

STORM WARNINGS

Vol. 1, Issue 1: February 2012
The Perfect Storm



R. Michael Conley
Founder

The Storm Warning newsletter is part of a larger initiative by its founder, R. Michael Conley, to carry the message to others.

"The message is frightfully simple: We are heading into a perfect storm that will forever change our lives, and we need to act on it while there is still time," said Conley.

Under the overall umbrella of his company, Weathering the Storm LLC, its mission to awaken and engage people - providing information and resources to help them weather the storm - is carried out in a number of ways.

Dear Readers:

We, at *Weathering the Storm* (WTS), are pleased to release the inaugural edition of our newsletter, Storm Warnings. Published monthly, it will cover topics relevant to the perfect storm. Our first issue, appropriately, will define the perfect storm and its implications and features a Q & A session with owner and publisher, R. Michael Conley.

WTS: "The phrase '*perfect storm*' seems a bit overdramatic. Are things really that bad?"

Conley: "The phrase itself describes a confluence of powerful forces coming together at the same time to produce a catastrophic event. We now seem to be on such a collision course. Its impact will change our lives forever and we don't even see it coming. Let's talk about it and you can decide for yourself if I'm being overdramatic."

WTS: "Can you give us a present day context for the perfect storm?"

Conley: "Sure. Folks today are uneasy about the future. We know something isn't right, but find it hard to pinpoint. We're operating in uncharted waters and seem caught in a paradigm shift we don't understand. We're struggling to connect the dots - unable to respond to the totality of the challenge. In this twilight zone of uncertainty, we are floundering and merely rearranging the proverbial deck chairs on the Titanic."

WTS: "What 'signs' are you seeing that a perfect storm is in the making?"

Conley: "The storm has been gathering for years. Look around, the signs are everywhere: The Arab Spring uprisings have shaken the oil markets and threatened our national security. The aftermath of the 2008 economic meltdown has rattled the global economy, threatened the European Union and whipsawed the financial markets. We're fearful of crushing debt loads that threaten the American economy, jeopardize entitlement programs and erode the purchasing power of the dollar. We're befuddled by terrorism, nuclear proliferation and religious uprisings, and uneasy about rising food prices, water shortages and climate-induced weather patterns that exacerbate the droughts and famines spreading throughout the globe."

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"The Storm Warnings newsletter, which provides an in-depth look each month at a specific topic, is one way we hope to awaken and engage people, but we encourage folks to log in to our web-site for a full menu of offerings and services," Conley said.
(www.weatheringthestorm.net)

The website will provide further details on other initiatives. Among them:

1. Lethal Trajectories – Conley's futurist novel on what it will be like to live through a perfect storm crisis,
2. *Weathering the Storm Guide* – A guide on how to prepare for the storm,
3. Weathering the Storm Seminars – In-depth seminars that are now available,
4. Blog, links, other resources, and the Storm Warnings newsletter.

About the Founder: Mike Conley is the Founder of Weathering the Storm LLC, and currently serves as Chairman and CEO of the Conley Family Foundation. As a former Fortune 500 business executive, author,

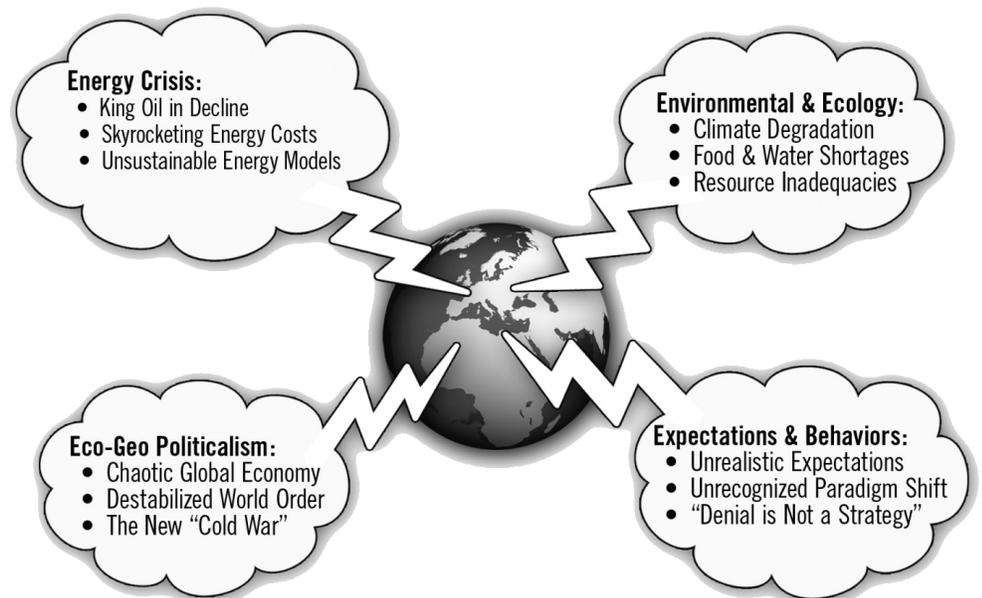
WTS: "Sounds ominous, but are the conditions really that unique?"

