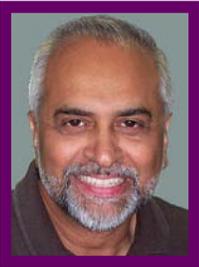


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WRITTEN BY: ASHOK DHILLON



Ashok Dhillon has 40 years of front-line business experience in Canada and International markets. He has founded and led companies in construction and international power development.

Mr. Dhillon has worked and negotiated with highest levels of Governments in Canada and India. He has pursued and won mandates to develop power plants in Canada, and foreign jurisdictions such as Hungary, Iran, Pakistan and India with uncompromising ethical standards. His extensive experience in securing and negotiating multi-hundred million and billion dollar mandates in power project development, gives him in-depth knowledge and intuitive insights into macro and micro, national and international, geo-political and economic realities and trends.

Mr. Dhillon has been invited to speak on international business at various forums, including as an expert witness for the Standing Senate Committee, Government of Canada, on "The Rise of Russia, China and India".

Weakness In Economies – Strength in Financial Markets – Zen Like Detachment



Continuing weakness and deterioration in the global economies firms up the financial markets around the world, and sends them rebounding. The probabilities of further Quantitative Easing (*Europe, China and Japan*), and maximum monetary stimulus through suppressed interest rates 'zero or near zero percent', stretching out indefinitely in United States, Japan and Europe, becomes the stimulus. This seemingly endless easy and cheap money environment is causing the professional financial players to rejoice and continue the speculation in the asset markets, causing rally after rally to drive and keep the stock market indexes at record levels. The continuation of this long distance running bull market also gives the insiders the time and ability to suck in the up-to-now wary small investors into the deep end of an aging and highly dangerous financial market, as per the mantra of the insiders and brokers worldwide, *'If God didn't want the sheep sheared, He wouldn't have made them sheep'*.

The ongoing and unprecedented generosity of the Federal Reserve, and the other major Central Banks, is aimed directly to boost the 'wealth effect' (make people feel richer by boosting real estate, stocks and bond prices higher) so that in feeling richer, they may start spending more and thus boost economic recovery. It sure is a convoluted way of going about getting results. This policy favours the already rich, those who hold a lot of assets

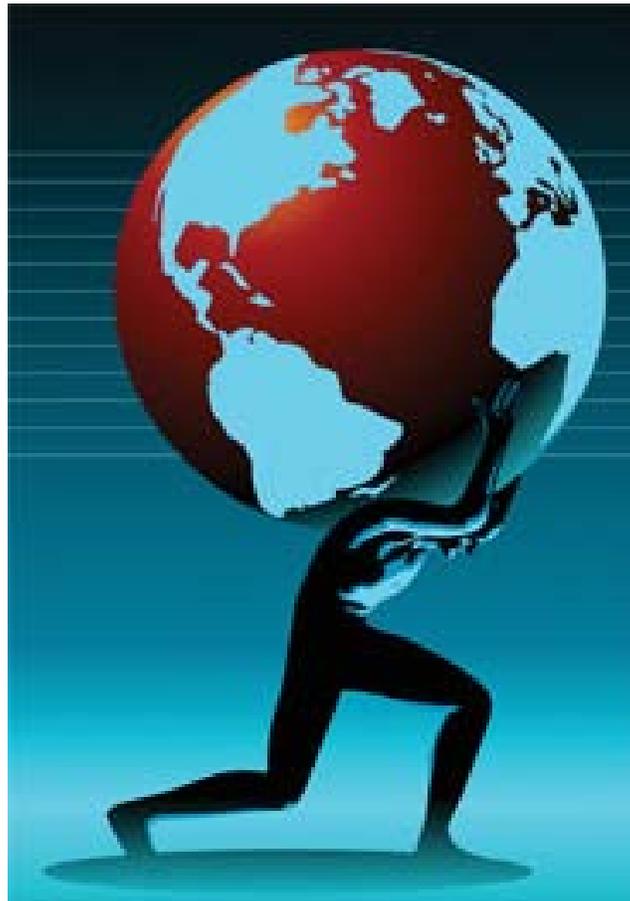
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already and not the average person which makes up the vast majority of the economy, has few assets, and is struggling to make ends meet or find a job. After 5 years of such a 'expansionist' policy, we are sure there are a lot more of those that are struggling and trying to keep or find a job than there are those with substantial wealth and assets who are feeling the 'wealth effect'.

