

# STORM WARNINGS

Vol. 3, Issue 2

The Perfect Storm Countdown: 1<sup>st</sup> Half 2014



**R. Michael Conley**  
*Founder*

The *Storm Warnings* newsletter is part of a larger initiative by its founder, R. Michael Conley, to carry the message to others.

"The message is frightfully simple: We are heading into a perfect storm that will forever change our lives, and we need to act on it while there is still time," said Conley.

Under the overall umbrella of his company, Weathering the Storm, LLC, its mission to *awaken, engage and help others weather the storm* is carried out in a number of ways.

## The Perfect Storm Countdown: 1<sup>st</sup> Half 2014

The *perfect storm* clock is ticking. Tectonic-sized forces - energy, environmental, geopolitical, economic and behavioral - are on a collision course, approaching critical mass. A number of game-changing events have occurred in 2014 to accelerate the storm's countdown. In this Perfect Storm "Report Card," R. Michael Conley, the publisher, connects a number of disturbing dots and offers a few suggestions for getting prepared.

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**WTS:** What events in 2014 do you find most troubling, and how do they contribute to the perfect storm?

**Conley:** The biggest game-changers have occurred on the economic and geopolitical fronts, and they've exploded in rapid-fire order - almost too fast to digest. Interconnected, these events have accelerated the timeframes and escalated the potential fury of the storm. The spillover has also sharpened the energy and climate change trajectories.

The emergence of China as the newest superpower; Russia's revamped role as a power broker; the Arab Spring II escalation into a full-fledged Middle East civil war, major new threats to the U.S. Dollar as the world's reserve currency, and global "bubblemania" top the list - all erupting at about the same time.

We're on a pathway to a new cold war, and unlike the first one with the Soviet Union fought out over ideology; this one will be over control of scarce resources and markets. It will change and destabilize the geopolitical landscape for years to come.

**WTS:** How could all of this happen in only a few short months?

**Conley:** It didn't. These forces were in the making for some time. But, the fuse has been lit and has now triggered a chain reaction feeding on itself and causing new eruptions.

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"The *Storm Warnings* newsletter, which provides an in-depth quarterly look at a specific topic, is one way we hope to awaken and engage people, but we encourage folks to log in to our web-site for a full menu of offerings and services," Conley said.

([www.weatheringthestorm.net](http://www.weatheringthestorm.net))

The website will provide further details on other initiatives. Among them:

1. Lethal Trajectories – Conley's futurist novel on what it will be like to live through a perfect storm crisis
2. *Weathering the Storm Guide* – A guide on how to prepare for the storm
3. Weathering the Storm Seminars – In-depth seminars that are now available
4. Blog, links, other resources, and the Storm Warnings newsletter.

About the Founder: Mike Conley is the Founder of Weathering the Storm LLC, and currently serves as Chairman and CEO of the Conley Family Foundation. As a former Fortune 500 business executive, author, lecturer, and public policy

The big story is China. Its meteoric emergence as an economic powerhouse and its need to fuel and protect its growth is astonishing. Through global economic alliances that secure the commodity imports needed to sustain growth and provide markets for its finished goods, China has become an economic equivalent to what the United States is militarily.

It has also clashed with other nations in the East and South China Seas and in Viet Nam over control of undersea resources. (See: [EEZ Flashpoints](#)) Militarily, it's a force to be reckoned with and a viable partner for nations not wishing to align with the U.S. and western powers.

For example, Vladimir Putin found an ally in China during the Ukrainian crisis (See: [Ukrainian Ripple Effect](#)). Threatened by sanctions and a loss of European markets for its natural gas, Putin consummated a blockbuster 30 year energy deal with China worth over \$400 billion dollars. In one fell swoop, Russia secured a long term alternative buyer for its natural gas as well as capital from China to build a pipeline. Further, the deal was transacted outside the petrodollar system; a threat to the U.S. that I'll discuss later.

The new Russian-Chinese alliance has teeth. Both countries are power brokers with influence in contentious areas such as Iran, Syria, Venezuela and North Korea. As permanent members of the UN Security Council, they also have veto power over sanctions or other UN actions counter to their interests.

The Middle East is a tinderbox. The first "Arab Spring" has escalated into Arab Spring II and emerging as a vast regional Sunni/Shiite civil war. The ISIS blitzkrieg now rolling through Iraq threatens major refineries and oil fields; the loss of this Iraqi oil would be a threat to the global economy. It has also amplified tensions between the Saudis and Iran. A nuclear-armed Iran could easily trigger an arms race with Saudi Arabia and others in the Middle East.

**WTS:** Why are the Saudis so important in this equation?

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activist, Conley has written and spoken frequently on topics related to the perfect storm. He graduated from the University of Minnesota, after serving in the United States Navy, and later completed a post-graduate program at Stanford University. He is also active on several boards and advisory groups.

**Conley:** There are a couple of reasons: First, they are the world's "gas station." As the only major oil producer with a surplus capacity to produce more, they're the only country able to make good - at least partially - the losses resulting from declining oil production in Iraq, Libya, Venezuela, Nigeria and even Iran - due to sanctions.

Second, Saudi Arabia has the muscle to end the petrodollar system. With China now their number one market and growing disenchantment with Washington, they could pull the plug on the petrodollar system and crater the U.S. economy almost overnight.

