



Zanetti Monday Missive 2023.04.10 The Center of Gravity

“The Center of Gravity is...the hub of all power and movement, on which everything depends.”

~ Carl von Clausewitz, Prussian General

Hello Everyone,

Last week we did a broad overview of how America progressed (regressed?) from an industrial economy...to a service economy...to a design economy...to a financial economy.

And, every step along the way our economy became further divorced from creating "real" wealth. Wealth in the physical economy.

So, why is it that ---over the decades ----America's standard of living continued to rise? As we drifted away from physical wealth creation shouldn't we have seen a decline in our

GDP? Shouldn't the real estate and stock markets been negatively impacted?

How is it we were able to rack up tens of trillions of debt and not experience Venezuela-esque hyperinflation?

The answer is this...

We were the issuer of the world's reserve currency.

Meaning...to conduct international trade, the dollar was the means of exchange. If oil sheiks in the Middle East wanted to trade oil for fresh fruits from South America, the dollar was needed to conduct the trade.

Not only was the dollar the "means of exchange." The dollar was seen also seen as THE store of value. These dollars could be used for trade tomorrow ---or ten years from now.

Thus, dollars were accepted everywhere from Munich to Mozambique.

In terms of American power, many believe the dollar was America's "Center of Gravity." (COG) More on that later.



And now our COG is under assault.

Center of Gravity is a military term. It defines an enemy's strength. Wars are not won by attacking weaknesses. The enemy will let you attack weaknesses all day long.

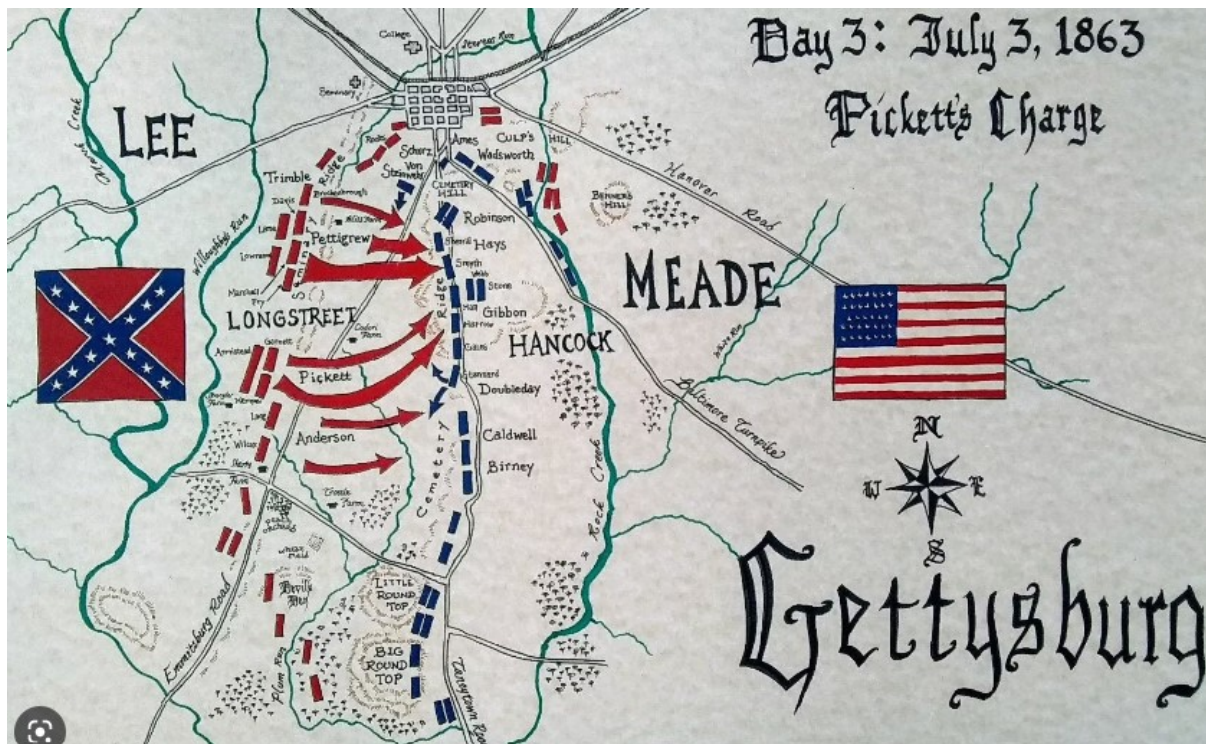
Conversely, enemies will defend their Center of Gravity at all costs. Without it, all is lost.