The 'financial stimulus and monetary easing policy' pursued with vigor by the Central Banks, favouring the rich players over the past 5 years, in hopes that if all things go well (*whenever*) the masses might accrue some benefit in the future from a trickle-down of wealth from the market players, has consistently failed to reach the masses. Five years later there seems to be precious little trickle-down effect, in fact there is anemic economic recovery and crushingly high unemployment, especially amongst the youth in most countries of Southern Europe and emerging markets. Yet in spite of the obvious failure of these stimulative policies to reengineer robust global economic recovery, financial markets and real estate prices around the Globe continue to levitate upward to record highs, upon broken economic wings.

This detachment from economic reality is achieved by Central Banks by printing and distributing Trillions of dollars to Banks and other big players, who speculate in the stock, bonds and real estate markets, driving up prices while the underlying economies continue to sag and flounder.

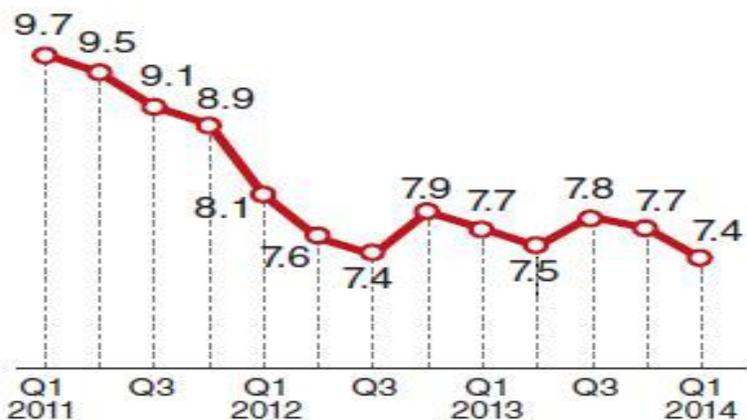


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China's GDP growth

(Unit: %, year-on-year)



Source: National Bureau of Statistics

China's economic activity continues to slow from the targeted 7.5%. The latest quarterly GDP rate was announced at 7.4%, just beating analyst's expectations of 7.3%. It was the perfect number - 7.4%. It indicated the Government's willingness to allow the growth rate to continue to slow, but was just high enough to beat market expectations of 7.3%, which gave a pitch perfect message to market watchers that China's government was still very much in control, which in turn boosted confidence. That 0.1% fractional extra growth above expectations made everyone breathe a sigh of relief, because even though China continued to slow, it met and beat *lowered* expectations by 0.1%, and that was enough to keep the party going in spite of the ominous and threatening storm clouds of slowing economic growth rates and an overstretched debt and credit bubble that could thunderously pop.

In a tightly controlled economy like China's, important numbers are strictly controlled and most likely do not reflect reality, and are therefore highly suspect. One thing is certain - China is slowing and in our opinion will continue to do so quite substantially for some time to come due to the altered export markets and under developed internal markets. But the real worry, presently, is the real estate and construction sectors where the tightening of the US\$3-4 trillion 'Shadow Banking' market is starting to put the squeeze on local governments, banks and their favorite property developers, which could lead to the unraveling of the massive over-built and over-inflated real estate market, and the financial system that has fed it for so long.

We feel that China's growing internal problems, combined with the rising geo-political and financial risks from other countries, could knock it off its set track.

The Euro Zone is still mired in its entrenched geo-political economic problems and now has to deal with the political/economic confrontation with Russia, making the ECB (*European Central Bank*) talk of further 'easing' to prevent its economies from slipping back into recession and deflation. Additionally, the

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ECB is trying to talk the Euro down, and may lower its interest rates if required, to improve Euro Zone export competitiveness with the other major exporting countries, whose currencies have depreciated and are being further directed downwards (*the currency wars that we wrote about in our earlier Economic Reports*) to capture shrunken global export markets.

