

## **Delayed Impact**

One challenge faced by every homeowner in California is the voracious appetite and prolific reproduction of a variety of species of termites. These little creatures aid God's plan for decomposition and the replenishment of the earth. However, they don't help the structural integrity of the biggest investment that most people make. If there is wood in your house, it is on the menu for these critters. It's not that the house will fall down today, but down the road you might have big and costly problems.

Much of my reading of late has been about the condition of world-wide economies. What strikes me is the degree to which borrowing by governments has denigrated the structural integrity of their countries and their economies. One book, "Plunder and Deceit", by New York Times bestselling author Mark R. Levin, is particularly poignant in assessing this condition in our country. An article about Italy, by Geopolitical Futures, is illustrative of what structural challenges are faced overseas and how they might impact us. Debt, like termites, can make structures less strong and less resistant to shocks.

### **No Black Hat**

Another author, John Mauldin, in his September 14<sup>th</sup> newsletter points out that there aren't any sinister culprits responsible for these debt problems. It's not that greed and corruption are not present in politics and special interest groups, but rather most debt problems have arisen from a desire to ease suffering or to lessen the struggles that people naturally face in life. While people from every possible political point of view might like to point fingers and blame others, we are collectively all responsible. After all, who among us would vote for greater struggles today to make things more secure in the future. Humans are just not wired that way, acting for future benefit is a learned and disciplined value.

### **Buona Notte**

Bring up Italy and many people envision a warm day under the Tuscan sun with romance, wine and world class cuisine. Few would think of the economic lights flickering, about to go out in this wonderful vacation destination. The Italian banks are also in trouble as 17% of their loans are non-performing, meaning borrowers have missed scheduled payments for more than 90 days. At the peak of our financial crisis, that number only reached 3.33% in 2010 and is currently around 1% according to the Federal Reserve. In the US we might say "good night Irene", in Italian it is buona notte.

## **Do We Care?**

While we might think that it is a shame for the Italians, still why should we be concerned? The article points out that our direct exposure to Italian debt or import/export business with Italy is minute. In fact, US financial institutions and managers have been systematically reducing their investments in Italy for several years. What impacts us much more is the affect Italian difficulties would have on the rest of Europe and our economic ties with all of those countries. If you remember the impact that Greek difficulties had on world markets and recognize how much more central Italian fortunes are to Europe's economic health, then it is easy to see why we should care a great deal.

## **Simple, But Hard Answers**

The developed world seems stuck in a cycle of borrowing to maintain current lifestyle and financial ease. In doing so, we borrow a degree of prosperity from the future to enjoy it today. Good ole "horse sense" (I've stopped using "common sense") would tell anyone that it creates a problem for the future and only adds more interest that needs to be paid. The only answers are to begin significantly reducing the pace of new debt and increasing the collective productivity of the people working to create economy. Unfortunately, despite unprecedented efforts by central bankers around the world, there is not a major country that is succeeding at this. No, not even the US is coming anywhere close to winning this battle.

## **Bottom Line**

One reader recently mentioned that they have found this newsletter comforting. I must apologize; this issue may not meet that test. Still, my encouragement to every saver and investor is to understand what is not working around the world. Learn from it and adopt an approach that is very different from the shortsightedness of the political leaders of the developed world. Instead of borrowing prosperity from the future, learn the ways in which you can enjoy life today and at the same time, save and invest in your future. We can learn from the mistakes of others and avoid their consequences. We may not be able to control the future of nations, but we can impact our own futures to a large degree. If we can help you with that, we'd certainly enjoy the opportunity to do so. Treating for termites now beats doing so later!

## **Your Feedback**

I would love feedback on this newsletter. Future issues may include a host of good ideas, insights, specific steps to take financially, life insights and of course "Wit and Wisdom". Most importantly, I'd like it to be of value to you

and to encourage an exchange of great ideas and insights. Please send your feedback to:

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