I have used the line "I don't know where the jobs will come from in the future, but they will" numerous times over the last 10 years. That assertion is not just a glib statement; it actually reflects our historical experience. It is part of the whole "creative destruction" concept – that old industries and noncompetitive enterprises give way to innovative new industries and more competitive enterprises that ultimately create more jobs. Farm jobs went away, but jobs in factories and in the services sector were created through the process of industrialization. Manufacturing became more efficient in the '60s, '70s, and '80s; and then the advent of the personal computer, the Internet, and other "high" technologies created even more jobs. It was a seemingly virtuous circle.

Looking back over the sweep of time, it was. But it would have been impossible to explain that to the farm workers who had to leave their farms in the 1800s because of the McCormick reaper and go to the cities to find jobs, which were not initially abundant. Eventually this labor was absorbed, but it took a lot of time and retraining. And the process created political movements and a lot of political angst. More on that process later.

Politicians, who read public sentiment far better than economists do, recognized long ago that people tend to fall back on free-market ideology and insist that open international trade is always good. We haven't always asked, though, whether free trade helps everyone equally, or at the same time. We also have different definitions of what constitutes "free trade."

I think confusion on these questions is driving populist trends around the globe. History shows that such movements rarely end well. If we are to avoid a suboptimal outcome, all sides will have to drop their preconceptions and find some common ground.

Common ground does exist. Perhaps I can offer a few ideas about how to search for it.

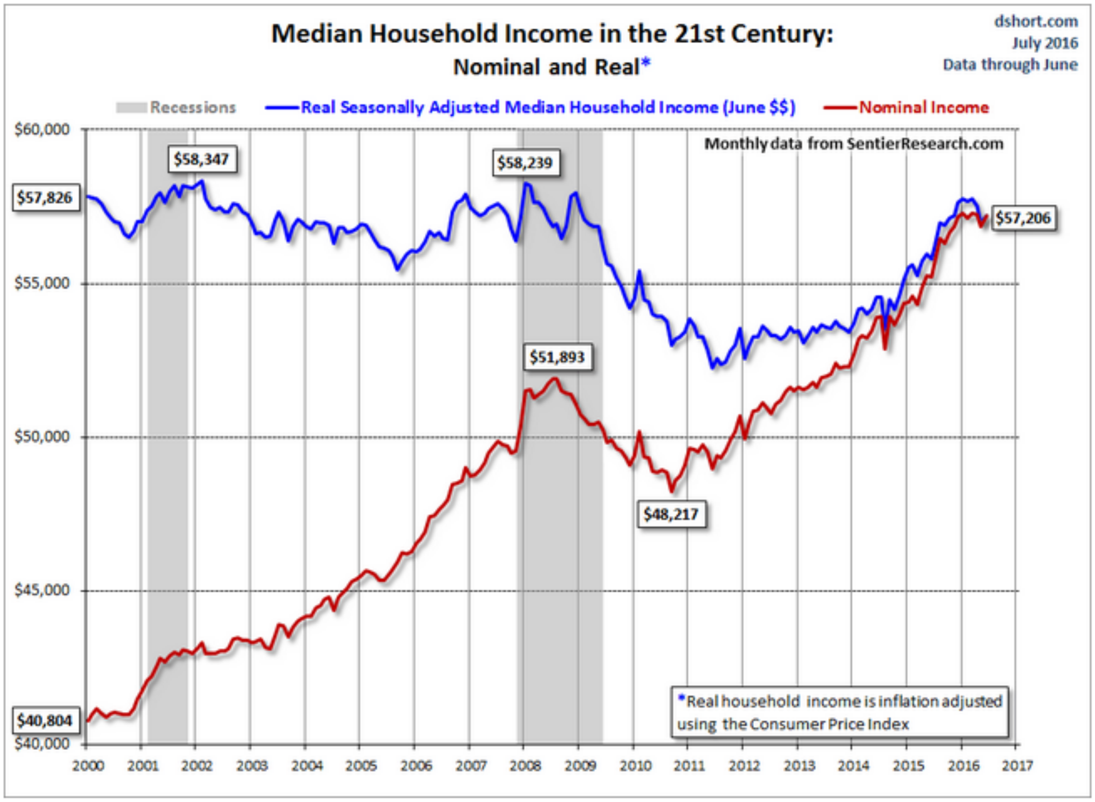
The Flatline Economy

My May 15th "Life on the Edge" letter drew more feedback and social media shares than anything I've done in recent memory. I was commenting on the frustration that drives many people to support Trump and Sanders.

In that letter I talked about Peggy Noonan's "Protected vs. Unprotected" paradigm. One of her points was that the Protected class is basically considered the elite of both parties.

