

In presentations before the San Diego, Los Angeles and Sacramento Financial Planning Association chapters in January 2002, David L. Smith presented the "Profit and Peril at the Turn of the Century -- Economic and Financial Aftermath of September 11"

In a segment entitled "Chairman Greenspan's 'Goldilocks Economy,' What happens now that the bears have shown up?" Mr. Smith discussed the 5 major "imbalances" likely to dominate the economic and financial outcome during the foreseeable future:

- Too much new money
- Overvalued stocks
- Excessive corporate and personal debt
- An overvalued dollar
- Excessive dependence on foreign oil

He warned that economic growth could be stifled by these "imbalances" in the economy. Excessive money supply growth since 1997, high levels of personal and corporate debt, and a return to federal deficit spending have tended to keep long-term interest rates up, despite significant declines in short-term rates. Mr. Smith observed: "The split between short- and long-term rates has tended to render attempts at monetary stimulus ineffectual: 'sticky' long-term rates have discouraged borrowing and spending, while low short-term rates have depressed the income, and, therefore the spending of those who hold money-market instruments. In effect, the Federal Reserve Bank is attempting to get up off the floor while stepping on its tie." He also expressed concern about overvaluation in the stock market and the dollar, as well as growing dependency on imported oil as potential sources of economic trouble.

In a segment entitled "Megacycles -- Transforming the Human Enterprise" Mr. Smith revealed how previous economic transformations have unfolded in three distinct phases, as demonstrated by the stock market since 1789 in the Industrial Revolution of the 19th Century and Petro-Industrial Revolution of the 20th Century:

- Phase I: growth, euphoria and soaring stock prices induced by the introduction of new technology and energy
- Phase II: stock market crashes, depression and political turmoil caused by financial excesses of Phase I
- Phase III: mature economic growth, sustained prosperity rising stock prices

In this context, the 15% compounded annual growth in stock prices for the past 20 years is properly viewed as an anomaly, typical of Phase I of a Megacycle, rather than representative of the long-term appreciation of stock prices which averaged about 2.5% over the preceding 200 years. "If the past 20 years represented Phase I of the current Megacycle, can Phase II be far behind?" he asks.

Pointing out that the Chinese word for “crisis” is a combination of the symbols for “danger” and “opportunity,” Mr. Smith offered a list of opportunities available for each of the crisis scenarios he described.

In a segment entitled: "Political Aftermath of September 11," he outlined "worst-case" and "best-case" scenarios following the attack. "Fortunately, we appear to be tracking along the 'best-case' scenario, with a calibrated retaliation using appropriate international Intelligence Community and Police Force assets in a multi-national coalition, including Muslims, which can be expected to assure widespread support and restraint, so as to avoid escalation into a holy war." He cautioned against the use of massive “blunt force” alternatives in the Middle East which would inflame the region into holy war.

Smith described three additional policy initiatives which offer hope of defusing the Middle-Eastern threat:

- A Marshall Plan for the Middle East
- Energy independence for the U.S. along the lines of President Ford's "Project Independence"
- The partition of Israel along the lines suggested by the Royal Commission of 1937