

STORM WARNINGS

Vol. I, Issue 7: August 2012
Perfect storm triggering mechanisms



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 mankind weather the storm* is carried out in a number of ways.

"The *Storm Warnings* newsletter, which provides an in-depth look each month

The forces of the perfect storm are intensifying; the danger more imminent. Its fury will intensify as colliding forces reach critical mass and trigger a chain reaction of immense proportions. In this issue, our Publisher, R. Michael Conley, discusses the perfect storm's triggering mechanisms and warning signs that are pointing to its tempo and direction.

WTS: What can you say about the events that will trigger the perfect storm?

Conley: Short of something like a nuclear attack, a sudden bursting of the global credit bubble or sharp cut-off of global oil supply, the perfect storm is more likely to be triggered incrementally – culminating in a chain reaction as powerful forces reach critical mass. Unlike the Pearl Harbor attack that launched WWII and crisply identified our challenges and objectives, the perfect storm's triggering mechanisms will be insidious, complex and incremental – a condition I refer to as "crisis creep." (Please see the Volume I, Issue I newsletter for a description of the perfect storm)

Metaphorically, I liken the perfect storm to a perpetually rising sea held at bay by a giant dike – in this case, our global infrastructure. Over time, the rising water flows over the dike, and the weakened dike absorbs more water than it can handle. It starts to leak until the pressure points against it reach an unsustainable level. The dike is then crushed by the raging waters that wreak unimaginable havoc on those caught in its floodplain.

WTS: What makes our global infrastructure so vulnerable today?

Conley: Back to my analogy, our "dike" is a house of cards ready to implode under its own weight. Its greatest strength – its interconnectedness – is also its greatest weakness. While it may initially have the strength to resist a collapse, it has a far greater potential for systemically unraveling over a prolonged period of time.

To be sure, every generation has had its own unique set of

STORM WARNINGS

Vol. I, Issue 7: August 2012
Perfect storm triggering mechanisms

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)

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 activist, Conley has written and spoken frequently on topics related to the perfect storm. He graduated from

challenges, but the perfect storm is different in many respects. Consider this:

- 1) The globalization of the world economy – with its intertwined financial and trading systems – is unprecedented. Threats today are exponentially larger and longer lasting, as evidenced by the still lingering banking and sovereign debt crises that started in 2008.
- 2) The explosively growing global population of over 7.5 billion people is placing an unprecedented strain on finite global resources. With little margin for error, an energy, environmental or economic crisis in any one country, region or sector can have a huge ripple effect in all other areas.
- 3) Energy and climate change forces are aggravating these threats as the *accessibility* and *affordability* of global oil becomes problematic and climate-induced droughts and famines become significant threat multipliers.

WTS: When do you expect the perfect storm to rear its ugly head?

Conley: It has already started. The storm forces are building and infrastructure conditions are ripe for the pickings. It's only a matter of time before critical mass is reached and an unstoppable chain reaction is triggered; one can see the forces building.

WTS: Before commenting on these forces and their triggering mechanisms, could you say something about your storm tracking methodology?

Conley: Well first, I use my perfect storm model (illustrated below) to sub-divide the storm forces into key categories. I use a set of metrics to measure trend lines wherever possible and then track the secondary indicators influencing the storm's trajectory, tempo, and triggering points.

STORM WARNINGS

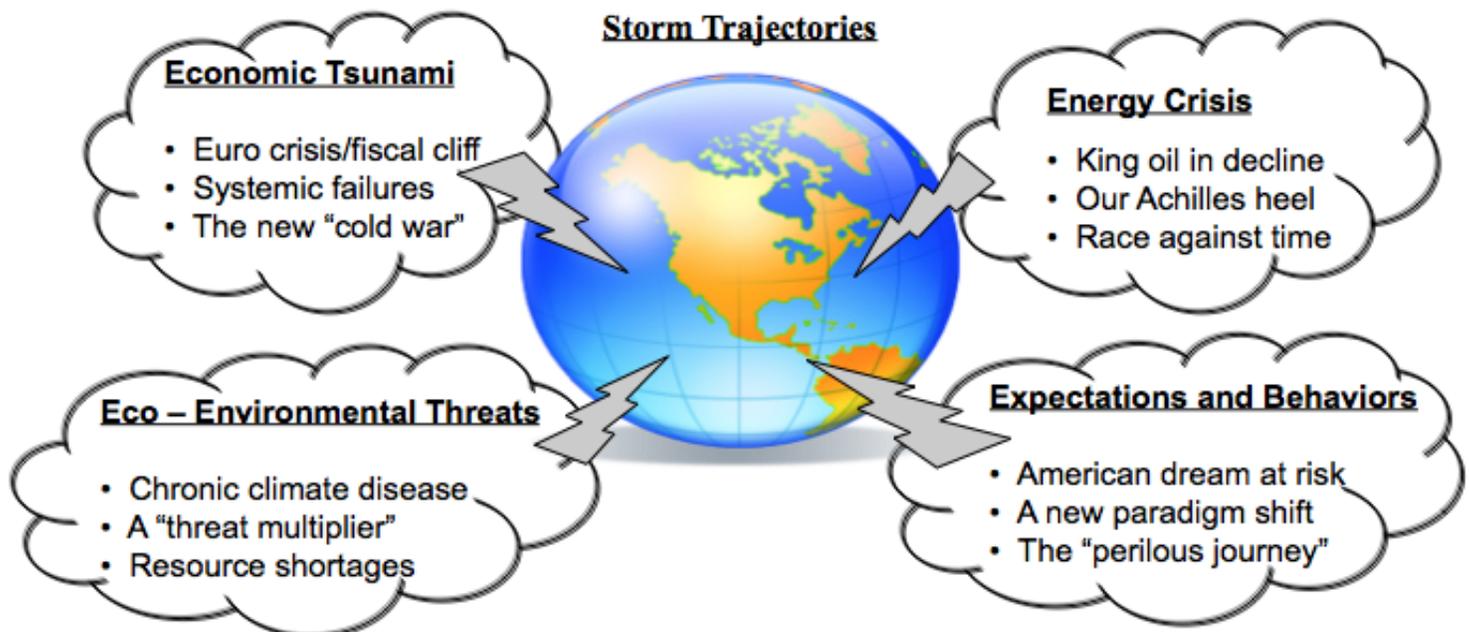
Vol. I, Issue 7: August 2012
Perfect storm triggering mechanisms

