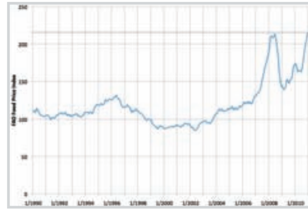
The world economy is off on a course of radical currency devaluations.



What do devaluations and increasing food prices mean for investors?

FX, THE NEW ANTI ASSET-CLASS

As the global economic climate deteriorates, FX is becoming more and more relevant. Investors are becoming aware that while they may have positive returns in the markets, those returns are being eaten away by a combination of inflation and competitive devaluation of currencies.

Look at the recent example with Portugal. This is what Deutsche Bank's Mike Reid had to say about the situation: *"This is probably the first time we've seen ECB intervention for reasons as much due to the rising yield environment as much because of weak spread sentiment. It shows why keeping core bond yields down is so important across the developed world given the excessive debt burden that still lingers everywhere. It's not just a European issue as it was also interesting to see yesterday that Freddie Mac's average 30-year fixed rate US mortgage rate averaged 5.05% for the week ending 10th Feb (from 4.81% in the previous week) and now at its highest level since April 2010. When Bernanke introduced QEII, keeping yields down to help housing was one of the goals. So this is another thing to keep an eye on.[1]"*

It seems the current trend in solving the global crisis is to print more currency. Before the crisis, this was a uniquely Japanese strategy. Then the Fed began Quantitative Easing, and finally QE2.

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"We would need to check my records a little more careful but we suspect the SNB has set a new world record with its FX intervention in May. Data released by the Swiss Statistics Office and confirmed to us by the SNB puts intervention at CHF 78.8bn in May (yes, that is the change of reserves, not their level). To put this into perspective, this is nearly three times the previous largest monthly intervention and amounts to 15% of GDP in just one month. Current reserves are now CHF 232bn or 43% of GDP." (Extract from "JPM Ridicules SNB Intervention"[4]).

Other markets, such as Australia, and emerging markets such as India, are not much different. See a chart of another twist that many investors do not understand, while the

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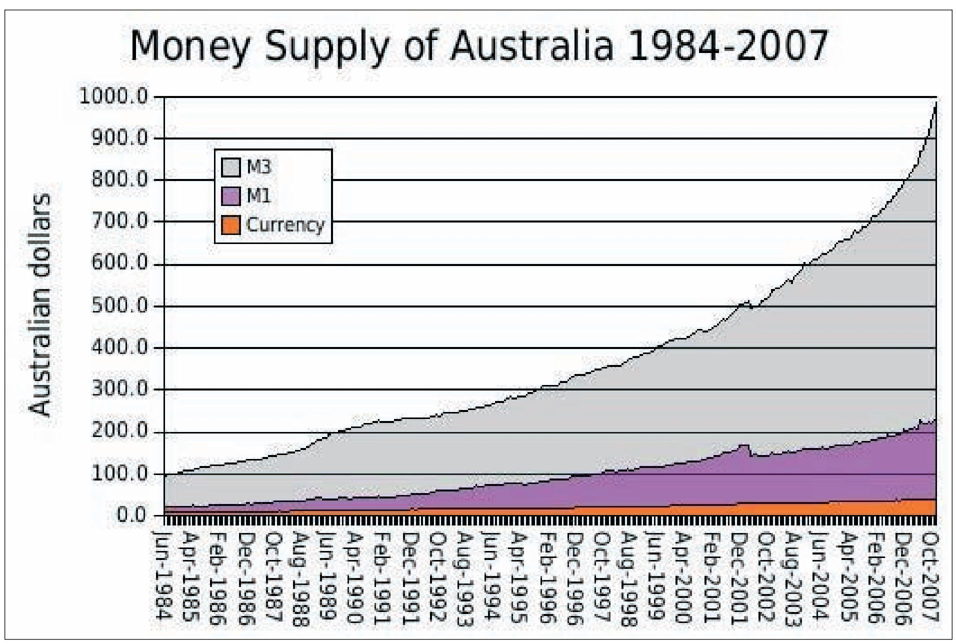
Money Supply of some currencies may not be expanding as fast as the USD, many of those currencies are 'backed' by the USD in the form of USD reserves. So their values are being deteriorated not only directly by their own printing, but by the deterioration of their reserve value. Since Currencies are valued only in terms of purchasing power and when traded with other currencies, the only real measure of this can be seen in the appreciation of commodities and other hard assets, and inflation.

There is a growing Food Crisis in the world. *"But last month, global food prices actually broke the record, according to the experts at the UN's Food and Agriculture Organisation. Over the past year the price of corn has risen 52 per cent, wheat 49 per cent and soybeans 28 per cent. Rising food prices have pushed an extra 44 million people into poverty in the past seven months, according to the World Bank. It's even being felt in the rich world. In Australia, the opposition hopes to capitalise on it: "The year will begin and end with Australian families facing an ever-rising cost of living," the Liberal Party's Joe Hockey said in a speech last week. Alarmed at spiking food prices, a score of countries, including big food suppliers such as Russia and Ukraine, have banned food exports to make sure they can feed their own people first. This has provoked further alarm. Britain's environment minister, Caroline Spelman, argued last month that it should be illegal for countries to halt food exports, even in an emergency. At the same time, the British government's chief scientific officer, Sir John Beddington, declared that "the case for urgent action in the global food system is now compelling".*[5]