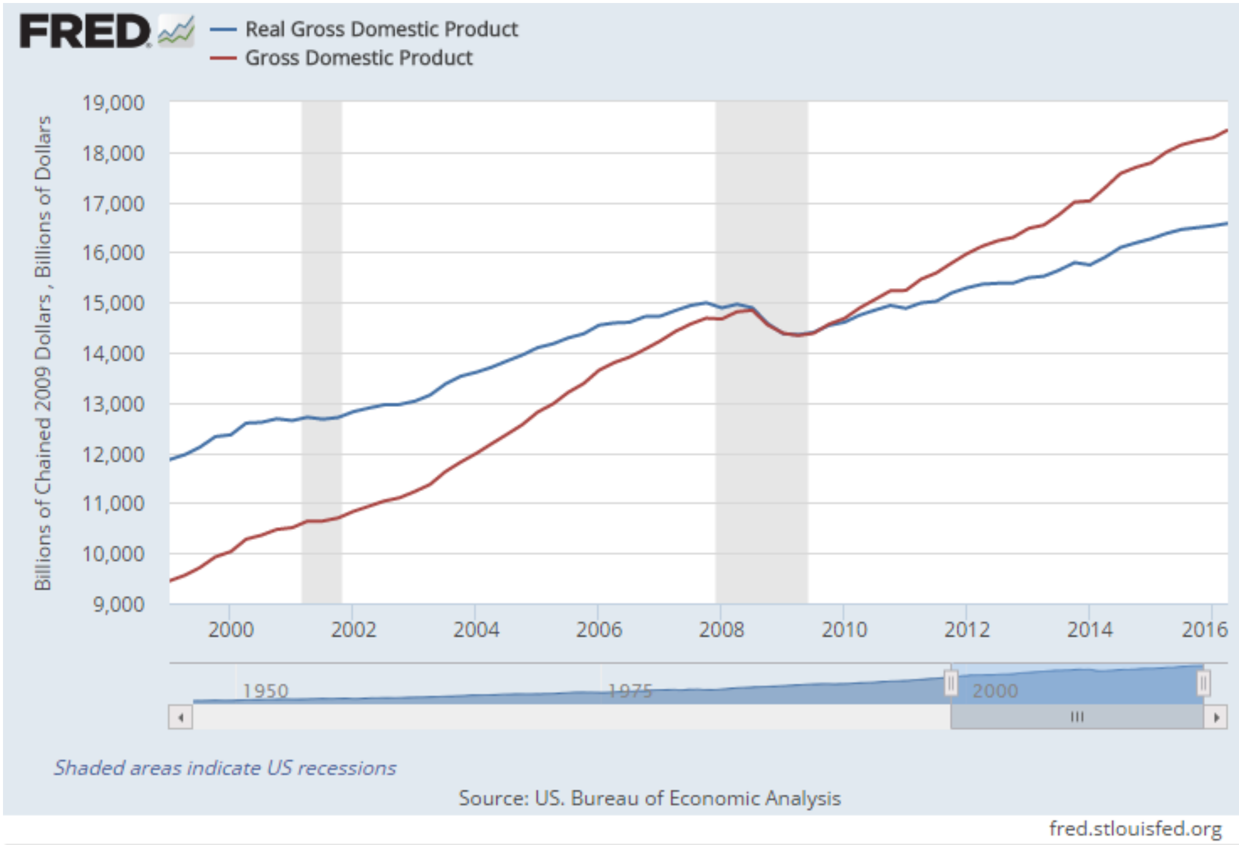
My friend George Friedman talked about one of his friends who came back from England prior to the Brexit vote and said he had met no one who was for Brexit. That is more a commentary on the social status of his friends than on the actual vote. But exactly the same phenomenon occurs within the Protected classes of both parties: they tend to talk exclusively to one another and so are surprised when there is a wholesale uprising among the Unprotected (who happen to be the overwhelming majority of voters).

Whichever side you're on (and I freely admit to being well-protected for the last half of my life), it's hard to deny reality. The last 20 years or so brought great wealth to a few while most of the population was lucky to break even. Here's an update of Doug Short's household income chart:

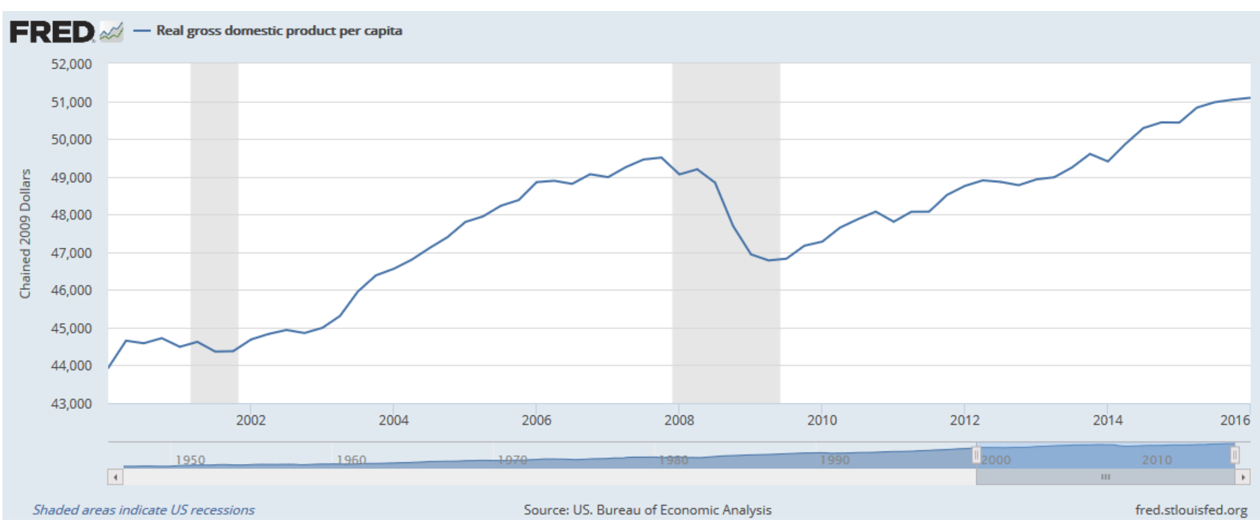


Inflation-adjusted household income (blue line) in the US has gone nowhere in the last 16 years. Notice also that it kept dropping even after we emerged from the last recession (gray shaded area). Further, this is the median, not the average. Half the households earn even less than this amount. Worse, the inflation adjustment is based on the Consumer Price Index, which we know has understated the real cost of living for most people.

Is income flat because the economy hasn't grown? In the next chart we have nominal and real (inflation-adjusted) GDP for the same period. Notice that in simple dollar terms the economy has roughly doubled in the past 18 years. Not bad given two recessions, except that after you take out inflation, the economy has grown only a little over 30%, roughly in line with 2%-a-year real GDP growth.



But wait, you say, the previous chart showed median income slightly down since 2000. As Master Po on the TV series *Kung Fu* would say, "Ah, Grasshopper, you must look deeper." And if you do, what you find is that GDP growth on a per capita basis – so that population growth is accounted for – is less than 17% since 2000 and less than 2% since the beginning of the Great Recession.



