

Hello Everyone,

Famed New York Yankee catcher, Yogi Berra, once said, *"The future ain't what is used to be."*

It's a funny quip---but, I believe, Yogi was wrong. The future is what it used to be...because things cycle.

Or, as Solomon noted, "There is nothing new under the sun."

Today's missive follows up on Friday's look at Long Term Capital Management and the Russian default of 1998. This time, however, we'll apply the "nothing new under the sun" standard to a possible Turkish debt default.

As usual, I hope you find this edifying and intellectually stimulating.

Signed, Your Expecting-To-See-The-Longest-Ever-Bull-Market-In-History-Come-To-Pass-On-Wednesday
Financial Advisor,

Greg

KKOB 08.20.2018 LTCM Then and Turkey Today

Bob: So, Greg, on Friday, you explained what happened 20 years ago---- when a firm called Long Term Capital Management almost brought down the global banking structure.

It was Lehman Brothers before Lehman Brothers.

Then you said, the issues were:

- Unpayable debts in emerging markets like Thailand and Brazil.
- A strengthening dollar, which made it harder for foreigners to repay debts.
- Computer trading--and derivative bets--- that magnified losses.
- Oh, and the kicker was Russia defaulted, which no one expected.

How did I do?

Greg: Great synopsis. So, to tie this old story to today's events, Bob, I am hereby making you dictator of a Middle Eastern country.

So, Dictator Bob, you've been in power as either prime mister or president for 15 years. You've made a lot of enemies---and millions of

your citizens believe you rigged the recent election to stay in power. To

your citizens believe you rigged the recent election to stay in power. To keep your economy going, you've borrowed heavily from European and other Western banks.

Now, your country is big enough to push your neighbors around, but you're not a nuclear power. Still, you have a relatively capable military.

But now, Mr. Dictator, things are starting to fall apart. The United States has declared financial war on you---and all that debt is choking your economy. In just three days last week, your currency fell 35%---meaning people who had saved \$100,000 now only have the equivalent of \$65,000. The mob wants your head.

So, Dictator Bob, what do you do?

Bob: I don't know! Give me some options before someone assassinates me!

Greg: Well, first you must deflect blame. And second, you must stop the financial bleeding. Financially, you can cut government spending, but that means taking money away from the very people who are keeping you in power. Conversely, you could look for ways to default on your obligations...make outsiders suffer. So, what do you do?

Bob: First, I'd blame Trump. Everyone else does. I'd call him a foreign devil and invoke the Crusades, or the glory of the Ottoman Empire, to take some heat off. Then, I'd ask my advisors how to default. If I don't have to pay back the loans, I'll have money to stay in power.

Greg: OK. That's a plan. Your advisors now come back and say, "DB (that's short for Dictator Bob), good start...blame Trump. Next, to stop the cash-bleed you must restrict withdrawals from the banks. Also, try to renegotiate the current debt. If, that doesn't work, then go to the Russians or Chinese and see if they'll bail you out."

Bob: But, if I default, can't the current lenders just come and take the collateral that backed the original loans? I'd lose the assets of my country.

Greg: DB, think like a dictator! Call up the army. Tell every creditor who tries to seize collateral they'll be shot.

Bob: So, the way this is going, it makes sense for me to default---start over--- and still stay in power. There must be a catch.

Greg: There is. You risk becoming Argentina or Venezuela... hyperinflation. *Externally*, you'll be a pariah in the world's financial system. *Internally*, expect riots and unrest. If, however, you can keep your army loyal to you, you'll likely stay in power.

Bob: OK. So, I think I know who I am. You made me Erdogan in Turkey. So, I hereby resign as Dictator Bob, and am now back to KKOB Morning Show host. I think what you are saying is ---Turkey is going to default on its debt.

Greg: I am. I believe, the process started last week when soft capital controls were imposed...meaning banking withdrawals are now limited. If, as I suspect, Turkey eventually pulls the plug completely, it will be the biggest emerging market default of all time....think Russia & Long Term Capital Management 1998...and, I believe it will affect us.

So, today we viewed Turkey from within. On Friday, we'll view Turkey from the perspective of western banks and hedge funds. There will be a response to Turkey's actions----and, in that response, will be opportunity for your intrepid listeners.

Bob: I'm looking forward to it. How do people reach you?

Greg: Ny number is 508-5550, 508 triple-5 zero, or go my website zanettifinancial.com

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