The fact that Global 'recovery' is so weak after 5 years of multi-trillions spent in 'easing' that it requires more 'easing' to help it along, is worrisome to the public, business and governments, but is good news to the professional financial market players and financial institutions, as they get more easy money, in the hundreds of billions of dollars, to make more easy money with, while the general populations struggle and wait years for crumbs to trickle down from the over-heaped table.

The middle class and the poor are told to be patient and wait for the trickle-down effect while Banks, large State and privately owned corporations, and the wealthy individuals private or government, get unprecedented amounts of newly printed hard cash – for practically free – to speculate in the asset markets. This economic growth plan is of course designed and advised by the 1% for the 1% (*all the ex-Goldman Sachs people in top spots at the U.S. Treasury and Economic departments for decades*). The top tier neither creates the most jobs nor fosters sustainable economic wealth, in spite of their claims to the contrary, and that is why this almost endless global economic recovery plan of 'quantitative and monetary easing' has not worked.



The already wealthy (*and the guilty for the previous crash*) have happily taken the 'stupid easy money' and created little to no economic activity with it, but have gone back to doing what they did before the crash, which was speculate in the asset markets and drive up the prices. The trickle-down effect to the public and small business is too slow and inefficient to make any appreciable difference. And hence the continued quantitative and monetary easing still required and being promised by the biggest Central Banks - the

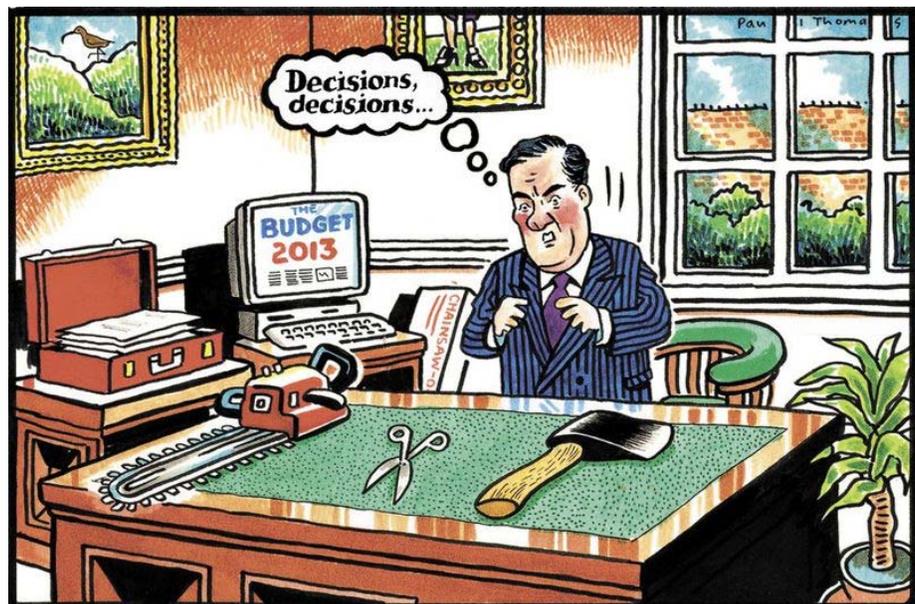
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U.S. Federal Reserve, European Central Bank, Bank of Japan, Bank of China, etc. - 5 years on.

It is all such a pity. The same trillions of dollars given to the to the biggest and the wealthiest over the past 5 years - had they been given to the public and small business on the same terms, of near zero interest rates and easy payback terms (*and if you really screw up you get more*), would have resulted in an almost instant spike in consumer consumption, and far greater job creation than this - top down - trickledown - economic stimulus plan that has been so diligently implemented with such poor results.

Plus the 'bottom(s) up' (*even sounds more fun*) stimulus plan would have prevented and alleviated the massive pain inflicted on the slaving masses through job losses, foreclosures and bankruptcies, by preventing or reversing the damage, as the top end got to do with the bail-outs that they received. But the ultimate irony is: this feed the rich with tax payer dollars, is designed and most vigorously implemented in the 'keeper of the free market flame' the United States, and not by some socialist/communist country, and then is exported out to the rest of the world, where it has been enthusiastically embraced almost unanimously, with equally dubious results, especially now by Japan. The only country to really reject the endless quantitative easing model has been England, which embraced calculated austerity instead and got mercilessly scolded for it by the other western countries and their watch dog the IMF. Until recently that is, when it became obvious that England's economy, practicing austerity, was doing better than most of the other developed economies pushing easing (*irony indeed*).