In chained 2009 dollars, per capita GDP was $43,935 in Q1 2000 vs. $51,090 in Q1 2016. So the economy grew over 16% in total, but most households saw little or no income growth. I should note that, omitting immigration, US population is not growing all that much. You can make a case that what little growth there has been in real per capita GDP over the last 10 years is mostly attributable to immigration. Immigrants to the United States and their US-born children now number approximately 81 million, or 26 percent of the overall population. On average, over 1 million people per year immigrate to the US. (I could do a whole letter on immigration. There are just a lot of issues that I can hear readers calling to my attention now. I get them.)

Sidebar, sort of on topic: Today we learned that GDP growth in the second quarter was a mere 1.2%. The first quarter was downgraded, so the first six months of 2016 averaged only 1% annualized GDP growth. That's barely stall speed. Inflation as measured by the CPI is up only 1.1% from a year ago, nowhere near the 2% that the Federal Reserve targets. Industrial production barely has a pulse.

Given these numbers, care to make a prediction of exactly when the Federal Reserve is going to feel comfortable raising rates even a mere 25 basis points? If you choose any of the remaining meetings this year, I will take the "under" on that wager. As I wrote a few weeks ago, the Fed had an opportunity to raise rates beginning in 2014, but because they were afraid the market would throw a tantrum, they simply didn't have the, uh… (insert your favorite politically incorrect term here) ~~conviction fortitude courage confidence~~ nerve to do so.

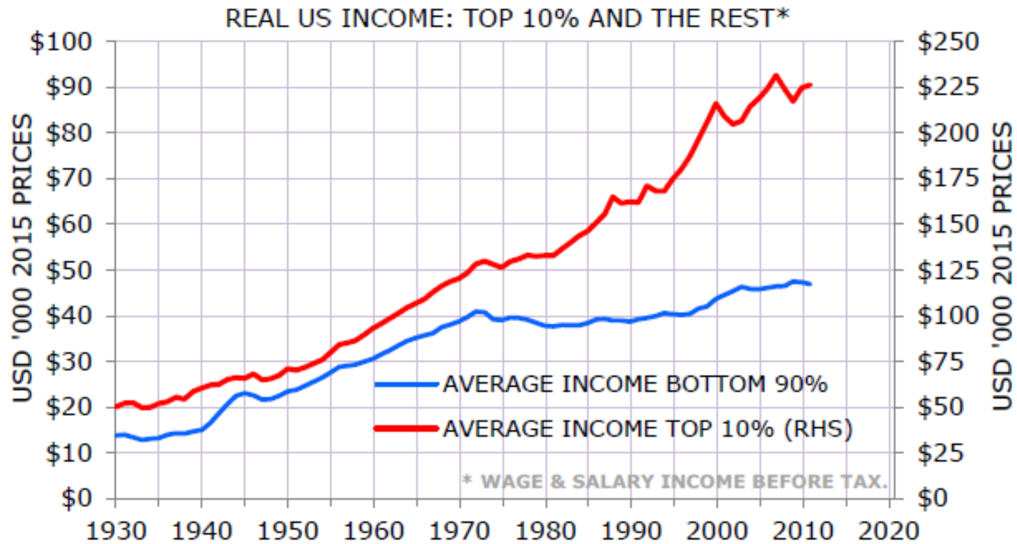
Sidebar, off-topic: We will never know what would have ensued if the Fed had raised rates in 2014, but I bet they wish they could go back and have a do over. Their world would look a lot different today with rates approaching 2%, and I doubt the economy would be any worse off. Clearly, rising rates are not a problem with this economy. The problems of this economy have been made worse by monetary policy, and continuing to apply the same monetary policy principles will not fix them; it will only make things worse.

Angry Charts

Here's another chart, from Sydney-based Minack Advisors. Their July 21 bulletin was headlined "Angry Charts." You'll soon see why.

Exhibit 1

The Top Got Almost The Lot After 1980



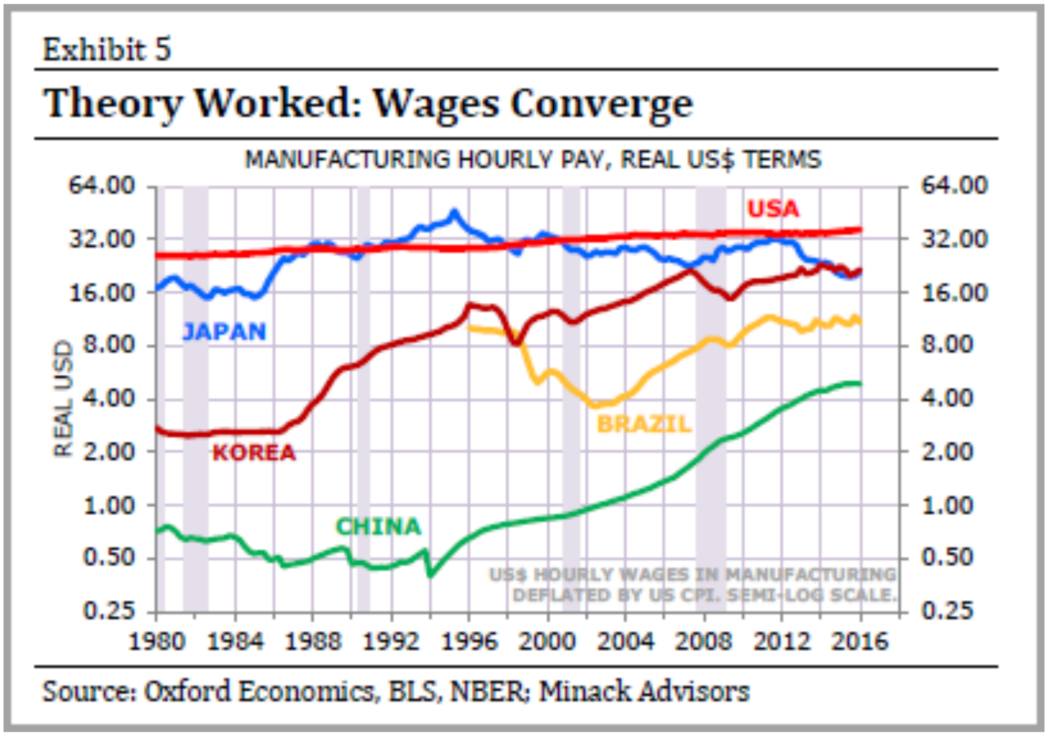
Source: Emmanuel Saez, http://elsa.berkeley.edu/~saez/; Minack Advisors

