Transformation or Bust, Part 2

JOHN MAULDIN | August 10, 2014

IN THIS ISSUE

In last week's *Thoughts from the Frontline* ("Transformation or Bust"), my young colleague Worth Wray and I continued our groundbreaking series exploring the risks posed by China's rapid private sector debt growth and its consumption-repressing, investment-heavy growth model that is quickly running out of steam. China is the true conundrum in the global economy. It is an outlier in the history of development, with no true analogues. And while there is much to be appreciative of and admired about China, there are clear danger signals.

As we have repeatedly explained in recent letters ("China's Minsky Moment," "Looking at the Middle Kingdom with Fresh Eyes," & "Can Central Planners Save China's Economic Miracle"), China's overcapacity and over-indebtedness is not just the unfortunate consequence of hurried post-crisis stimulus, but an inherent, and one can even say necessary, by-product of the command and control approach that has underpinned China's development since the days of Deng Xiaoping.

Worth and I have gone back and forth over this letter. He wrote the first draft; but as his thinking has continued to evolve during the editing process, Worth has struggled to see any happy path forward for China's reformers, its 1.3+ billion citizens, or those economies and investors around the world who depend on the Middle Kingdom's continued prosperity… at least not in the short term.

I sympathize with him, because as we worked through the issues *I was reminded of my initial reactions when I began to explore the depths of the problems that constituted the subprime crisis*. In that case there was not as much research to go through (the research on China is massive in content and scope), but mulling the evidence spurred the dawning awareness that subprime was going to be a problem unlike anything we had seen before, where everything seemed to be connected and you could clearly see that the situation would not end well; yet the extent of the problem was still not clear, at least early on. While my early estimates of losses were viewed as gloom and doom by almost every commentator, it turned out that I was overly optimistic.

Here, too, when you look at the depth and breadth of the problems and the difficulty of fixing them, it can be easy to get lost in the weeds. Envisioning a clear path through the issues from where we are today is not easy, though China certainly has more options than the world had with subprime by the middle of 2008, when there was so much toxic waste on the balance sheets of banks all over the world and there was no turning back. As we have emphasized in the past and will do today, China does have options. But each of the options has costs associated with it, and those costs are going up every day. Who pays and when is the simple question that most readers want to have answered, but therein lies the conundrum.

But rather than frame the issues further, let's jump into this week's letter (again noting that Worth is responsible for the bulk of the writing, with your humble analyst offering edits and suggestions here and there. Typically, the use of the pronoun "I" means Worth, and if I've chimed in with edits, you'll see "us" or "we" instead. My goal was to keep this from turning into a three-part letter – though the topic deserves at least a book.)

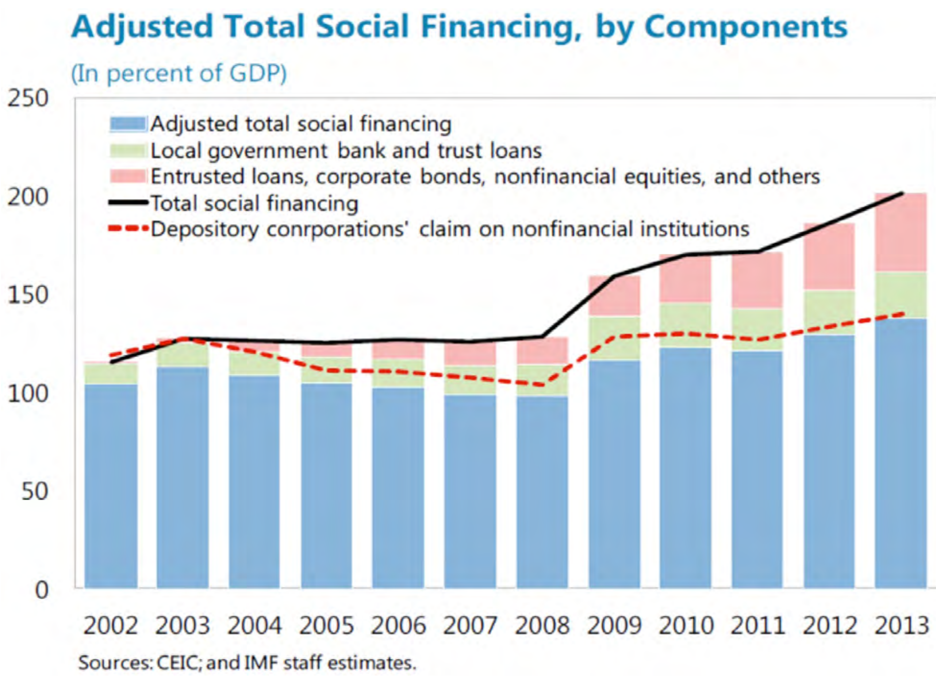
Transformation or Bust, Part 2

After decades of marshaling resources, building out a modern infrastructure, and educating its workforce, China has amassed building blocks for economic development in abundant supply (in fact, they are in oversupply)… but the institutions and incentive structures underlying China's socialist market economy are deeply and inherently skewed in favor of vested interests at all levels of government. If the People's Republic has any hope of working through its growing debt burden, rebalancing to a more sustainable growth model, and becoming a truly developed economy in which innovation and entrepreneurship drive rising living standards over time, then old power structures and vested interests must give way to the rule of law and market-based incentives.

