
2010—The Year the West Hung its Laundry Out to Dry - And Three Other Critical Issues -

- Topic 1: 2010—A Major Turning Point for the West**
- Topic 2: The Rise of the East and Decline of the West: A Reinterpretation of the Economic Consequences**
- Topic 3: The Great Debate between Deficit “Hawks” and “Doves” – Implications for Developed Economies**
- Topic 4: “What Should I Do with My Money?” A Reconstruction of Asset Allocation Theory**



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Topic 1. When the West Hung its Laundry Out to Dry – The Year 2010 –

- “ Emergence of Sovereign Debt in the West—From Greece to Portugal to the US**
- “ Riots and Protests and Political Upheaval (e.g., US and Britain)**
- “ Collective “Belief Structures” Shift towards Pessimism**
- “ Implications: Divisiveness and Volatility**

Topic 2: The Rise of the East and Decline of the West: A Reinterpretation of the Economic Consequences

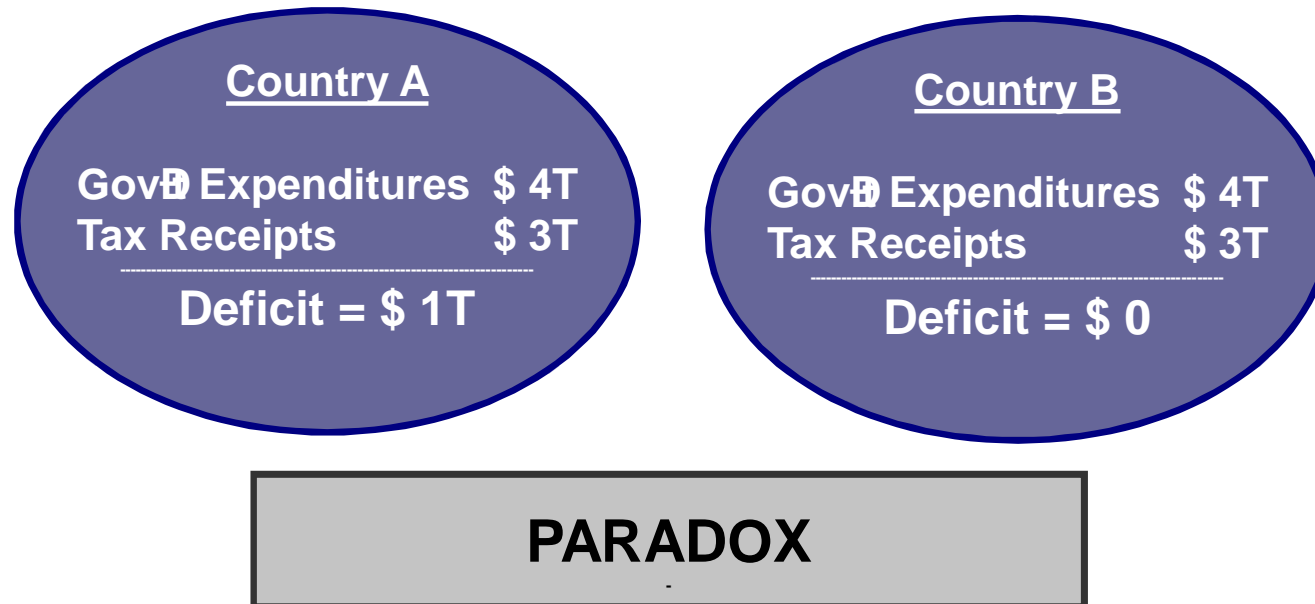
- “ Trade between the East & the West was a one-way street, 1960-2010**
- “ Trade will be a two-way street significantly benefitting the West, 2015-2050**
- “ Two reasons why:**
 - 1. The geographic rationalization of manufacturing**
 - 2. The coming explosion in tradable services**

Topic 3: The Great Debate between Deficit “Hawks” and “Doves” – Implications for Developed Economies –

- **The challenge is to stimulate growth while not disturbing Bond Market Vigilantes**
- **The current debate between Deficit “Hawks” and “Doves” is misplaced and misleading as the word “deficit” has no meaning**

How to Fix the US Economy and Labor Market

While not upsetting the Bond Market Vigilantes



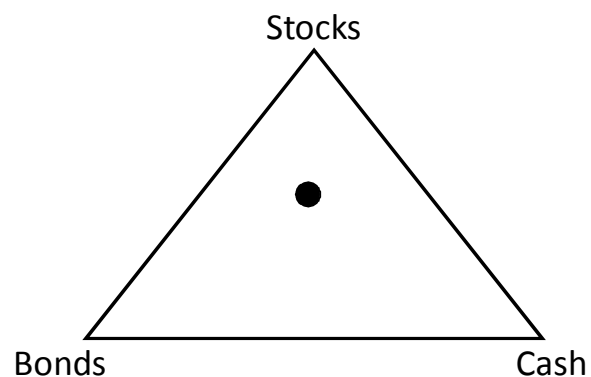
The Moral: It is the composition and quality of total government spending that matters, not the “size of the deficit.”