Correctly identifying an enemy's COG is immensely important. Misidentification means the waste of both your warriors and your resources (blood and treasure).

For my Biblical scholars, in ancient times, the king was often the Center of Gravity. God-like powers were attributed to kings. When the king was killed or wounded, the troops fled. "Their god is stronger than our god! Run!"

In America's Civil War, the COG for the Confederacy was the Army of Robert E. Lee. When Lee lost at Gettysburg, the

strength of the South was sapped.



During the Viet Nam War, America's COG was American public opinion. Once that turned against the war, no battle field victories mattered. Many years after the war, an American colonel returned to Viet Nam and met a retired Vietnamese general. The colonel said, "You know, you never beat us on the battlefield." The general replied, "That may be true, but it is also irrelevant."

You get the idea. To bring down a nation, go after their strength.

In 2001, Brazil, Russia, India, and China (BRIC) identified the dollar as America's COG. Take down the dollar, they reasoned, and America would not be able to fund its military. Nor would she be able to maintain her high standard of living.

It would be a long process, but dollar-destruction meant American humiliation abroad... and civil unrest at home.

South Africa joined BRIC in 2010. People laughed. No one paid much attention to BRICS. Russia was still recovering from the Soviet debacle. Brazil? Hah! China, was rising, but they were still commies....doomed to fail. And weren't India and China enemies?



It was a unipolar world with America at the center. BRICS was a wannabee.

But BRICS persisted. America's disastrous withdrawal from Afghanistan was a sign of strategic weakness. And BRICS took advantage. Chinese and Russian diplomats raced to the Middle East to court OPEC.

Bilateral trade agreements (absent dollars) were struck across Asia, Africa and South America. "America will put soldiers in your backyard. We'll put money in your packet," BRICS said.

And the messages resonated. And continues to resonate. Dozens of countries are either considering, or have petitioned to, join BRICS. Including Saudi Arabia and Mexico!

As this was playing out, we were arrogant and wasteful. We continued to print trillions. We engaged in far-flung wars of little strategic importance. We accumulated unpayable debts. We hollowed out our economy.

We did not defend our COG. Shields down. Then, with weakened defenses, we engaged the dollar as a weapon. A sword with no shield.

Sanctions were imposed on any country that stood in the way of our objectives. Sanctions meant you could not use dollars in foreign trade. Cuba, Iran, Syria, and Venezuela were at the receiving-end of our wrath. And, while we crippled their economies, the "regime changes" we sought were never achieved.

Then we brought the economic sword against Russia. But Russia had a vibrant "real" economy of oil, coal, gas, timber, copper, iron, etc. Plus, Russia had strong allies in China, India, Iran (the ancient Persians) and now Saudi Arabia.

Not only did Russia survive America's financial assault (Biden: "We'll turn the ruble to *rubble!*"), Russia promoted a restructuring of global supply chains. Energy that had flowed west to Europe, now flowed south and east to India and Asia.

China joined with a massive de-dollarization campaign. They continue to dump US Treasury securities by the hundreds of billions. Japan, Saudi Arabia, Brazil and others are joining in.

And, yes, our humble Monday missive has spoken of the dangers of de-dollarization frequently over the past few years. It is only now the powers-that-be are sensing the

danger.

What does this mean for the US?

If dollars are no longer needed for international trade, those dollars will return home...as a rejected currency. The prices of foreign goods (think all the imported goods you see at Target and Wal-Mart, semiconductors from Taiwan, repair parts from Europe, food from South America, etc.) will trend higher as the de-dollarization exodus gains steam.

The results for many Americans will be shocking.

I expect the stock market, bond market, pensions, commercial and retail real estate, and annuities will suffer. Meanwhile inflation rates will rise...despite the Fed's interest rate hikes.

In short, things that make you feel wealthy will decline in price. While things you need for day-today living will go up in price. This is the exact opposite of the past 20 years, where stocks and real estate soared and t-shirts at Wal-Mart were practically given away.

Meanwhile, our politicians argue about pronouns.

So, what should investors do?

Our view at Zanetti Financial is real/physical investments (natural resources, energy, precious metals, food, water, etc.) will dramatically outpace the investments in the pretend-economy of finance (CDs, derivatives, credit default swaps,

etc.).

BTW, while the dollar's reserve currency status is key to American power, I do not believe it is America's Center of Gravity. More on that later. We can recover from this. And quickly...should we decide.

Signed, Your If-Sanctions-Work-Why-Aren't-Russian-Banks-Failing? Financial Advisor,

Greg

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