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.

For example, a bursting global credit bubble could trigger an economic collapse, but it won't happen over night. So, instead, I track the secondary forces that are pushing us into such a crisis. The trajectories are ominous.

The Perfect Storm

We are on a collision course with a perfect storm and don't see it coming.



The chain reaction of colliding forces could produce a fury of game-changing proportions . . .

STORM WARNINGS

Vol. I, Issue 7: August 2012
Perfect storm triggering mechanisms

WTS: What storm forces do you find most troubling at this time?

Conley: The list is long, so let me focus on just four titanic forces of greatest concern:

- 1) The potential bursting of the global credit bubble and its catastrophic impact,
- 2) Significant new geo-political threats with explosive implications,
- 3) An imminent decline in global oil supply and inability to meet global demand,
- 4) Climate tipping points that foment droughts, famines and weather disasters.

WTS: Could you say more about your list and the secondary indicators you monitor?

Conley: The global economy is our most immediate danger. The systemic threats are long, deep and interconnected. For instance, sovereign debt and national banking systems are now intertwined; public and private risk is coming led through derivatives, bailouts and fiscal and monetary policies, and the global economy integrally links the financial systems of all countries. A threat to one country or banking system is a threat to all.

For example, twenty years ago a bankrupt Greece would have been a tragedy for the people of Greece; today, it threatens to unravel the entire Euro Zone (EZ) structure along with its PIIGS partners, Portugal, Italy, Ireland and Spain. Couple that with the United States, reeling in debt and facing a "fiscal cliff" of its own in 2013, and it is clear things could unravel in a hurry.

My greatest fear is that panicky governments will print money recklessly to monetize debt to "save" their economies; while in the process creating conditions that could lead to hyperinflation – a game-changer of enormous consequence.

WTS: What are some of the secondary indicators you track for this possibility?

Conley: I keep a close eye on the European Union situation. It represents about 20% of the world's GDP and is a major trading partner for both the United States and China. Within the European Union, I'm most concerned with the 17 Euro-Zone nations – particularly the PIIGS contingent with an aggregated debt to GDP ratio large enough to overwhelm the entire European Union and send economic shockwaves around the world.

The skyrocketing sovereign debt of the PIIGS nations is alarming, and I watch the proximity of their 10 year debt servicing rates to the 7% threshold many think is unsustainable. Spain has already exceeded that level. Further, the debt ratings and Euro currency exchange rates are good bellwethers of things to come. The seesaw balance between the fiscal controls the PIIGS are willing to accept and Germany's appetite for underwriting their losses make the outcome less than clear.

STORM WARNINGS

Vol. I, Issue 7: August 2012
Perfect storm triggering mechanisms

WTS: Changing gears to America's so-called "fiscal cliff," what are your concerns?

Conley: As the world's largest economy, anything we do has a huge ripple effect on the global economy. The fiscal cliff refers to the combination of tax hikes and spending cuts scheduled to take place on January 1, 2013. Together, they will take about \$600 billion out of the economy in 2013 alone; an action that could trigger another recession. Sadly, political gridlock is preventing this from being addressed in a timely manner.

The fiscal cliff is only the tip of the iceberg. Our growing debt to GDP ratio and debt servicing charges; the budgetary drain from unfunded entitlement benefits now paid out to baby boomers retiring in droves, and our willingness to print money and borrow about forty cents on every dollar spent by the federal government are troublesome indicators. It's hard to see how we can avoid a ratings downgrade and/or the longer term threat to the American dollar's status as the world's reserve currency. By contrast, the Chinese Yuan is growing daily in its international strength.

