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## Better-Management Newsletter 22 May

**Refugee crises / G7 and currency wars? / Pension Plans go belly up / Oil oscillations / Which way for energy? / The Pacific Ring of Fire**

### Refugee crises

The refugee crisis is about to spark into life again in Southern Europe with the deal with Turkey pretty much on the rocks.... and refugees starting to flood North from Libya, Morocco and elsewhere in North Africa...from Seeking Alpha...

**“[Two months after the EU's](#) controversial deal with Turkey came into effect, still no refugees have been deported from Greece under terms of the new pact. "No asylum seeker will be sent back under the EU-Turkey agreement if, in their individual case, Turkey cannot be considered a safe third or first country of asylum," European Commission spokeswoman Mina Andreeva said. The program's slow start risks undermining the migrant deterrent emphasized in the agreement signed in March.”**

Far more concerning is the situation in the South China Sea. China is preparing its military to protect its newly constructed islands. Meantime the USA is negotiating with Vietnam to base strategic military assets in Vietnam for the first time since the Vietnam war. This will be a “wow!” moment.

If we add to this the proximity of a verdict from the UN on the complaint over the breach of UNCLOS in the South and East China Seas, and the statements by senior Chinese officials who are already saying they will reject any verdict against their interests.

So one must ask... “Will it be war?” This may require careful handling, given Chinese media sabre-rattling of late.

This may be why Xi Jinping has taken charge of the armed forces. So he can control events. I am quite concerned at the escalating rhetoric on Chinese media about the aggressive posturing of the USA and other claimants to the islands in dispute. If the court case is against China, Xi Jinping may be painted into a corner by his media....but of course a month ago they made all media bosses accountable to the Chinese Communist Party.

### G7 and currency wars?

G7 is meeting..will this be just another talk fest? Certainly central banks are low on ammunition and deflation is hitting almost everywhere...from Seeking Alpha...

“[Finance ministers and central bankers](#) from the G7 are gathering in Japan for a two-day meeting that will discuss a broad range of global risks. Among them: swings in oil prices, world growth, Brexit, cybersecurity, tax evasion, monetary policy and financial regulation. A surging yen is also pushing Washington and Tokyo into a standoff over currency intervention, and U.S. officials hope to convince the latter to temper its threats regarding a yen devaluation.”

Will currency wars continue? I suppose so...

<http://www.reuters.com/article/us-g7-japan-idUSKCN0YB0DQ>

The warnings of impending global financial disaster continue to flow...

<https://www.caseyresearch.com/cm/urgent-warning-to-every-american-with-a-bank-account-presentation>

Meanwhile Russia goes on its own charm offensive...

<http://www.reuters.com/article/us-russia-asean-idUSKCN0YB14P?il=0>

Harry S. Dent ( a US fund manager with a great track record) reckons that China will be the catalyst for the next big bust on the global markets. I can see the bubble he talks about, but still cannot see the pin that will pop it....

[http://seekingalpha.com/article/3976382-easily-become-worst-urban-crisis-history?source=email\\_macro\\_view\\_top\\_articles\\_2\\_2&ifp=0](http://seekingalpha.com/article/3976382-easily-become-worst-urban-crisis-history?source=email_macro_view_top_articles_2_2&ifp=0)

Then there is this article which may present a plan to break out of deflation – can’t see it myself – but who knows, they are scraping the bottom of the barrel ...

[http://seekingalpha.com/article/3976358-secret-fed-plan-buy-gold?source=email\\_macro\\_view\\_gol\\_pre\\_met\\_0\\_12&ifp=0](http://seekingalpha.com/article/3976358-secret-fed-plan-buy-gold?source=email_macro_view_gol_pre_met_0_12&ifp=0)

## **Pension Plans go belly up**

The advent of negative interest rates and low interest rates (everywhere else) spells disaster for those who thought their retirement was going to be covered by the annuities from savings.

The problem when you retire is that you lose the ability to recover from any losses. Resilience goes with your last day on the job, and together with it goes company car, perks, medical insurance etc.

For those with pensions?

In the USA, they persisted longer than elsewhere with the defined benefit plans. That means, plans where it doesn’t matter how much money the plan has or is getting in, the retirees still

get what the scheme has said they will be entitled to. At least, that is until the scheme you are in goes bust. Those schemes are running into trouble one after another....unless the plans are government guaranteed, even major corporations cannot prop them up in the face of the retirement of baby boomers on the one hand and lousy or negative investment returns on the other. Would you pay into a scheme that is already going bust? This is just a case in point...

<http://money.cnn.com/2016/05/20/retirement/central-states-pension-fund/>

In Australasia, unless you are very privileged to have a government guaranteed defined benefit plan, you will likely be in a defined contribution plan, where you get out only what you put in....rather the annual income from your plan investments.

If you are young, I have some bad news for you..