The top 1% generally skims off of the top, and we have no problem with that as we are capitalists (*albeit with a conscience*), and know that free countries and free markets are the best wealth generators, except when the 1% hijack the political and financial policy agenda for their benefit to the detriment of

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the majority. And when they howl with indignation when tax cuts and government spending is directed towards the lower economic classes, the small business and the middle and lower classes, and not at them.

The wealthy and privileged, be they bankers, corporations or individuals are just so used to having government regulations and subsidy largess favouring them all the time, that any deviation of the money flow – especially to the less privileged is vigorously opposed as inefficient and wasteful. If there are to be any tax cuts, they believe it should be to the top end, and if there are to be any government subsidies and bailouts, it should be only to them. And this in their minds isn't socialism or communism just good old 'capitalism'. But God forbid the governments should have the audacity to give the ordinary people any tax breaks and subsidies – then it is godless communism.



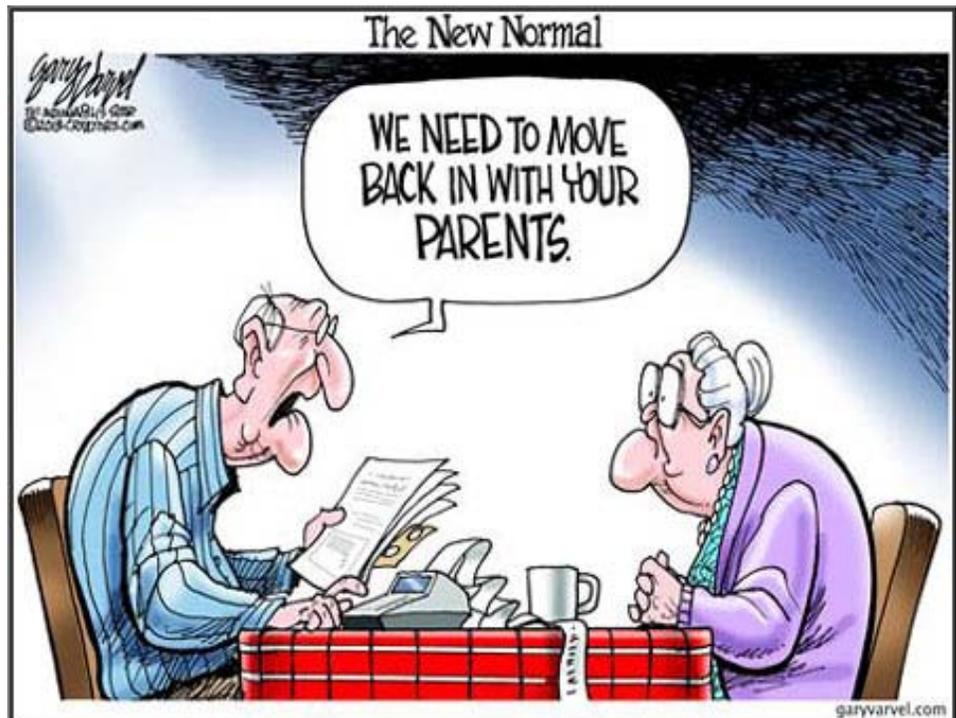
When you are at the bottom then you are to be comforted with, “the meek shall inherit the earth” and you must wait endless generations for that moment to arrive, if it ever arrives. When you are at the top you are “doing God’s work” (attributed to Goldman Sachs CEO, Lloyd Blankfein after the 2008 crash) and the message to the masses: “If God didn’t want the sheep to be sheared...”.