Conley: "I believe they are. Pent-up forces of tectonic proportions are rumbling as never before. Earth's capacity to support the insatiable demands of an exploding population is now in question. The triggering mechanisms for unleashing the storm are in place, and the interdependencies and technological capabilities of mankind now seems to exceed our collective ability to manage rationally. Yes, I believe we are living in unique times."

WTS: "Could you comment on the so-called tectonic forces now in play?"

Conley: "Glad to, and I'll refer to the Perfect Storm model I often use to explain the dynamics:

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lecturer, and public policy activist, Conley has written and spoken frequently on topics related to the perfect storm. He graduated from the University of Minnesota, after serving in the United States Navy, and later completed a post-graduate program at Stanford University. He is also active on several boards and advisory groups.

WTS: "Would you explain how this model works?"

Conley: "Of course. For simplicity, I have aggregated the various forces into four succinct categories that include: 1) Energy, 2) Environment & Ecology, 3) Eco-Geopolitical, and 4) Expectations & Behaviors. Let me touch on each one and then relate the chain reaction they could unleash as they collide:

Energy: The supply of oil, a finite resource, will soon be in decline or at least unable to keep pace with the insatiable demands of our global oil addiction. The ripple effect of this inverse supply-and-demand curve will drive up all energy costs and create shortages that will stifle economic growth. With no scalable energy or energy systems in place to replace oil shortfalls, it will be difficult to avert an economic meltdown. Oil shortages will create a destabilizing global tinderbox as nations struggle to protect their oil stash – the mother's

milk of economic growth.

Environment and Ecology: The visible manifestations of climate change are everywhere. We can see it in the permafrost melts now releasing huge quantities of methane; in record ice or ice shelf melts in the Arctic, Antarctica, Greenland and Himalayas; in the rising acidity levels in the oceans and destruction of coral reefs and sea-life; in bizarre and costly weather patterns; and in widespread droughts and famines – all working against the needs of a rapidly growing world population. Military and intelligence agencies, in fact, consider climate change to be a "threat multiplier" that exacerbates sensitive geopolitical situations.

Economic and Geopolitical Dynamics: A global economic realignment is taking shape. While developed nations are struggling to manage their debt-ridden economies, others, such as China, India and oil-exporting nations are emerging as global powers. A new 'cold war' is brewing between China and Western nations with control of markets and resources – not ideology – the focal points of contention. Trade imbalances, unwise fiscal and monetary policies, unsustainable budget deficits and unfunded entitlement promises are straining the United States and others; the destabilizing dynamics are intensifying.

Expectations and Behaviors: The 'American Dream' of unlimited prosperity – made possible by cheap energy and abundant resources – has spread to others. The squeeze is on as China, India and others pursue their own dreams just as the dream enablers – oil and resources – are in decline. It is a significant new paradigm shift that we have yet to grasp. Our behaviors and expectations are not in sync with these new realities, and we're caught in a twilight zone we don't understand. Something has to give."

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WTS: "Historically, how did we ever get to this point?"

Conley: "It's a complex topic, but let's start from an American perspective. For openers, cheap energy and abundant resources brought us to heights our forefathers could never have imagined. For decades, our economy flourished along with our lifestyles. Our ability to grow, farm, mine, fish and produce prodigious quantities of goods and services via our power-based economy was a 'given.' Each generation expected to live better than the previous one in a continuum of endless prosperity.

"Over time, we went on a consumer spending spree – spending money we didn't have for products we didn't make with devalued dollars and only minor constraints on what we could borrow. Our entitlement programs protected us; the appreciated value of our homes provided a piggybank we could borrow against, and our 401(K) accounts grew in value. There seemed few barriers to unlimited prosperity, and consumer spending exploded to a level now equal to 70% of our nation's total GDP.

"With the successful end of the cold war and American power at its zenith, little attention was paid to our increased reliance on foreign oil, unfavorable trade deficits, growing entitlement obligations and the necessity of borrowing more and more to finance our growing deficits. In this respect, the United States was not alone.

"But, the geopolitical landscape changed – as it always does. As China, India and others became larger users of the world's finite resources, the competition for resources intensified. OPEC and other oil exporting nations became powerhouses as America, and other oil importing nations transferred to them disproportionate amounts of their national treasury to feed their insatiable oil addictions. The dual issues of access and *affordability* of oil became a growing national security concern.