What happens next depends largely on the economic wisdom and political resolve of China's reformers, who must find a way to *gradually* deleverage overextended regional governments and investment-intensive sectors while *simultaneously* rebalancing the national economy toward a more sustainable consumption-driven, service-intensive model. The trouble is, their efforts may be too little too late to slowly let the air out of a massive debt bubble, and even rapid productivity growth from "new-economy" sectors may not be enough to rebalance the debt equation.

History suggests that – even with a major wave of liberalizing reforms and a series of positive surprises – China's economic "miracle" could end with a long period of painfully slow growth or with a banking crisis and sudden collapse. The extent to which the Chinese economy will go on being "manageable" (and we put that word in quotes because living through a Category 5 hurricane is manageable but not a great deal of fun and generally expensive) will depend a great deal on when the Chinese government decides to embrace the necessary reforms.

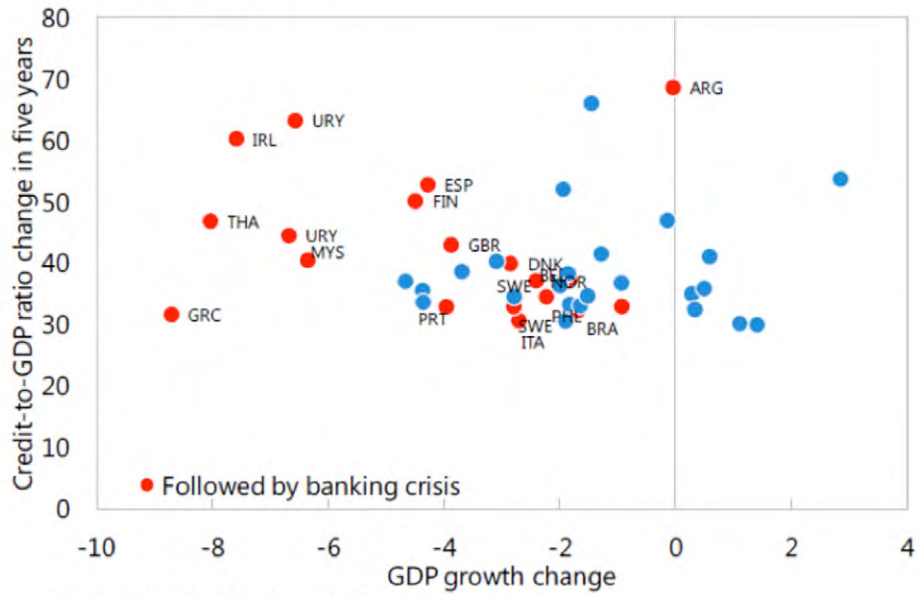
And now even the IMF is concerned about the escalating risks of a hard landing sometime between now and 2020 unless Beijing moves forward with its urgent reform agenda – reforms the IMF says should be specifically designed to prevent that hard landing. Echoing our own recently published thoughts, an [IMF staff report published last week] stated that China's reliance on credit expansion and fixed-asset investment is becoming increasingly dangerous. Total social financing (the broadest official measure of domestic lending in the People's Republic, as you can see in the graph below) has grown by 73% of GDP over the past five years, ***ranking China's ongoing credit boom*** (which the IMF admits could be *understated*) ***among the top five most explosive instances of lending growth anywhere in the world since WWII.***



Looking at a sample of 43 major economies over the last fifty years, IMF economists Giovanni Dell'Ariccia, Deniz Igan, and Luc Laeven can find only four other cases of comparable lending growth… and each of those countries experienced a banking crisis and/or a sharp recession within three years of their respective booms.

Credit Booms and Change in GDP Growth Rates

(In percentage points)

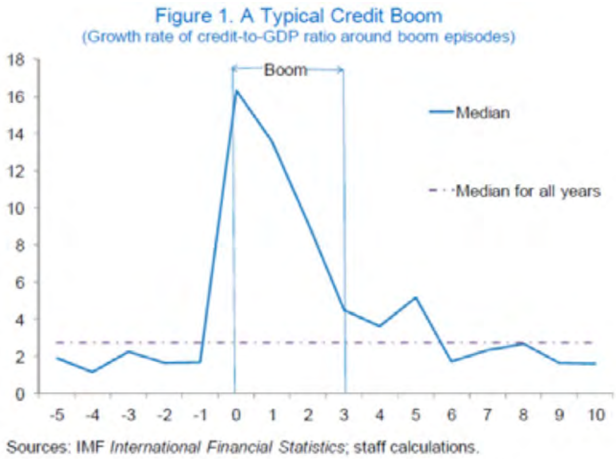


Source: IMF staff estimates and calculations.