The first chart we looked at was median income. That's what the person right in the middle made. That's not average income, which is much higher. The average, figured as the mathematically correct "mean family income" from the same St. Louis Fed database, was $88,765 as of the beginning of 2014. The top 10%, and especially the top 1/10 of 1%, raise the average for everybody. In a universe of just Bill Gates and me, the average net worth is about $40,000,000,000. The real world removes about five of those zeros for me. (In a fire sale, closer to six. Please don't tell my banker, who has a better opinion of me, at least financially, than I do. Which is why I keep ignoring the concept of retirement. I have a few zeros to go.)

Average income for the top 10% of the population (red line, right-hand scale above) rose roughly in line with that of the bottom 90% (blue line, left-hand scale) from 1930 through 1970. Then something happened: income growth accelerated for the top 10% and flattened for everyone else.

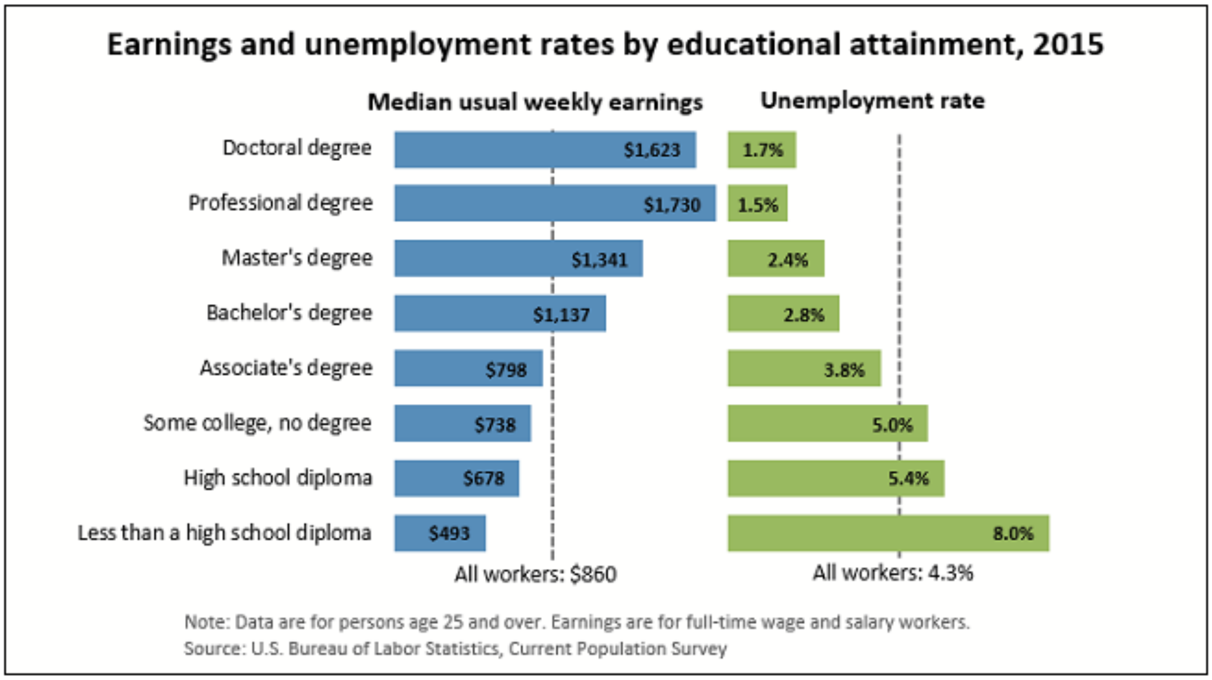
What happened in the 1970s to cause this? We could point to many factors. One obvious suspect is China's opening to world trade and the onset of globalization. Over the next few decades that process would transfer many low-skilled jobs from the US to various emerging-market countries. It changed the relative value of capital and labor all over the world. Wealthy people get a larger share of their income from investments than from their labor. They own the "means of production," and the producers did increasingly well from the '70s forward. That's one reason the red line picked up steam.

Businesses moved production overseas mainly to take advantage of lower labor costs. This next chart, again from Minack, shows how manufacturing pay changed in the US, Japan, Brazil, Korea, and China.