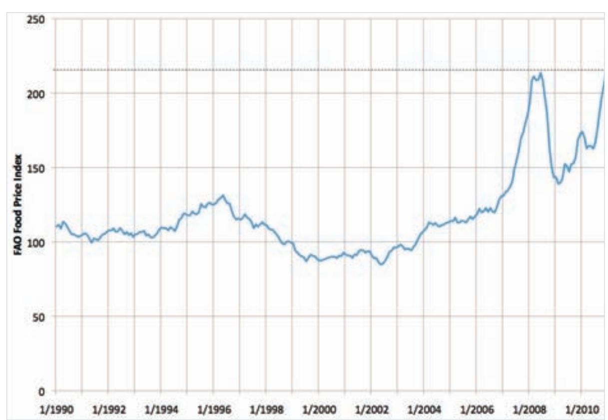


WHAT DOES ALL THIS MEAN FOR INVESTORS?

It means that if you have any electronic assets, their value is being deteriorated by the world's central banks through the creation of new currency. You don't need an economics degree to understand that when there is more currency in circulation (although electronic) it is less valuable. It is no coincidence that Gold is trading at record levels, along with other commodities and business ventures.

So if all currencies are being devalued, where should investors place their money? Recently released economic data says for the first time, US debt now equals the total US economy. *"President Obama projects that the gross federal debt will top $15 trillion this year, officially equaling the size of the entire U.S. economy, and will jump to nearly $21 trillion in five years' time. Amid the other staggering numbers in the budget Mr. Obama sent to Congress on Monday, the debt stands out — both because Congress will need to vote to raise the debt limit later this year, and because the numbers are so large. Mr. Obama's budget said 2011 will see the biggest one-year jump in debt in history, or nearly $2 trillion in a single year. And the administration says it will reach $15.476 trillion by Sept. 30, the end of the fiscal year, to reach 102.6 percent of gross domestic product (GDP) — the first time since World War II that dubious figure has been reached. In one often-cited study, two economists have argued that when gross debt passes 90 percent it hinders overall economic growth.*[6]

This indicates that there will be increasing pressure on the Fed to monetize the debt by buying Treasuries and printing more currency, driving down the value of the US Dollar ever more. So if all currencies are bearish, then where to invest? Here are a few things investors should understand.



FAO Food Price Index

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Whether you are invested in currencies directly or not, you are always directly invested in currencies unless you do not have an electronic currency based account and conduct your transactions in gold and silver or by barter. That means if you have a stock account at TD Ameritrade, based in USD, you have a long position in USD. If you are from Europe, you are naturally long EUR. If you are from Britain, you are naturally long GBP, and so on. Under normal circumstances, this is simply an accounting issue, minus a yearly fluctuation of currencies, which historically wasn't more than 10% - 20%. But in an environment of competitive global devaluation, this means that by having a certain position you can lose as much as if you didn't have another one. If the USD goes down by 10% but the EUR goes down by only 5%, by being in EUR you would have an actual 5% gain. This is a slippery slope to explain to investors, regulators, academics, and many in Finance. But those who are not wealthy understand this when they go to buy groceries and see prices increasing rapidly. Even the USDA admits that food inflation will accelerate in 2011[7].

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Global leaders have recognized this situation and agreed to avoid competitive devaluation[8], but yet it continues. *"The recent intervention by the BOJ has quickly become the most contentious decision in global economic circles, with many wondering now that the world economy is off on a course of radical currency devaluation, who will be next, and how far will this game continue? If Albert Edwards, whose latest piece rhetorically asks (and answers) "what do devaluation, high unemployment, inequality and food prices spell? C-H-A-O-S" is correct, this could be the beginning of a rapid descent in which central banks around the world are all forced to use the nuclear option: ceaseless FX devaluation, but one coupled with an endless increase in the money supply a process which can only have one outcome – that predicted recently by Eric Sprott when he said that "we are now paying for the funeral of Keynesian theory." However, the biggest threat is that this most recent invocation of the nuclear option is coming at a time when the world is least prepared to handle it - social imbalances are at unprecedented levels, and if, as many predict, the price of key food products is about to surge (courtesy precisely of these failed central bank policies) to a point where the great unwashed end up on the wrong side of hungry, from there, to armed conflict, the line is very, very thin."*[9]

There are many great blogs, websites, and resources, which are documenting the crisis and how FX is significant. But who is offering any solution, who is proposing any alternative to investing in Mutual Funds or Money Markets?

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A growing number of investors is choosing to do their own investing. This however is not easy, as many of them are not trained in finance. Some of them, retired or otherwise out of work, may choose to do their own investing to save fees, because they enjoy it, or because they don't trust managers. Whatever the reason, they need information and education about the markets. Magazines and other information sources should provide more education for investors and be less focused on 'news reporting' because, first of all, news is available 24/7 on the internet and through trading platforms, and secondly, it isn't a unique quality. When news breaks of any significance, it reverberates around the globe quickly. The focus should be on information dissemination and the development of online resources.

In conclusion, investors should educate themselves, and be their own money managers, where possible, because there isn't any 'silver bullet' solution that any single money manager can offer, no matter what their philosophy. In a complicated environment, one needs appropriate strategies, not necessarily portfolio 'blanket approaches' that may not be relevant to certain individuals or may not work at all. An active approach should be taken towards investing, one that involves a level of knowledge not previously required or needed.

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1 The Wall Street Journal. Blogs
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