In other words, ***there are no cases in modern history where an economy has managed to avoid an outright bust after experiencing rapid lending growth anywhere in the neighborhood of China's ongoing credit boom***. <u>NONE</u>. And even if we look to the 48 instances over the last 50 years where total social finance expanded by as little as 30% over five years (less than half the magnitude of China's credit explosion), there is still a 50% chance of a banking crisis or an abrupt fall in growth during the post-boom period.

Moreover, the model for a "typical credit boom" (outlined in Dell'Ariccia, Igan, Laeven, & Tong's 2012 paper "Policies for Macrofinancial Stability: How to Deal with Credit Booms") suggests that ***painful post-boom adjustments tend to occur when the pace of credit growth simply cools back toward its long-term median*** (as opposed to outright deleveraging)… and that cooling process is already well advanced in the Middle Kingdom.

Notice, in the charts below, that China's year-over-year growth rate in total social finance since 2004 basically looks like a more extreme version of the typical credit boom.



Source: Dell'Ariccia, Igan, Laeven, & Tong, "Policies for Macrofinancial Stability: How to Deal with Credit Booms." June 2012.

Source: Bloomberg Brief, Economics Asia. 7/28/2014.

No one should EVER expect the IMF to come right out and say, "China is teetering on the edge of a crisis, and it has already wasted its opportunity to reform"; but the team of IMF staff economists was clearly not afraid to acknowledge how easily China's risky "web of vulnerabilities" could tip into a full-blown financial crisis if measures to address them are implemented too abruptly. They highlight five sectors: real estate, corporations, local governments, banks, and in particular shadow banking. In almost every sector, the specter of significant to massive overleveraging is noted. It does not take a sophisticated analyst to be able to read between the lines of this report. For a bunch of sedate economists, this is the equivalent of standing on their desks and screaming.

Aside from the clear and present danger that each of these vulnerabilities poses to China's future growth, the situation in the People's Republic does stand out from past credit booms in one way. It has substantial buffers – or at least the outward appearance of buffers, according to the official data – to supposedly defend against capital flight, absorb sudden losses in a banking crisis, and commute a hard landing into a longer period of subdued growth (which the Chinese government may or may not allow to show in its headline GDP figures). According to official data sanctioned by the Chinese government and outlined by the IMF, "Total public debt is relatively low; public sector assets are large (including foreign exchange reserves); domestic savings are high, and foreign debt exposures low; capital controls limit the risk of capital flight; and the government retains substantial levers to control economic and financial activity."

The legitimacy and adequacy of these buffers in a real crisis is certainly up for debate (as we have done in past letters), but it is hard to argue that the Chinese government does not have at least some resources to buy a bit more time. The question is, how much longer can they delay?

While these policy avenues may be China's saving grace – or at least the reason it may be able avoid an outright collapse at the tail end of a massive credit boom – they may also be China's economic downfall if they provide a false sense of security. China's reformers have no time to waste, and if they persist in hiding behind the false security of large but finite resources, the risk of a crisis will only grow.

Quoting from the IMF staff report:

> **Thus, without a change in the pattern of growth, the likelihood of a shock triggering financial disruption and/or a sharp slowdown will continue to rise.** Overreliance on credit and capital accumulation to support growth would further weaken balance sheets and reduce investment efficiency. This would ultimately lead to a slowdown in growth, and put further pressure on corporate profits and the financial system. **The more vulnerabilities accumulate, the more likely it is that a shock could trigger a negative feedback loop. Thus, although the near-term risk of a hard landing is low, it increases to medium over a medium-term perspective.** [emphasis mine]

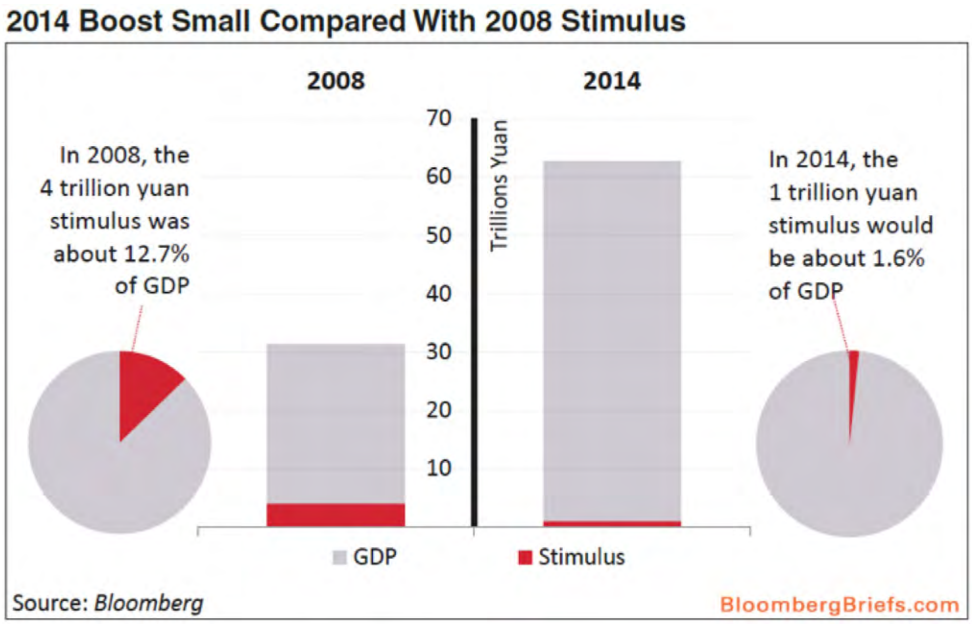
Judging from an IMF podcast released with the official report, these buffers are one of the only reasons for optimism… assuming Beijing does speed up its reform process. For a generally optimistic quasi-government staff economist, the IMF's China mission chief, Markus Rodlauer, is clearly sounding the alarm:

