

# Something to Think About



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## COMMON CENTS

On Wednesday, my wife and I dropped off her car to have her transmission fixed, good times. I mean that money was just burning a hole in my pocket waiting to get out. The guy who owns the shop is a fellow named Joe, who was born and lived the first 19 years of his life in Lebanon. He claimed to be 52. After we had worked out a price, we made small talk for a bit. Joe told me where to get the best falafel in town, which I wouldn't have guessed, and invited me to attend his church.

I then asked him what he thought about the situation in the Gaza Strip, southern Lebanon, and with the Islamic State, formerly ISIS, figuring he would have an opinion. He did, and it was basically as I suspected: everyone wants to kill everyone else, and we really can't do anything about it at this point. Then he laughed, and closed with "why do think I left there 33 years ago?"

As an aside, if his personality is indicative of his ability to fix transmissions, my wife's Toyota will be running like a Bugatti by the time Joe gets done with it.

Later, Beth told me: "you know, it is kind of strange you can be as conversant as you are on so much random stuff. You know that, don't you?" I paused for a second; reflected on the books I have read recently, and said: "I wouldn't expect people to know what I know about North Korea, and some of that other stuff like monetary policy and the Russo-Japanese War. However, we should all know about what is going on over there right now, and I think it strange a lot of people don't. Frankly, I think it strange anyone would care about the Kardashians and all that other [stuff] which passes for entertainment these days." (not that Beth cares about the Kardashians; she doesn't.)

Recently, outside of a few domestic economic releases, the headlines have been mostly brutal. I wouldn't know where to start: the Ukraine? Argentina? The Texas border? Italy, as it goes into recession yet again? Typhoons in Hawaii? The Gaza Strip? Southern Lebanon? A shaky stock market? An increasingly toothless State Department, or so it would seem? Ebola in Africa and elsewhere? And then, the situation with the Islamic State in Syria, Iraq, and, now, increasingly in Kurdistan.

I won't mince words here: these guys scare the hell out of me. Why? Well, think of the Islamic State as an organized al-Qaeda or the Taliban with money, heck, the Khmer Rouge with money, potentially lots and lots of money. When you have that scary thought in your head, understand this: the leaders of the Islamic State must be brilliant. So, adversarial? Check. Fanatical? Check? Well-funded? Apparently, and even more so if they keep capturing oil wells and central banks. Well-organized? Yep. Hitting at the right places at the right time? Playing the dominant powers in the region against one another? Waiting until Russia is embroiled in the Ukraine and the US is war weary to make the big moves? Shoot, wait until the Americans aren't really even talking to the Russians and frustrated with the Israe-

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**True, a little learning is a dangerous thing, but it still beats total ignorance.**

**Pauline Phillips**

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lis? Using social media to advocate their cause? Yes, again and again and again. The coordination of all it seems so, well, orchestrated. Someone or some people with some pretty impressive gray matter between their ears HAD to have cooked this up. It couldn't be dumb luck.

What is the US supposed to do? Reinvade Iraq, which would be met with public outcry? Let the Iranians invade Iraq and take care of the situation? Oh ho; that IS a sharp sauce. Tell Assad it is sorry, and we should be friends and fight the same group of folks? Talk about a loss of face. Let the Israelis take care of business, and have the whole region up in flames? Particularly when it would appear Netanyahu and Obama can't stand each other? Let alone Putin and Obama? Arm the Kurds to the teeth, and watch the Turks go ballistic? Frankly, it is laughable just how clever the Islamic State has been up until now.

The rub? Get this from the Business Insider this morning:

But there's an inescapable paradox that explains, in part, how ISIS insurgents have been able to make sweeping advances toward the Kurdish capital against the peshmerga, Iraq's most formidable military force.

ISIS is using modern U.S. weapons its fighters have seized from Iraqi forces, while the Kurds fight with Soviet arms.

"They are literally outgunned by an ISIS that is fighting with hundreds of millions of dollars of U.S. military equipment seized from the Iraqi Army who abandoned it," Ali Khedery, a former American official who has served as an adviser to five U.S. ambassadors and several American generals in Iraq, told The New York Times.