"In the meantime, disturbing changes in the climate were becoming more noticeable. Climate-induced droughts and famines took an increasing toll on a growing global population.

"Still, it all seemed to work until it didn't work. We were stunned by the economic meltdown of 2008 and started to see that our excesses – intoxicating on the way up – could be devastating on the way down. The chickens are coming home to roost, and the accounts payable for past excesses are now coming due."

WTS: "It sounds as if you think we are now in the perfect storm. Is this correct?"

Conley: "Not yet, but we're getting there. I would suggest we're now in a transitional twilight zone we don't understand and waiting for the next shoe to drop."

WTS: "Can you explain this idea of a paradigm shift?"

Conley: "Paradigm shifts are always easier to identify through the rear view mirror but difficult to see while they are actually happening. We know things aren't right and hope they will get better, but what

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if this is our new paradigm? What if our way of life or economy doesn't bounce back or get better?"

WTS: "What would prevent the economy from getting better?"

Conley: "Rising oil prices for one. It's a huge impediment to economic growth. Something like eight of the last nine recessions were preceded by a rise in oil prices that exceeded 4% of GDP. Based on our current \$15 trillion dollar economy, we are in the red zone whenever oil prices climb to around \$90 per barrel. We're now in the \$100 range, and the economic drag increases with every incremental dollar of cost."

WTS: "Why is this energy component such an important factor?"

Conley: "Almost everything is impacted by the price of oil. Over 95% of our transportation system is fueled by oil, and oil is integral to almost everything we produce or move. It's critical to agricultural production, industrialization and manufacturing of everything from paints to plastics. With 70% of our GDP tied to consumer spending, it takes little imagination to see the impact on discretionary spending when pump prices exceed \$4 per gallon. It's like a hidden tax taking money out of the economy and sending it overseas. In addition to this mass transfer of national wealth, it's a major national security threat that places our military in harm's way as they protect our oil supply lines. If energy prices don't somehow drop precipitously – an unlikely event – it's hard to see how we can grow our economy at a sufficient rate to offset deficits."

WTS: "Can you comment on this economic aspect?"

Conley: "Sure. With a robust GDP growth rate, we can keep our debt to GDP ratio at a manageable level. With only a marginal growth rate, however, our debt servicing charges, borrowing requirements, entitlement payments, tax revenues, debt rating impacts and capital markets are all factors that will worsen. Faced with this dilemma, interest rates will have to increase to attract and retain foreign capital to finance our deficits. Monetizing debt, by printing money, will decrease the purchasing power of the dollar and could eventually put at risk both the petrodollar transactional system and the dollar's fiat reserve currency status – economic mechanisms that greatly favor the United States."

WTS: "Sounds bad for America. What about the rest of the world?"

Conley: "We're not alone. Just look at the mess the European Union is in. The power nexus is indeed shifting to the Pacific Rim, and oil exporting nations are prospering while oil importers pay a heavier price. The world has become a more dangerous place to live as nations jockey to protect the oil that runs their economies."

WTS: "Are we doomed?"

Conley: "That's a little strong, but I think you can see how these forces are converging on a perfect

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storm trajectory. Whether or not we awaken to the totality of the threat and address it with force and resolution is an open question. At the moment, we are either unaware of the threat or in denial, and denial is not a strategy.

“Our political leaders are not blind, but they are unwilling to get too far ahead of their constituents in tackling the challenges. They know, for instance, the decline in our debt rating and our deficits are unsustainable. Some even know that our oil dependency is a threat to national security and an impediment to growth. Yet, the political will for aggressive action is not there. Better to kick the can or hope for a technological miracle, it seems, than tackle it with a resolution comparable to our Pearl Harbor response.”

WTS: “What then can we do?”

Conley: “We need to start by recognizing the totality of the challenge and understand it’s a new paradigm requiring different solutions. Einstein once said, ‘You cannot solve the world’s problems with the same thinking that created them,’ and it’s true. We also need to know we are not helpless victims dependent on the government to act: In fact, there’s much that we can do as individuals, families and communities to prepare for the perfect storm. Amazing things can happen once the fires of survival are lit.”

WTS: “And what will that entail?”

Conley: “Stay tuned. These are precisely the issues we’ll address in our monthly *Storm Warnings* newsletter, and on our blog site. We also offer a free *Weathering the Storm* guide that provides a practical blueprint for action, and our *Weathering the Storm* seminars are designed for groups and organizations interested in an in-depth look at the challenges and opportunities on the horizon. Our goal is to do whatever we can to alert folks to the imminent dangers and offer solutions.”

WTS: “Thanks much for the interview, and we invite all readers to stay tuned on our website for more information: www.weatheringthestorm.net