The general consensus over the years is that the greater numbers of jobs are created by small business - and sustainable economic growth is carried by the middle and lower classes through mass consumption. The working classes buy all the mediocre junk that the wealthy individuals and their corporations produce to become and stay wealthy. While they the wealthy, shop, eat and stay at the most expensive places. Unfortunately, the creation and consumption of the ‘most expensive’ of anything does not match the economic activity generated and sustained by the mass production and consumption of the ‘mediocre’ by the public. (Estimated value of luxury GDP \$1.3 trillion versus value of global GDP \$72 trillion – source CIA World Fact Book 2013)

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And since the crash of 2008, mass consumption is what the global economies are lacking and the prolonged 'quantitative easing' economic plan is not providing. Everyone is being told repeatedly, by the Federal Reserve and the other Central Banks to be patient as the recovery is taking hold, albeit too slowly, as the trillions being doled out in the past 5 years and the more to come in the near future, to the top percentile, agonizingly and imperceptibly trickle down to the waiting masses. One often wonders why, if the governments really wanted fast economic recovery, did they not give the same trillions they gave to the big and wealthy institutions and individuals, to the small business owners, the middle class and the poor (*the bulk of the economic mass*), which then would have created the jobs, the consumption, the sustainability and the sanity, that everyone seems to be looking for but just can't seem to find.



As the years roll by with no sustainable results, one also wonders if the wealthy would have ever waited with the same fortitude and patience that the poorer have shown these past 5 years, as they have waited year after year for the elusive recovery to arrive and provide the financial stability and growth that the trillions of dollars already spent were supposed to have provided.

One also wonders, what would have happened if a 'trickle-up' instead of the usual 'trickle-down' economic recovery plan had been implemented? Somehow we doubt it ever would. We can already hear us being accused of uttering sheer nonsense, and economic and political heresy. But through a lifetime of business experience we know, it's at the street level, in living rooms, basements, garages, and college dormitories that most often economic growth is first envisioned and created by the production and consumption of goods and services by ordinary people, and seldom in the towers and trading pits of the

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Stock-Exchanges, big banks, investment and trading houses. They broker and trade the productivity of the producers, the general masses. But that is exactly where the stimulative trillions have gone so far, to the traders, with so little to show for it after so much money and so many years. And more is to be wasted in this very questionable unprecedented experiment.

Even large corporations have taken advantage of the silly money being doled out, and have boosted profits by borrowing the cheap money and buying back their own shares, thus upping earnings per share, rather than by being more competitive and productive and actually earning the 'earnings per share'; which is so much work! And why not, if cheap money is being practically given away. And that is where the continued and contemplated additional stimulative money will go with the same results. Except, the longer the Central Banks underwrite the risk and feed this speculative asset market binge through printed money, without the commensurate productivity in tangible value generation, the greater the price the ordinary long suffering public will pay once again when it crumbles, as no real foundation was built under it all. The recent signs of the times are - the once unacceptably high risk Sovereign Bonds of countries such as Romania, Greece and Italy were oversubscribed by many multiples as 'investors' flush with cheap money scrambled for yield disregarding risk in this near zero interest rate environment (*or sure in the belief that ECB will back stop all risk*).

Talk about *'betting on the weather rather than banking on the climate'* (we paraphrase the late great – Jean Paul Getty, founder of Getty Oil).



Central Banks have, for the first time in the history, managed to surgically detach the performance of the financial markets from their underlying economies. In this surreal World, all bets are off as to what will happen

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eventually and when, but we have been consistent and on target in predicting that sustainable economic recovery was not possible with just financial and monetary easing without structural reforms, regardless of how much, and for how long the 'easing' lasts. And that is been proven true to-date. The Federal Reserve and most other major Central Banks continue to talk about further quantitative and/or monetary 'easing' required, after all these years, and to listen to them - for possibly many more years to come.

In this upside down economic World, negative economic news is cause for celebration in stock markets and for financial players around the World. They continue to get easy and cheap money to make more silly money, and there is no need to create real value through traditional economic activity, and hence they feel like modern day geniuses. In the meantime, the beleaguered public continues to wait for crumbs from the feasting table, but what they will probably get is the more likely scenario – another excess and speculation fueled domino-like global asset market collapse, and more years to practice 'patience and meekness' to eventually, sometime in the future, inherit the earth. In the meantime, it may be helpful to start practicing Zen meditation to cultivate 'detachment', as the near term global economic future looks to be painful for the 99%.