> Our assessment after careful analysis is that the near term risk of a hard landing really is low. And we come to this judgment because we see an economy that still has substantial buffers – both in terms of the real economy and the way the government can manage the economy in the near term, and therefore prevent a hard landing....
>
> By the same token, we need to say that **given the way the economy is growing, given the way the risks have been accumulating and are continuing to accumulate in the economy, unless reforms are implemented to redirect the economy to a somewhat safer growth path, the risk of a hard landing will continue to increase....** Generally these sorts of rapid credit growth do lead to either a banking crisis or a sharp slowdown of growth. [emphasis mine]

Where Have All the Reforms Gone?

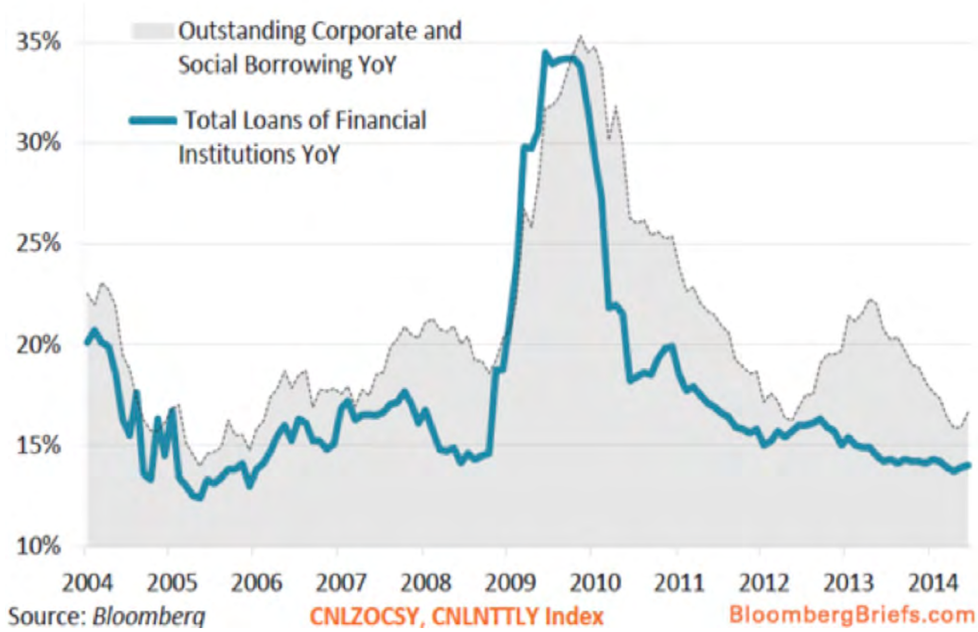
Although President Xi and China's State Council seem to understand the dynamic outlined above, they are not yet following through with timely reforms. Rather than pushing ahead, Beijing has chosen to pull away from its aggressive stance and has seemingly reneged on its supposedly firm commitment to allow the market to play a determining role in China's rebalancing in 2014.

After a period of decelerating economic activity in the first quarter and just one historic corporate default in early March, the State Council announced in April what could be best described as a mini-stimulus – which in recent months has turned into a *full-blown stimulus package*, with rumors that the People's Bank of China has recently opened a three-year, one-trillion yuan (roughly $162 billion) credit line to China Development Bank to push lower-than-market-cost funds into affordable housing projects. It could be the first use of a new PBOC policy tool called "pledged supplementary lending," by which the PBOC directly injects specific banks with low-cost medium-term funds earmarked for various policy purposes; but the rumor is still unconfirmed by any expansion in the central bank's balance sheet.