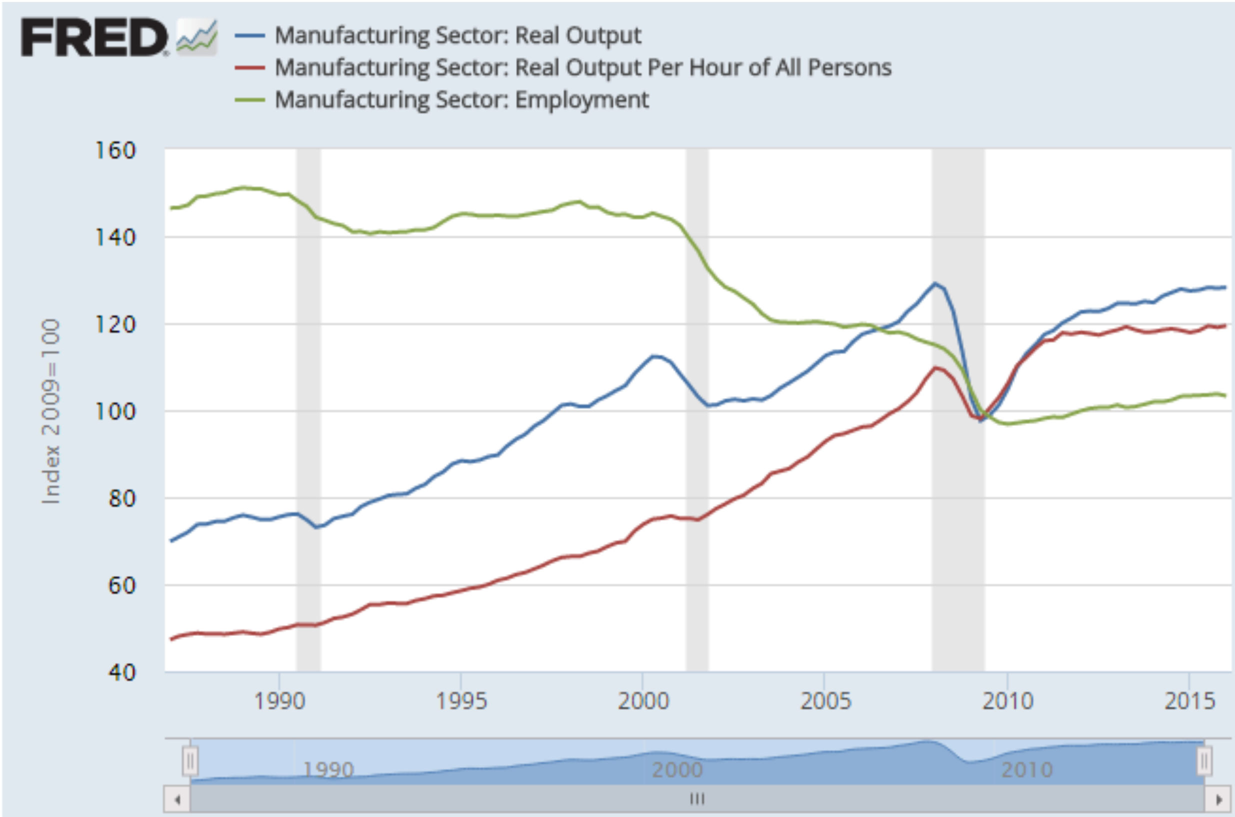
Some of this wage convergence is due to currency movements, of course. Note also that the chart has a semi-log scale. Each horizontal line is double the one below it. Nevertheless, the results are pretty obvious. Chinese workers' pay grew more than 10x during this period. US factory workers saw much less wage growth. Making workers from all these countries compete with each other had the predictable effect: their pay converged into a narrower range.

The result for American workers, once you consider taxes and inflation, is the flat line in the chart above. The pain is greater for those with less education, as we see in this chart from BLS. Anything less than a bachelor's degree means below-average wages.



People in the lower tiers of this chart are struggling. Would getting them more education help? Maybe, but getting them better jobs would help even more. It isn't happening, because those jobs no longer exist in this country. Hence people's attraction to Trump and Sanders, who promise to bring those jobs back.

But what jobs? From where? Everybody talks about the demise of American manufacturing, but that's really a myth. Note in the chart below that in the last 30 years US manufacturing output has almost doubled, while output per worker is up 2.5 times and employment is down 30%. Since 1980, we have lost nearly 9 million manufacturing jobs in the US.



The losses are not due simply to outsourcing. There are other factors involved, which we will get back to later in the letter. But first we need to look at some of the prevailing wisdom that is gaining consensus on both the left and the right.

Two Out of Three

David Warsh, formerly of the *Boston Globe,* wrote an interesting blog post last week, titled "Dani Rodrik and Mr. Trump." Warsh believes that Rodrik, a Harvard economist, will be next to "enter the pantheon" of names we should all know. That's because Rodrik largely predicted the present situation in his 1997 book, *Has Globalization Gone Too Far?*

I have not read this book, but Warsh makes it sound interesting. According to Warsh, Rodrik argued two decades ago that trade would create deep divisions between skilled and unskilled workers. Few of the gains from growing trade were going to the less skilled, which Rodrik said would inevitably result in a backlash. We can look back and see that the income gap between the Protected and the Unprotected began to open in the mid-'70s. From the time Rodrik wrote his book, it took 19 more years to get here, but the backlash has arrived.

Rodrik later developed what he called the "globalization trilemma." Democracy, national sovereignty, and global integration were mutually exclusive, he said. Nations could have any two of them but not all three, at least not in strong form.

The trilemma is an appealing explanation for some of today's problems. The Brexit fight pitted those who would sacrifice integration with the EU against those willing to give up national sovereignty in economic matters.

US political culture has looked much like the British "Leave" camp for most of our history. We were big enough and possessed enough resources to grow nicely without deeply integrating our economy with others.

If you're an American over age 50 or so, think about the word *imported* as people used it in our youth. It connoted one of two things: either something super-expensive you couldn't afford, or something cheap you didn't want. No one wanted a Japanese car in the 1970s. They were unreliable and uncomfortable. Everyone wanted GM and Ford for their American quality workmanship. I loved my 1966 yellow Mustang and lusted for a Corvette. Later I had a screaming muscle car (a Mercury Cougar). A Datsun? A Honda? For whatever reason? Remember, I was buying gasoline for $0.35/gallon in 1969.

Now, of course, Japanese vehicles are every bit as good as what Detroit makes. I actually bought one and like it better than the very similar American car that I had before it. Japanese manufacturers have even moved some production here. Meanwhile Detroit imports some parts from outside the US. So which cars are really "American" now? It's getting harder to say.

In one sense, this is "free trade" delivering exactly what it is supposed to: better quality at better prices. The theory was that these lower prices, along with new and higher-paying job opportunities, would compensate for jobs lost to cross-border competition.