McClatchy reports that the Kurdish peshmerga, meanwhile, possess "a handful of 12.7mm Soviet-era heavy machine guns and rocket-propelled grenades," along with a few Soviet-era T-55 tanks, to take on battle-hardened militants riding in U.S. Humvees.

Given the Islamic State's foreign funding, looting of the Iraqi central bank in Mosul, and oil reserves, there is no reason not to believe at some point US troops will be fighting battle-hardened soldiers using the same small-arms technology. Unlike other terrorist groups, these guys have planted a stake in the ground, and someone is going to have to physically remove it.

In the end, the Islamic State isn't going anywhere anytime soon, and this is a real problem to the global geopolitical and economic balance, if there was one. As such, more than anything else currently going on in the world, this bothers me the most. It smacks of permanence; the rest of the stuff we can probably work through, or at least muddle through with a few dents and dings along the way.

But what to do? At least in your investment portfolio?

Much depends on whether the Islamic State can break through Iraqi resistance and take over the oil fields in southern Iraq. Then we will have to see whether it is content to stay put or eventually take over their (rumored to be) indirect benefactors in Kuwait. However, and this is key, the Islamic State is Sunni Muslim, and southern Iraq is largely Shia, outside of Basra. Will the Iranians, who are Shia, allow Sunni fighters to attack their Shia brethren if the Iraqi state completely collapses? Particularly IF the US doesn't meaningfully get involved? The answer to that is probably not.

So, we are stuck in between a rock and a hard place.

If the US decides to intervene with troops on the ground, our deficit, which has been declining, will shoot up again. There is no way it won't or wouldn't. Given the fact we would have to remain as an occupying force to ensure against further Islamic State insurgencies, we will bleed money for the foreseeable future maybe,

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well, forever. This will, or should, have an impact on interest rates particular as the Federal Reserve curtails and ultimately ends its quantitative easing programs. In essence, Washington will be growing the deficit as the buyer of last resort, the backstop if you will, exits the market. Good times.

Therefore, the US will have a decision to make: do we let interest rates increase as the new supply of Treasuries outstrips demand as the Fed stops new purchases OR do we have the Fed keep printing money to keep interest rates artificially low? Basically, do we print money to finance our ultimate re-occupation of Iraq or do we not?

On the flipside, perhaps an accompanying increase in oil will curtail global economic growth, which would keep a lid on interest rates, as investors opt for the supposed securities of US Treasury securities?

Therefore, I guess you can say we have a few choices here: 1) do nothing, and let the Islamic State take over Iraq, which will probably bring Iran into the fray and drive up oil prices, or; 2) re-occupy the country, fight back the Islamic State (in a bloodier war than what Saddam Hussein gave us), and grow the deficit anew, or; 3) do something in between, hope for the best, and let John Kerry ring up as many frequent flyer miles as he can?

Do you think this is what the President thought he was getting into when he initially ran for office? Oh, be careful of what you wish. It looks so much more fun in the movies and on the television, doesn't it?

In the end, the next couple of weeks, maybe a month, will be telling, at least as far as this situation is concerned. If it ends up going the way I think it might, we will likely revisit or rethink hard assets, namely gold and potentially US Treasuries, temporarily of course. We could also look for a pure play on crude oil, namely a producer or explorer, as opposed to a retailer. Shoot, maybe we will have a hurricane in the Gulf of Mexico this season to really spice things up.

Whew.

Now, perhaps I am overthinking things; maybe this is much ado about nothing. Perhaps I am doing the mental gymnastics I so often accuse others of doing. Perhaps I should stop and smell the roses, which I will if it ever rains again here in central Alabama.

...then, again, maybe I am not.

So, we in the US can watch the Kardashians and whatnot. We can take a blind eye to the rest of the world all we want. The truth is there is a group of well-armed, well-organized, and well-funded fanatics in the Middle East that could very easily mess up the upcoming football season for all us.

When put that way, I bet people wouldn't find it so strange to be conversant on pertinent current events and other so-called random stuff. I bet Joe, my mechanic, understands this all too well.

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