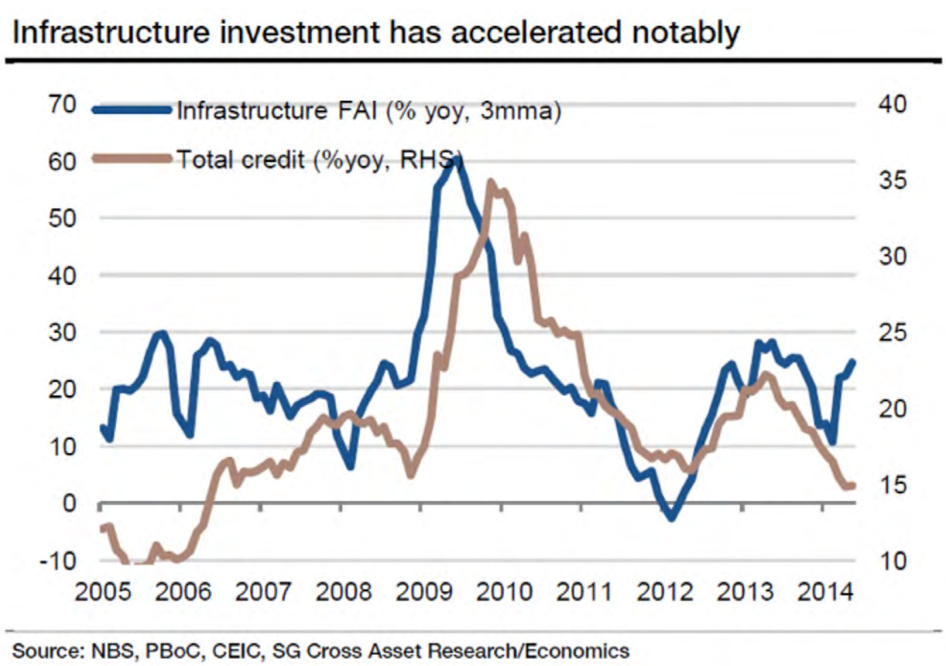


The rumors may be no more than convenient sentiment-supporting gossip; but if the stories are true, we are talking about a liquidity injection comparable to [the size of the US government's $182 billion bailout of AIG in 2008](). One trillion yuan represents about 1.6% of China's GDP today – much smaller than the four-trillion yuan stimulus pushed through in 2008 but still enough to trigger a BIG rally in Chinese stocks.

Either way, the State Council seems to be reconsidering – or at least delaying – its reform agenda. In the months since the State Council's announcement in early April and Premier Li Keqiang's subsequent guarantee that 2014 economic growth would top 7.5%, efforts to boost aggregate demand and encourage "targeted" credit growth have led to a turnaround in lending activity,



a SURGE in infrastructure fixed-asset investment,

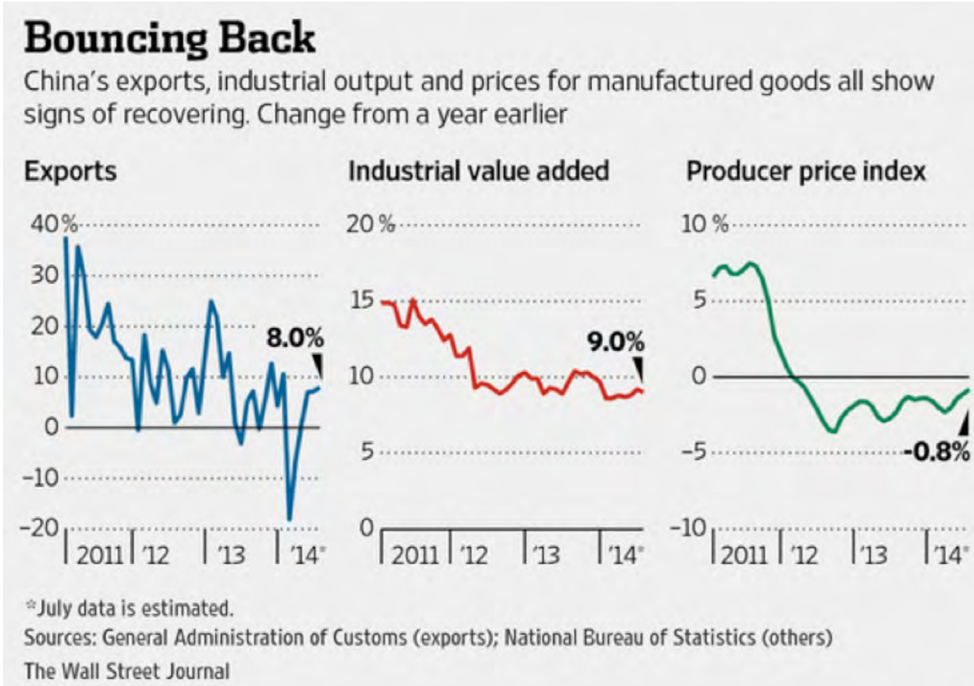


slightly better real GDP growth (7.5% YOY in Q2 compared to 7.4% YOY in Q1 [according to the highly questionable National Bureau of Statistics]),