Has it worked out that way? For some people, yes. Think about your college friends from 30 years ago. Most of them are doing all right, aren't they? It's easy to forget they were your *college* friends. The education they got plus the network they gained in the process gave them a leg up. Whether or not a degree was actually required for a position, these advantages moved them to the front of the line. But there are a whole lot of people who didn't go to college and don't have those credentials or contacts. Many of them are struggling.

There's no doubt globalization worked. NAFTA has been trashed by the current political process as an example of a bad deal. But net-net, the data clearly demonstrates that NAFTA has been a great benefit to the United States and to our two partners. The problem is, the benefits of NAFTA were unevenly distributed. There is no doubt it didn't work for everyone. This isn't an either/or issue. I'm second to no one in defending free trade – but I also see the reality, which is that globalization has had a dark side.

I will argue in a few paragraphs that the dark side of globalization, at least in terms of US (or other developed-country) employment income, is getting ready to brighten. That might be good news, but other forces are at work that will perpetuate the income divide.

Second Thoughts on Free Trade

I'm not the only ardent free trader who is having second thoughts. Stephen Roach, formerly chief economist at Morgan Stanley, has a new Project Syndicate article called "The Globalization Disconnect." I recommend you read the whole thing, as he goes into some background that I will skip here. I want to go straight to the main point. Here's Roach:

> Recent trends in global trade are also flashing warning signs. According to the International Monetary Fund, annual growth in the volume of world trade has averaged just 3% over the 2009–2016 period – half the 6% rate from 1980 to 2008. This trend reflects not only the Great Recession, but also an unusually anemic recovery. With world trade shifting to a decidedly lower trajectory, political resistance to globalization has only intensified.
>
> Of course, this isn't the first time that globalization has run into trouble. Globalization 1.0 – the surge in global trade and international capital flows that occurred in the late nineteenth and early twentieth centuries – met its demise between World War I and the Great Depression. Global trade fell by some 60% from 1929 to 1932, as major economies turned inward and embraced protectionist trade policies, such as America's infamous Smoot-Hawley Tariff Act of 1930.
>
> But the stakes may be greater if today's more powerful globalization were to meet a similar fate. In contrast to Globalization 1.0, which was largely confined to the cross-border exchange of tangible (manufactured) goods, the scope of Globalization 2.0 is far broader, including growing trade in many so-called intangibles – once nontradable services.
>
> Similarly, the **means** of Globalization 2.0 are far more sophisticated than those of its antecedent. The connectivity of Globalization 1.0 occurred via ships and eventually railroads and motor vehicles. Today, these transportation systems are far more advanced – augmented by the Internet and its enhancement of global supply chains. The Internet has also enabled instantaneous cross-border dissemination of knowledge-based services such as software programming, engineering and design, medical screening, and accounting, legal, and consulting work.

Globalization 2.0, as Roach calls it, is moving much faster than the original version did. Some of this is due to technology, but trade agreements like NAFTA are important, too. The barriers nations dropped to speed trade and economic growth also turbocharged the rate at which workers found themselves displaced.

Is this displacement an insurmountable problem? Maybe not, but we won't solve it until we recognize that it exists. Many economists and policy makers do not. Here's Roach again:

> Sadly, the economics profession has failed to grasp the inherent problems with globalization. In fixating on an antiquated theory, they have all but ignored the here and now of a mounting worker backlash. Yet the breadth and speed of Globalization 2.0

> demand new approaches to cushion the blows of this disruption.

Ouch. That hurts, but it's important. Maybe the economists are right that globalization will eventually bring us all to nirvana. Gene Roddenberry's Star Trek world, conceived in the 1970s, is one in which "replicators" can manufacture anything virtually cost-free, which means that all human needs are taken care of, leaving people to wonder what their purpose in life is. For Roddenberry, that purpose was simply to go where no human had gone before. A wonderful vision of the future, but even he situated it 300 years in the future.

The decidedly uncertain and clearly unknowable future is not much comfort to those who experience disruption here and now. The future doesn't pay this week's bills. In a democracy – which for now we still have – the Unprotected, the Disrupted, those who've experienced the dark side of globalization, won't simply sit back and wait for better times. They're hurting now, and they're not hurting quietly. They can't afford to wait.

The religious devotion to transcending borders and imposing common standards is causing globalization to jump the shark. It's a movement that flies in the face of human nature. We are social creatures who naturally arrange ourselves into families, neighborhoods, cities, states, and nations. We respect laws and standards more readily when they are created and enforced at the lowest possible level of that hierarchy.

Globalism seeks to bypass all this natural law with top-down rules, often negotiated in secret and then presented for rubber-stamp legislative approval in one monster-sized, take-it-or-leave-it package. (In the US we make that process sound nicer by calling it "fast track" – the authority granted the President by the Congress to negotiate international agreements that Congress can approve or deny but cannot amend or filibuster.)

Thus economic integration as defined in modern trade agreements is incompatible with national sovereignty as defined by populist politicians and voters. Make no mistake about it: The Brexit vote was very close. The issue was not decided by a broad consensus, and the second thoughts and regrets are beginning to surface. On this side of the pond we tend to think of Brexit as an overwhelming movement when, in fact, it just barely succeeded. Many of our own US presidential elections have been quite close, if you look at the actual vote count as opposed to the Electoral College count. In European countries, parties quite often fail to win enough votes to achieve a majority, and coalitions among competing parties, often with differing ideologies, have to be cobbled together in order to run a country. That's democracy for you.

We must find comfort in the words of Winston Churchill: "Democracy is the worst form of government, except for all those other forms that have been tried…."

Free & Fair

I recently ran across a policy paper from the German Marshall Fund of the United States. Grandly titled "Defending a Fraying Order: The Imperative of Closer U.S. – Europe – Japan Cooperation," it seeks to defend the present trade paradigm. The authors do a good job, but in the process they describe the problem.

Consider this section. (I bolded a few key phrases.)