You can see how these geopolitical events are playing off one another to form a new balance of power alignment. The zero-sum game mentality of the first cold war may not play well in the new one that is forming, and we might be wise to recalibrate our foreign policy accordingly. In my book, *Lethal Trajectories*, I have suggested how a more collaborative, less confrontational approach with China could play out in a global crisis.

**WTS:** Please say more about the petrodollar threat and why it should concern us?

**Conley:** Never has an economic system so important to a nation been so little understood and appreciated as the petrodollar system. (See: [Our Dirty Little Secret](#)) In a nutshell, the petrodollar system requires that all OPEC oil to be purchased in American Dollars. A Japanese oil importer, for example, must exchange Yen for dollars to purchase a tanker full of Saudi oil. Japanese central banks, in turn, must keep large volumes of dollars on hand for future oil transactions. It's that way for all nations and guarantees an ongoing demand for the American Dollar.

The petrodollar system has been a financial bonanza for the U.S., but not so good for other countries. It has enabled us to lavishly print money knowing there would be a demand for those dollars from foreign central banks to purchase oil. Further, OPEC producers recycle most of their excess petrodollars back into our T-Bills and other notes; a process known as petrodollar recycling. It has given us access to cheap capital and an ability to print and borrow money to finance our massive deficits.

If it were to disappear - as seems likely over time - central banks would dump their unneeded dollars and the value of the dollar would plunge. Countries holding our debt - like China and Japan - would watch the value of their American T-Bill investments drop and would rush to pull out their money. In response, we would raise interest rates to stave off this "run on the bank."

Unfortunately, interest rates for cars and mortgages would also soar. In our consumer-based economy, the

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economic repercussions would be devastating. Without unfettered access to cheap credit or our money-printing machines, the ability to pay for our unfunded entitlement liabilities would become problematic - not a good spot to be in as baby boomers retire in droves. With so much at stake, one can only wonder how we can treat the Dollar - the world's *fiat* reserve currency - in such a cavalier manner. Other countries wonder the same.

**WTS:** You said something earlier about “bubblemania.” What do you mean by that?

**Conley:** The global economy is on steroids. Worldwide, central banks have gone on a printing binge pumping enormous amounts of money into their respective economies to keep interest rates down and business afloat. The U.S. has led the pack with its massive Quantitative Easement program that has pumped over four trillion dollars of newly “printed” money into the economy with marginal results.

These efforts have helped create massive asset and debt bubbles. Every bubble in history has burst - from the tech bubble to the sub-prime bubble - and when they burst, a lot of people get hurt. Large banks “too big to fail” may get a bailout, but we’re on our own with respect to our 401(K) plans, etc. Who could forget 2008? It could get worse as the Fed has used up most of the arrows in its quiver with little left to cushion future shocks or create a “soft landing.” (See: [Myopic Madness: Bubblemania](#))

**WTS:** Your economic and geopolitical scenarios are troublesome. How do the energy and climate trajectories for the first half of this year tie into the equation?

**Conley:** Our energy and environmental threats are compounded by what I’ve just covered. For example, disruptions in the Middle East could mean we won’t have enough oil to satisfy global energy demand. If this happens - and it could - the economic and military fallout could be devastating. Many Americans are mesmerized by the myth that we are swimming in (shale) oil and conveniently forget we import almost 40% of our oil. Oil is a global commodity, and we are not immune to the fallout of any major oil disruption. (See: [Forever Changed by the Oil Boom](#))

With respect to climate change, the carbon footprint from emerging nations and unsustainable energy practices is growing at an alarming rate. The 400 parts-per-million (PPM) carbon milestone was recently penetrated and the alarm bells are sounding everywhere: In rising sea levels, bizarre weather patterns, massive forest fires, ice melts, ocean acidification, tundra melts, methane gas releases and so much more. (See: [Climate Change: Denial is not a Strategy](#))

In a nutshell, recent economic and geopolitical events have clearly sharpened the trajectories of the perfect storm across all fronts, and the margin for error has all but evaporated.

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**WTS:** It's a gloomy picture: Are there any bright spots or things the average citizen can do?

**Conley:** Yes. For openers, we are a resilient and innovative people and have proven our ability to tackle difficult challenges once aroused. The problem is, we are operating on auto-pilot and lack a clear-cut imperative to awaken, engage and fight back. Absent this - and an unhealthy case of political gridlock - we're more content to sit back and hope for the best.

That said, there are signs of awakening. For example, business leaders like Michael Bloomberg and Hank Paulson are now sounding the alarm bells on climate change. Gas mileage on cars is improving and there is growing public concern over our debt and deficits. It's a start.

So, take heart; though much of what I said is beyond our control, there's value in understanding how future perfect storm events might play out and then developing preemptive strategies to mitigate the sharper edges. It's about facing reality as it is - not as we want it to be, and not passively waiting for our political leaders to act while there are things we can do. Here are a few ideas for personal engagement:

- 1) **Energy:** Rightsizing our energy patterns and learning to do more with less
- 2) **Environment:** Reducing our carbon footprint as climate change intensifies
- 3) **Economics:** Positioning our finances for a bursting bubble and a new economic landscape
- 4) **Expectations:** Recalibrating our behaviors and lifestyle to conform to coming realities
- 5) **Geopolitical:** Staying abreast of world issues: letting our elected officials know our positions

Last, please visit our website and download the free "Weathering the Storm Guide" for more specific details on how to get started with your own personal plan of action:

[www.WeatheringtheStorm.net](http://www.WeatheringtheStorm.net)