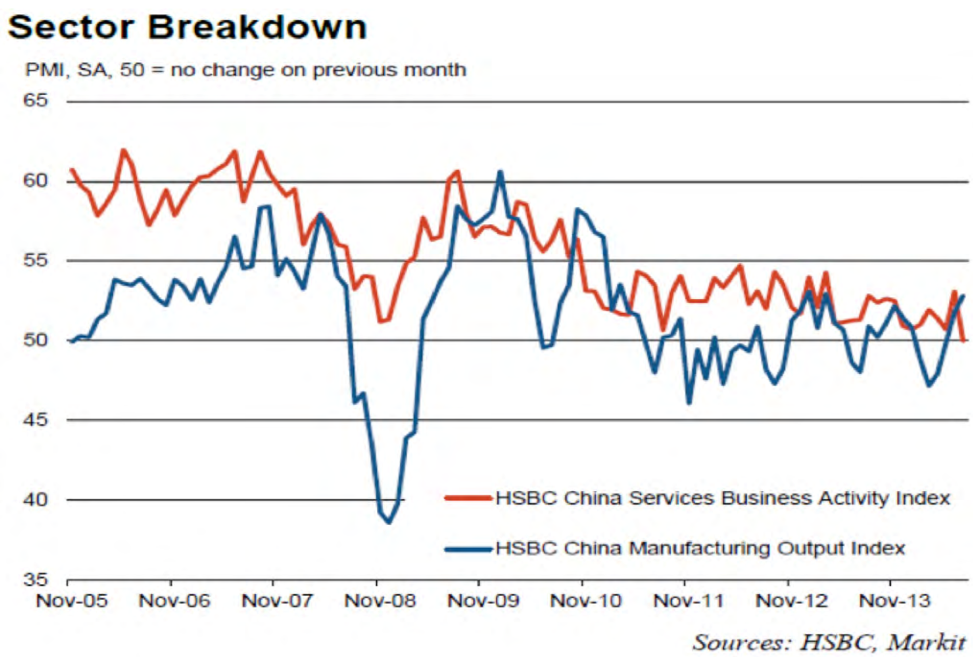
and the strongest manufacturing PMI print in eight months (51.7 in July, compared to 51.0 in June, 50.8 in May, and 50.4 in April).

Whether the official GDP report is accurate at 7.5% or intentionally overstated we will never know – the Chinese never revise their GDP estimates – but the broad-based "improvement" in economic activity suggests that the Chinese economy is growing faster than many China skeptics believe – at least for now.

Export growth has dramatically recovered; industrial output has turned around; and it looks like the producer price index could become positive for the first time since 2012.



But here's where it gets really interesting. A closer look at Purchasing Managers' Indices shows that the stimulus-fueled bounce in economic activity has lifted overleveraged, investment-heavy, low-margin "old-economy" sectors like heavy industry ***at the expense*** of more promising, high-margin "new-economy" sectors like services;



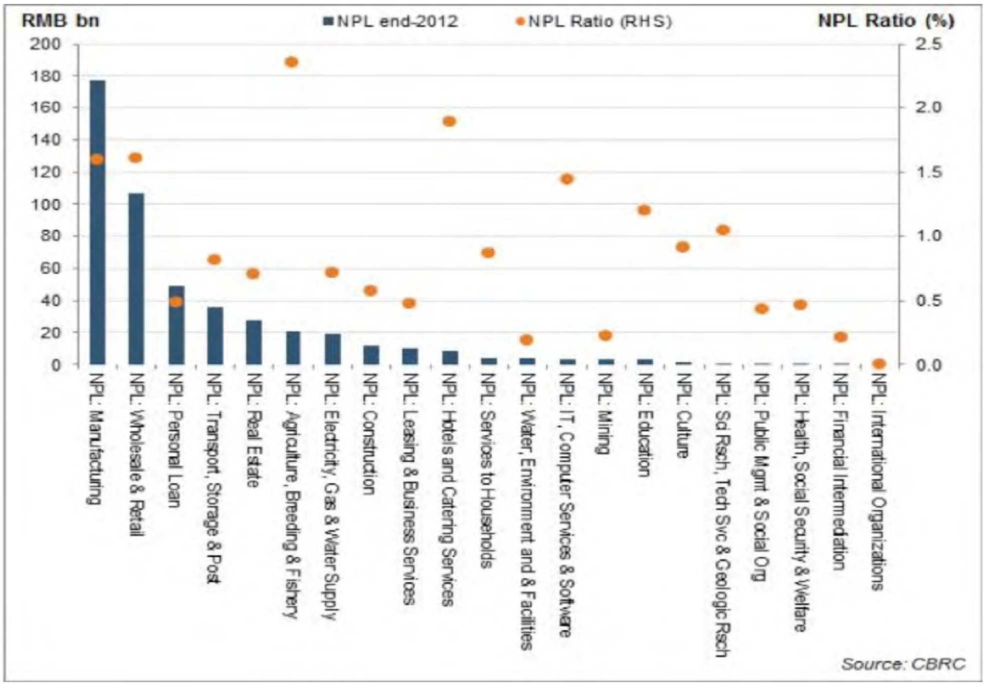
and, even within the industrial sector, the stimulus has produced higher state-owned-enterprise (SOE) profits at the expense of higher-margin private firms.