Topic 4: “What Should I Do with My Money?” – A Reconstruction of Asset Allocation Theory –

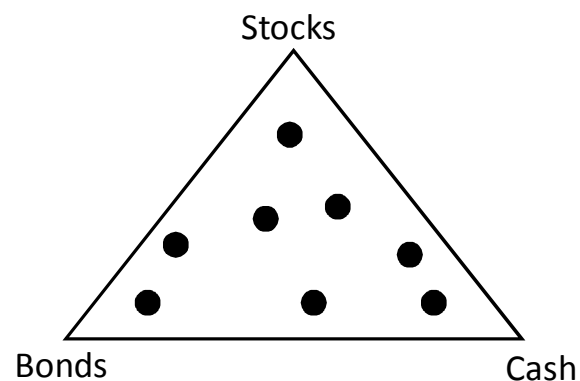
- **Redefining the “riskless asset”**
- **Need for “contingent” optimal portfolios**
- **The subjectivity of the “Efficient Frontier” – one for you, one for me.**

State-Dependent or “Contingent” Optimal Portfolios

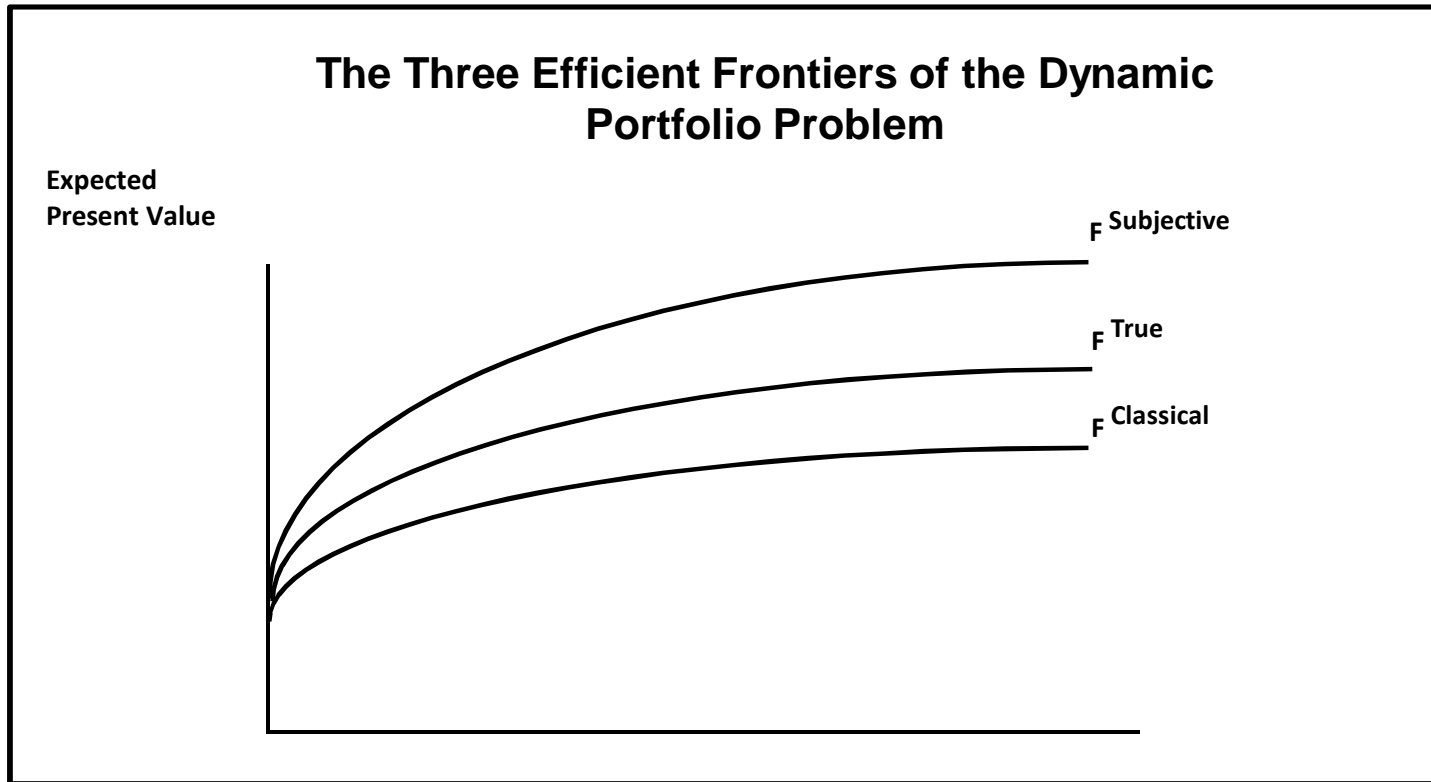
**A. Classical Case: One
Optimal Portfolio**