Don't think for a moment that your thrift will make you much better off than the folk who save nothing. I get to witness numerous statutory declarations by people pulling out of pension funds. For young folk it is often because they need the money to buy their first house. For older people it is always due to hardship (nearly always). When we get to middle or older age, health and family crises often mean we cannot earn in our later years, or we lose money to some fraud or other. The proportion of middle or high income folk who are stiffed by outright fraud or failing investments is extremely high. In later life, losses can never be recouped. That drops us into the lap of whatever government support is going, along with the folk who drank, took drugs or were long term unemployed.

It is impossible to believe that with such a high proportion of the voting public unable to pay their way in later life, the government will not look after them.

So the key issue is to ensure you have your house paid off before that circumstance of retirement or incapacity arises. At least that gives you shelter.

I suppose our own personal experiences resonate. Our income from investments is now 25% of what it was when we retired, and falling due to reduced payouts as well as losses. If/when interest rates go negative, we will need to be on our toes. But that is likely to be the time when gold and silver come back into play. Who will want to hold money in banks then?

### **Oil oscillations**

Two of the highest cost areas for producing oil are in North America and were responsible on their own for the oil glut that emerged in mid 2015. Blaming OPEX is just BS. The oil sands were on a long term growth path in Canada and the shale oil Ponzi scheme, funded by Wall Street hype did the rest. Now many shale companies are going broke, followed by some of the oil sands producers. But while both have a low EROEI (oil sands, 6-8:1 and shale 15-25:1) oil sands have a much higher initial capital cost so the oil sands companies are less affected by insolvency.

The disaster at Fort McMurray was already there before the fires wiped out 20% of properties and trashed the infrastructure....but happening in the face of low oil prices and extremely low demand, how will Fort McMurray cope?

<http://thetyee.ca/Opinion/2016/05/13/Fort-McMurray-Slow-Burn/>

There can be little doubt that in an energy scarce world, these locked in oil resources will be harnessed, but with a long winter of depression arguably on its way, recovery may take quite a while as demand takes a further hit. Meanwhile the fire fighters are gaining ground... from Seeking Alpha...

**“Firefighters are making some progress** against the wildfire in the Fort McMurray region of northern Alberta as rain and a shift in winds pushed it away from communities and oil sands facilities. The blaze, which hit the area in early May, has forced the evacuation of more than 8,000 oil sands workers and prolonged a shutdown that has cut Canadian oil output by a million barrels a day.”

The Alberta fires have hopped the fence and burning in Saskatchewan. This new fire province is home to the highest value uranium mines and also the gold and other precious metals. But fortunately still sparsely populated.

As far as oil prices go, the rebalancing of supply and demand that everyone is drawing attention to, is now being offset by other negative trends in the economy. It appears pretty much like what occurred during the last years of whale oil...spikes up and spikes down. Now even investment gurus like Buffett and Munger are nonplussed. They own BNSF railways that haul lots of shale oil for which few pipelines exist, so they must be at least scratching their heads over it as their locos and rolling stock now stand idle...

[http://seekingalpha.com/article/3976684-charlie-munger-major-flip-flop-long-term-oil-prices?source=email\\_macro\\_view\\_top\\_articles\\_1\\_1&ifp=0](http://seekingalpha.com/article/3976684-charlie-munger-major-flip-flop-long-term-oil-prices?source=email_macro_view_top_articles_1_1&ifp=0)

### **Which way for energy?**

Nuclear fission power has proven fraught with risk, and accidents do happen. Waste is an abiding problem as it must be stored for thousands of years. Nuclear fission is proving elusive and I suspect the developments will grind to a halt once an energy storage system with both the voltage and energy density promised by the mythological EESU arrive. The EESU has the virtues of both capacitors and batteries and seemingly, none of the drawbacks.

The ITER fusion project has gone cap in hand back to the joint venture partner governments because USD20 billion has been spent and they have little to show for it....

<https://www.inverse.com/article/15974-the-search-is-on-for-cheap-nuclear-fusion>

I reckon that by end May we will know whether EESstor has been able to raise the money they need from their private share placement to fund negotiations for joint ventures with the major high voltage capacitor manufacturers using their existing CMBT; and to trial some new polymers for the appropriate polarisation to align with CMBT energy forces in layers of the energy storage EESU.

Are they close? I really have no idea. If the HV capacitor developments work OK, we will have shares of some value. If the energy storage EESU can hold its charge for long enough then we will be on a winner. The higher the energy density and duration of charge, the bigger the winner would be.

## **The Pacific Ring of Fire**

Two more earthquakes of scale happened in Ecuador yesterday and one more volcano tee'ing off today. Is this a trend, and if so, what is causing it? ...

[http://www.bbc.com/news/video\\_and\\_audio/headlines/36349702](http://www.bbc.com/news/video_and_audio/headlines/36349702)