The One Trillion Yuan Question

So, here's the one trillion yuan question. How should we interpret the recent bounce in Chinese economic activity, when maintaining a 7.5% annual GDP growth target through the application of stimulus and more debt seems to directly contradict Beijing's aggressive reform agenda? And how does this seeming contradiction inform our global macro view when even the IMF is warning that Beijing's failure to pursue timely reforms and continued reliance on a nearly exhausted growth model may send a shock wave through China and around the world in the not-so-distant future?

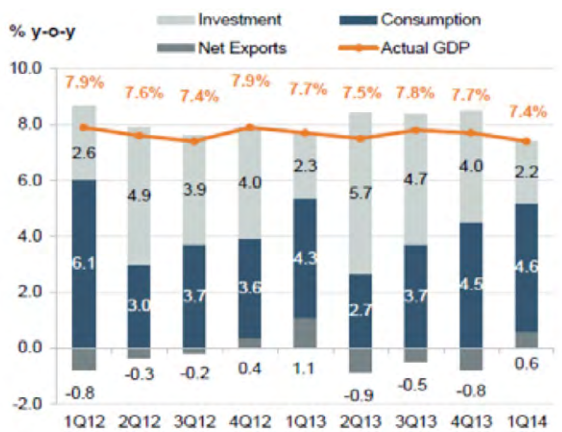
In the process of writing this letter, I spoke with a handful of brilliant economists, including Steve Wang, David Goldman, and Uwe Parpart at the Hong Kong-based Reorient Group, who come to very different conclusions about the ongoing transformation happening within the People's Republic of China and the eventual outcome of its ongoing debt drama. I would encourage you to check out their "China's Two Economies" presentation for an alternative look at China's transformation. Perhaps they are right – but for the life of me, I cannot see this kind of transformation happening without a lot of adjustment and a lot of pain.

Yes, they argue, the old Chinese smokestack economy (dependent on low-value-added manufacturing exports and fixed-asset investments in infrastructure, mining, and real estate) is fading away and may drag somewhat on the banking sector; but nonperforming loans, even if the actual numbers are several times larger than officially reported figures, are still manageable; and accordingly, the banks may be undervalued instead of posing a systemic risk. (If you have been following along with John and me in our China series, you may remember that we believe bad debts, if properly classified, could add up to nearly 20% of GDP. No one knows the real number, and the Chinese government has no incentive to reveal it. I hope we never find out; because if we do, it will only be after a banking collapse.)

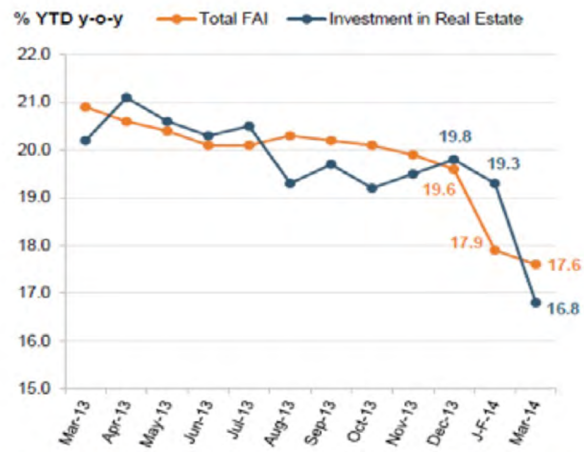


Looking forward, the Reorient economist team argues that a new China is rising, with an increasingly empowered consumer class (where I see a less competitive workforce) and explosive growth in high-margin sectors like services and technology (where I see great long-term promise, but only at the margins in the short term). China has everything it needs to make the next great leap forward, they assert, and history has taught us that the State Council tends to allocate resources and drive revenues within the right sectors over time.

There may be some volatility in the reform process (as we are seeing this summer); but the optimists at Reorient believe China is already rebalancing in the right direction, with a greater share of GDP driven by consumption and a falling trend in fixed-asset and real estate investment:



GDP Expenditure Components Source: NBS, REORIENT



FAI: Total vs. Real Estate Source: NBS

Or at least that was true until the mini-stimulus in April. Now we are seeing a big bounce in investment and continued softening in the real estate market – a sign that not only is Beijing moving away from rebalancing, but also that they are not in full control. Reorient would argue that this is just a pause in the rebalancing process to shore up growth and prevent manageable vulnerabilities from becoming unmanageable problems, but John and I are starting to think it represents a more important about-face in policy.

It is becoming painfully clear to us (and, I think, to the IMF as well) that Beijing's reformers are losing their resolve, not because they do not have the stomach for reforms, but because they know aggressive reforms that require a slowdown in growth and harder corrections within "Old China" sectors can burst the debt bubble and/or leave China more vulnerable to shocks from abroad.

As John and I highlighted a little earlier, China's rapid credit expansion over the last five years puts it in the top five credit booms of the modern era; and so it will be very difficult to make the transition without a great deal of pain. Given the extraordinary push-back Xi Jinping seems to be getting from within the Party with regard to his liberalizing reform agenda and anti-corruption purge, it does not look like meaningful reforms will happen anytime soon. The trouble is, if China continues down this path, the instability will continue to grow, and the eventual implosion may be one of the most spectacular economic events of our lifetimes.