**B. General Case: One Optimal
Strategy**
(designating which portfolio is
optimal in each possible “state”)



Subjective Efficient Frontiers

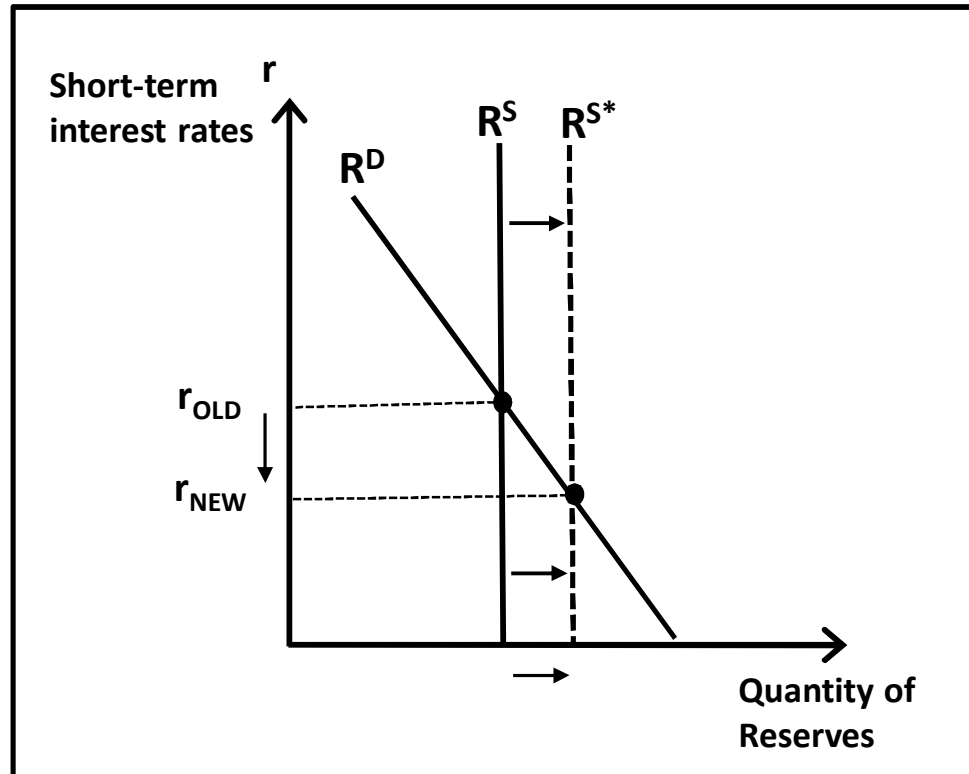


POSTSCRIPT:

The Remarkable Reinvention of Monetary Policy

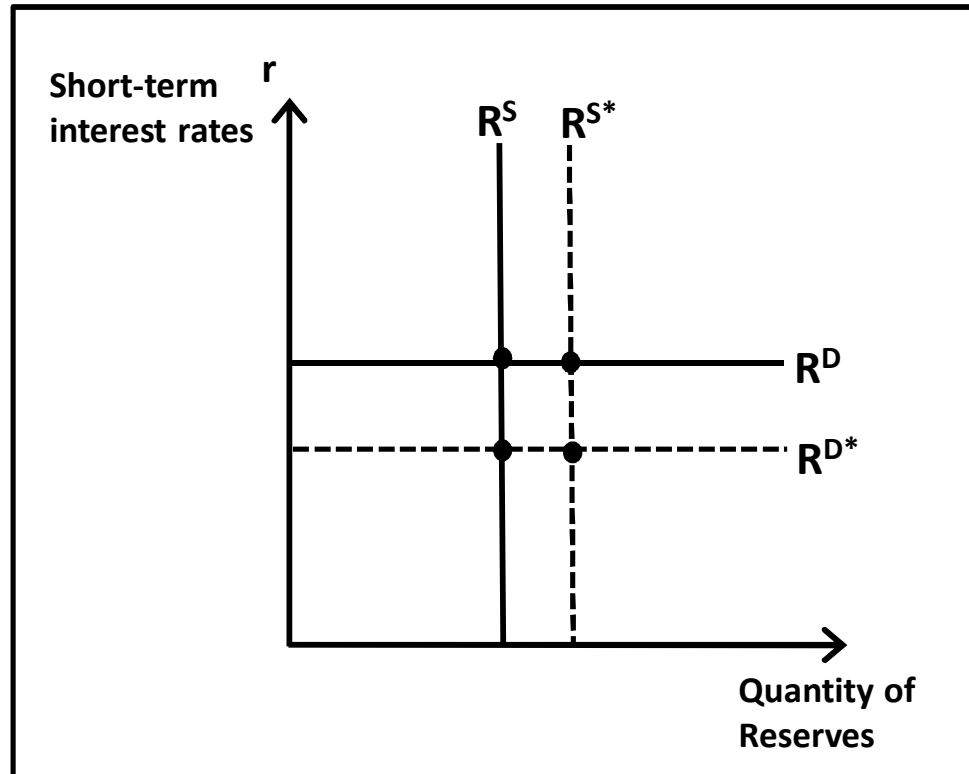
- The ability of the Fed to control its balance sheet and the Fed funds rate *independently*
- The truth about Quantitative Easing and Inflation

Old Central Bank Paradigm



The Moral: The Fed can control price *or* quantity

New Central Bank Paradigm



The Moral: The Fed can control price *and* quantity

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