WTS: You mentioned geo-political threats with explosive implications. What are they?

Conley: The global hot spots are everywhere. Rather than list every one that comes to mind, let me suggest a few categorical threats:

Game-changers: I would include here threats that could immediately destabilize the world order such as a shooting war with Iran. The Arab Spring movement could also turn nasty and threaten our access to oil; imagine what an unfriendly regime change in Saudi Arabia could mean to the global oil markets. Follow the oil trail if you want an indicator of where a future crisis might occur.

Asymmetric threats: Threats of this nature could include cyber-attacks that degrade major avenues of commerce, energy production and our national security. It could include terrorist attacks on an oil choke point or other critical targets, or it could involve something more subtle like undermining the petrodollar currency system. The list is endless.

Superpower challenges: China's growing might has changed the global landscape and intensified the competition for finite global resources. Look for a growing presence of U.S. forces in the Pacific, and brace for new "incidents" occurring in the East and South China Seas as China competes for new-found undersea resources. The emerging roles of India, Brazil and Russia will also change the picture. It's a volatile world.

The list is too long to cover here, but almost anything I've mentioned could start a chain reaction that triggers the perfect storm. The pre-conditions are ripe.

STORM WARNINGS

Vol. I, Issue 7: August 2012
Perfect storm triggering mechanisms

WTS: You cite the global oil supply and demand equation as a threat; why?

Conley: The global oil situation is never far from my thoughts. We're approaching a point where global demand will outpace supply. Had we not had a stagnant global economy that has quelled the demand for oil, we might've reached that point long ago. As China and India grow their economies and increase their oil consumption; as oil producing nation's use more of their own oil and export less; and as the immutable laws of geology remind us that oil is a finite resource and that the existing reserves will be increasingly costly to extract, we'll soon feel the pinch. The threat lies in the fact that we have no scalable alternative energy systems to replace oil; the economic fallout from future oil shortfalls could be severe. (See Volume I, Issue 2 newsletter).

WTS: What are some of the secondary indicators you look at to assess the oil risk?

Conley: I try not to over-fixate on media hype suggesting there's nothing to worry about if we will only "drill baby drill." Instead, I use a plethora of government and international reports on oil production and consumption rates by countries and cartels. I stay current on such things as oil depletion rates, new discoveries, OPEC vs. non-OPEC production, and strategic policies of nations with respect to oil. Global events in the Middle East, Iran and oil-producing nations are of particular interest, and OPEC's growing concern with the petrodollar system – so advantageous to the U.S. – has to be closely monitored.

Long story short: The oil situation is likely to play a huge *contributory* role in the perfect storm – either directly or indirectly. Oil prices are most assuredly contributing to our current economic malaise. In the U.S., for example, oil prices become an economic drag whenever they exceed 4% of GDP. That puts us in the red zone whenever oil prices exceed \$90 per barrel – a price that now seems to be almost a semi-permanent fixture.

WTS: You mentioned climate change as an area of concern. Please comment.

Conley: While climate change may not be an immediate catalyst for triggering the perfect storm, I agree with the military and intelligence agencies that call it a "threat multiplier." The droughts and famines caused by climate-induced weather patterns are taking a frightening toll all over the globe. Its impact will vary by region, but it fosters regional conflicts everywhere. It may soon play out in remote regions such as the Arctic – as melting sea ice reveals a mineral-rich treasure trove that will be aggressively contested by several nations, including the United States.

The record high temperatures in the United States and massive droughts over 65% of the nation impact everything from crop production and food prices to the amount of water-intensive hydraulic fracturing we can employ to secure shale oil-based natural gas and oil. The financial impact of unprecedented forest fires – precipitated by record dry conditions – and/or costly weather disasters

STORM WARNINGS

Vol. I, Issue 7: August 2012
Perfect storm triggering mechanisms

fomented by climate change are threats that add fuel to the fire.

The metrics and climate change trajectory lines – such as the growth in CO2 parts per million (PPM), unprecedented polar sea summer ice losses and glacial melts, rising ocean acidification levels and so forth – are of longer duration, but clear. While the climate change threat is less obvious than others, it could ultimately become the greatest threat mankind has ever faced.

WTS: You've covered a lot of ground. How would you sum up this interview?

Conley: The perfect storm is not an abstract concept. It's for real and it's already in motion. Its insidious trajectories disguise the lethality of the threat - we don't even see it coming. The quicker we recognize the true nature of the risk and how it is evolving, and the faster we take constructive countermeasures to mitigate its sharper edges, the better off we will all be. I invite readers to download my free 32 page "*Weathering the Storm*" guide for practical ideas on how to prepare for the storm. www.WeatheringtheStorm.net

Note to my readers: I will be changing my website mix of informational reports in early August. The Storm Warnings newsletter, now published monthly, will be published quarterly, but I will be ramping up the number of blog articles and special reports appearing on my website. The next Storm Warnings newsletter will be published on October 1, 2012.

R. Michael Conley