> The global economy is no longer about making a product in one country, and shipping and selling it somewhere else. It is about complex supply chains that **weave together activities all over the globe**, supported by investment, technology, and skills that **know no borders**.
>
> Creating an even playing field is no longer just about reducing external tariffs and quotas, but about coordinating and **sometimes revising** what have traditionally been seen as **domestic policies** to "stabilize" agriculture, promote national culture and identity, encourage innovation, protect health and safety, and ensure citizens a certain minimum quality of life.
>
> Critics of the Trans-Pacific Partnership (TPP) argue it is no mere "trade" deal, and they are right: more accurately, it is **a package of integrated economic policies** that will increasingly **fuse several national economies into a single marketplace**.

Where to begin? Countries don't share the same experiences or perspectives. That is what makes them different countries. George Friedman always distinguishes between nations and states. A nation is a people with a common language, history, and culture. A state is simply a government. Forcing people of different nations to share one state, or separating them into multiple states, is what causes conflict and sometimes war.

"Free trade" deals are no longer simple documents. The Trans-Pacific Partnership (TPP) weighs in at 5,544 pages. It's a boatload of rules and regulations. I know there is talk that this deal was negotiated in secret, but that is far from the truth. You and I weren't asked for input, but lots of people were, let me assure you. I can guarantee you that rice farmers in Texas and California were pressing their congressmen and others for access to the lucrative Japanese market, and Japanese rice farmers were trying to figure out how to limit the damage. For the record, Japan imports about 10% of its rice from the US, most of which they turn around and export as foreign aid or use for animal food. It is not that Japanese rice is that much better; indeed, the fact that US rice is so close in quality makes Japanese farmers nervous. And US rice is 1/3 to 1/2 the cost of Japanese rice.

Of course Japanese companies want access to US markets, where they can compete quite well, thank you, against US firms. And those US firms want to keep the protections and prices they have. This tit for tat has gone back and forth in hundreds of industries in the 12 countries involved in the TPP. I can guarantee you that wheat farmers or corn farmers or cattle or hog producers have a different view of the whole process than US rice farmers do. And their views are different again from those of equipment manufacturers or software developers, or pick any of 1,000 industries. Rice farmers in Japan have to negotiate terms of trade with other national industries, and do you think New Zealand avocado farms or sheep farmers or movie firms have any less interest in the process?

Every country is worried about US companies coming in and overwhelming their businesses, and the US is worried about "unfair" competition – that is, competitors in other countries producing products that are cheaper or better. Often, the higher cost of products here is attributable to the regulations that we impose on our own industries. So we want other countries to abide by our regulations (and they want us to abide by theirs).

The problem with global deals like TPP and its US-European counterpart, TTIP, is that while they may be good for the economies as a whole, citizens will find that "good" very unevenly distributed, which is why Trump calls such agreements "a job and independence threat." After supporting the TPP for several years, Clinton now says she will not sign. Both candidates are responding to the very real problems generated by the uneven distribution of globalization's benefits over the last 30 years.

We are actually in the process of re-shoring manufacturing back to the United States. But just because factories are coming back doesn't mean jobs are – a factory that relies on robots has an advantage if it is near its markets. When Foxconn in China is installing robots in a factory and reducing the number of workers there from 110,000 to 50,000, you know the labor arbitrage game is coming to an end. And that is just one factory.

I have persuaded my friend Marin Katusa, one of the smartest and most successful natural resource investors I know, to reproduce in a special report for *Outside the Box* the highlights of a long conversation we had in Las Vegas a few weeks ago. He absolutely astounded in describing the changes that are coming to the mining and oil-drilling world – and I thought I was relatively up to date. The number of workers that will be employed in those industries in 10 years will be an order of magnitude smaller, yet production will dramatically increase.

Self-driving trucks and cars will clearly have an impact on truck and taxi drivers. But think of the impact on insurance companies. Estimates are that revenues will drop by as much as 75% over the coming decades. And we won't need as many small local businesses to repair vehicles after accidents. A score of related industries will all see disintermediation. And that's just one industry.

The changes that occurred as the workplace shifted from the family farm to urban manufacturing took place over decades and generations. While the shift was uncomfortable for many people, there was time to adapt to the changes.

It is almost a cliché to say that today things are changing ever faster. But most of the changes that are producing social angst have happened in the last 30 years – that is, within the productive lifetime of most people. Adapting to such rapid and unrelenting change has been harder. A surprising reversal of trend in mortality statistics is that white middle-aged males are now dying at an increasing rate due to drug and alcohol abuse and depression.

Clearly, disintermediation – the elimination of middlemen and the displacement of labor – is doing more than just making voters angry. It is stealing away the hopes of significant subsets of entire generations. When your well-paying job goes away and you can't find a replacement, the loss hits your sense of self-worth along with your bank account.

As whole new industries develop, the advancing wave of technology will continue to create jobs, but generally not jobs that will require old skills. Humans have always had to adapt, but the speed at which we must adapt is accelerating. In the past, it has been the young who have done most of the adapting as they have learned new skills for new jobs. In the future the young will still be part of the adaptation process; but, more and more, those in their 40s and 50s and 60s will be called upon to change as well.

The Protected class is right to feel uncomfortable. The anger of the Unprotected is not just an election-year, flash-in-the-pan phenomenon; it is a movement sure to grow in direct proportion to the extent that the wall of protection crumbles for more and more people.

The presidential candidates offer radically different methodologies to restore protection. But they are fighting the last war, with the tools of the last war. The impulse of both major political parties is to protect their constituents from unwanted change. Unfortunately, protection from change for a few comes at the price of limited choices and reduced freedom for everyone. In an increasingly globalized world, the regulators are increasingly becoming prison guards. The FCC wants to regulate the Internet as a utility. It's just one of thousands of regulatory bodies that wants to increase its power because some constituency is lobbying for protection from its competitors or for the promotion of its pet project or cause.

In a future that's not very far off, the only way to truly protect yourself will be to learn to continually adapt.

And it's not just workers that must learn to surf inevitable change; it's businesses, too. Elon Musk may be a visionary, and his gigafactory to make batteries may revolutionize that whole industry, but I will make you a side bet: Whatever the first set of batteries that comes out of that factory looks like, the entire process of battery design and production will continue to change dramatically, and by 2030 Elon's factory will be obsolete. The only way he will survive is by adapting and staying on the bleeding edge of innovation, obsoleting his own factory if necessary. Think Kodak and Blockbuster and 100 other firms that failed to adapt. But those firms were composed of people who made plans for the future, plans that had to change.

There is much more to say about all this, and I will continue to write about it in the coming year.

Maine, New York, Montana, and Iceland

Wednesday I dive into a rather hectic two weeks (for somebody who was intending to stay home for the summer). I go on our regular Maine economics-fishing trip for the 10th time, come back to New York for a few days, then head out to Montana, where I actually get to research a chapter of my new book with five young rocket scientists whom good friend Darrell Cain has gathered to expand my mind. Then I come back to Dallas for a day before heading out to Iceland to learn about the future of energy and natural resources. I've never been to Iceland, and I'm looking forward to talking to people there about what it was like to go through their crisis, comparing their remarks with the conversations I've had with people in Greece and Cyprus. I will report back.

About two summers ago I met Marc Chaikin, the founder of Chaikin Analytics, who spent a few hours in a quiet hole-in-the-wall pub, showing me the latest version of his stock and fund analytical software. We can politely call Marc a veteran of the markets who has used a variety of methodologies to buy, sell, and trade stocks (he started trading in 1965 and has had a rather storied Wall Street career). He actually developed some of the techniques and indicators that most technical traders use today. He has forgotten more than I'll ever know about analyzing stocks.

In the latest generation of his software, he has married the merits of fundamental analysis with the numerous techniques of technical trading to generate entry and exit signals for equities. I'm impressed by what he has done, though trading stocks is not something I do. I have spent my career learning to analyze money managers, a completely different skill set. Marc has wanted to partner with my firm, but I truly had no way to evaluate his work in comparison to all the other systems that are out there.

So he agreed to give my analyst team his software and training and turn them loose. Given that they have access to just about any other system they want to use, they are in a far better position than I am to understand the relative merits of trading technologies. Two years later, they are enthusiastic users of Chaikin Analytics and use it to analyze the trades and recommendations of our writing team, giving them feedback and insight into their own ideas. Marc's system has been integrated into our routine due-diligence process for vetting and evaluating potential investments.

Mauldin Economics Publisher Ed D'Agostino and our team are going to be doing a webinar with Marc week after next; and if you are involved in the stock market, I would encourage you to tune in to his presentation. You can register for the webinar **here**.

This will be the 10th year that my son Trey and I have journeyed to Leen's Lodge in Grand Lake Stream, Maine, to participate in Camp Kotok. Around 50 economist types, analysts, and media gather to spend three or four days fishing, eating fabulous food (owner Charles Driza serves up gourmet dinners), and perhaps indulging in an adult beverage or two. Everybody brings more wine and other such beverages that any of us can possibly drink.

A typical day involves getting up, eating a big breakfast with more calories than I usually consume in a day, getting out on the lake, and trying to find someplace where the fish are biting. Then around noon we all gather, and the guides clean fish and cook for us. Then we go back out and fish some more, then clean up a bit and assemble in the late afternoon for more conversation and food. Some of the local guides provide music, and poker games generally start up as the evening develops. You know the old line about how you look around the table and wonder who the patsy is? I figured out the answer to that question after a few years and generally try to refrain from donating my money to people who already have a lot more than I do. I wouldn't mind so much, but they keep reminding me how much they beat me up in years past.

Trey was only 12 when we first went to Maine, and he has grown up with many of these fishing friends. I go back and look at some of the pictures from summers past, and it’s hard to believe not only how much Trey has grown but how fast he’s grown. The first time we went to Camp Kotok seems like only yesterday. We still have a friendly competition to see who catches the most fish. He generally skunks me. We fished from canoes for the first few years, as that is the classic Maine guide experience; but I much prefer the larger boat that our current guide provides, and we generally invite a guest to broaden the conversation. One of the limits on the number of people who can come to the event is that we actually utilize about every guide in the area. They tell us Camp Kotok is the event with the biggest economic impact on the county, which is actually the poorest county in the US. As logging and paper mills close, jobs become scarce. Some of the guides are from the local Passamaquoddy tribe, and we actually fish on their lakes and lands at times.

When David Kotok, who organizes the event, first approached me about coming, I was somewhat skeptical, as I don’t really fish much and Grand Lake Stream is one of the few places in the US that you just can’t get to in one day. Trey and I have to fly into New York, then fly to Bangor the following day, and then drive a few hours. People ask me how far north it is, and the best answer I can give is that when you are out on the lake, you’re picking up cell signal from Bell Canada. Which is actually good, because when you get back to the lodge there is no signal. There is internet, but with everybody trying to get on, it gets slo-o-o-ow.

This year’s drive to the camp will be special, because my good friend Neil Howe, philosopher and generational expert, as well as my associate Patrick Watson, will be in the car with us.

The weekend is conducted under Chatham House rules, which means that everybody opens up and throws out their most outrageous ideas, looking for pushback and comment. It becomes a pretty freewheeling discussion. If you want to quote anybody, you have to ask permission.

And now it really is time to hit the send button. I will spend the next few days with my iPad, taking practice exams for yet another regulatory license that I have to have for my new venture. My intention now is to take the test Monday afternoon and have it out of the way before I take off on my travels. Which means I now get to sit in front of a computer for about 12 hours, getting up to speed. But I do get to look forward to Maine, so I doubt that anyone will feel sorry for me. Have a great week.

Your having to learn to adapt analyst,

John Mauldin

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