As we've seen, this kind of rapid credit growth typically leads to banking crises or abrupt recessions within three years of a credit boom's cooling. China may be able to buy a few more years, given its substantial policy buffers; but I do not believe innovation or the rise of modern sectors will be able to prevent a harder correction, specifically because the kinds of reforms required to unleash key growth sectors will divert resources from overleveraged zombie industries and, in the process, will likely trigger a series of credit events capable of destabilizing the entire banking system.

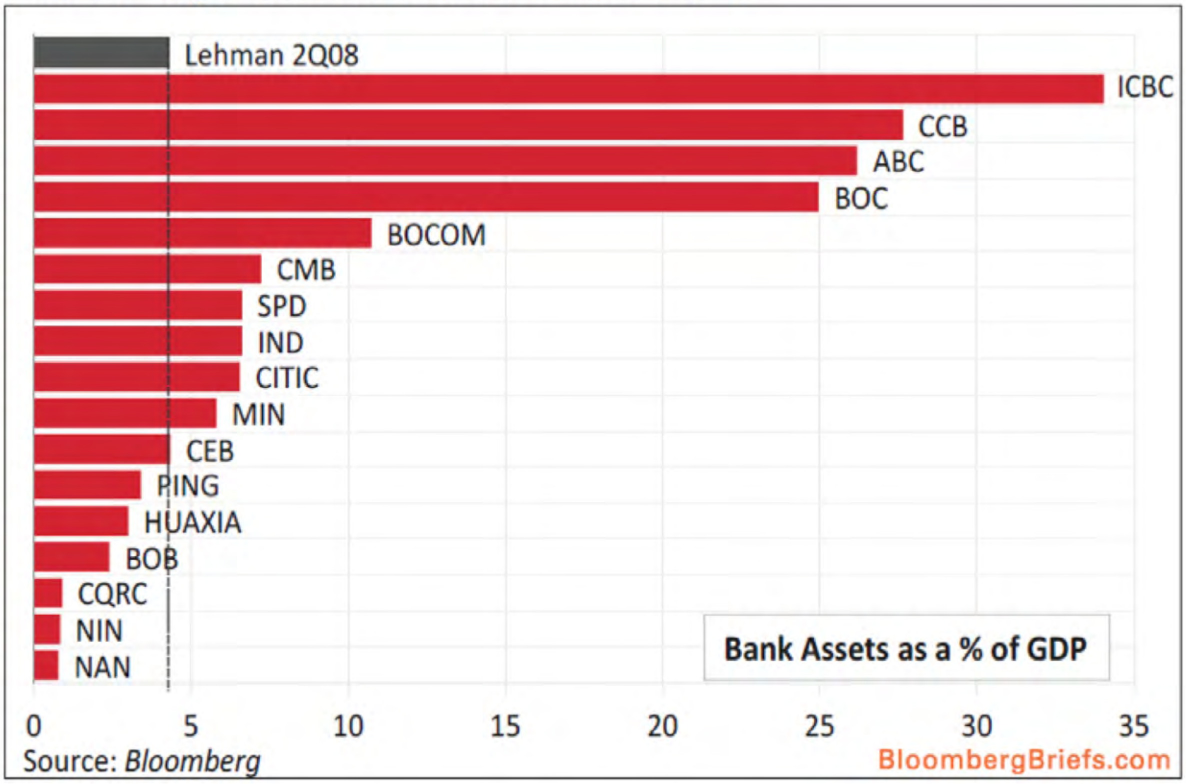
The more I dig into the data, the more convinced I become that Xi Jinping and his colleagues in Beijing are facing an impossible challenge. After fueling one of the single greatest credit booms in modern history, the People's Republic is left with a mountain of bad debt backing a number of overleveraged industries that are simply not viable without the state's continued favor.

China's would-be reformers know that, in order to facilitate the right kind of rebalancing, capable of setting the country on a long-term path toward sustainable development, they must allow the markets to take over and determine winners and losers. Aside from the economic risks of a sudden shift in the free-market direction, President Xi is facing an extraordinary amount of push-back from within the Party from vested interests who are not used to losing. Unless he can purge this opposition and make a show of the worst offenders, no one can reasonably expect reforms to move forward.

In terms of market discipline, truly rebalancing away from overleveraged, low-margin "Old China" sectors toward still-repressed, high-margin "New China" sectors also requires that China's central planners step back to allow widespread defaults in bloated industries so that capital can be freed up for more productive uses. These kinds of credit events can be extremely destabilizing, as the IMF repeatedly mentioned in last week's report. John and I have to think there is a reason that Beijing allowed one default earlier this year and then quickly changed their policy. The reformers' test likely revealed more weakness than expected.

In the process of allowing defaults (should they actually be allowed to happen), China's banks will also be forced to realize losses rather than rolling over bad debts indefinitely. The costs could be enormous, and no one really knows what that means for China's domestic economy or for our interconnected global financial system. As a percentage of GDP, China's banks pose a larger systemic risk within the Middle Kingdom than Lehman Brothers ever did within the United States.

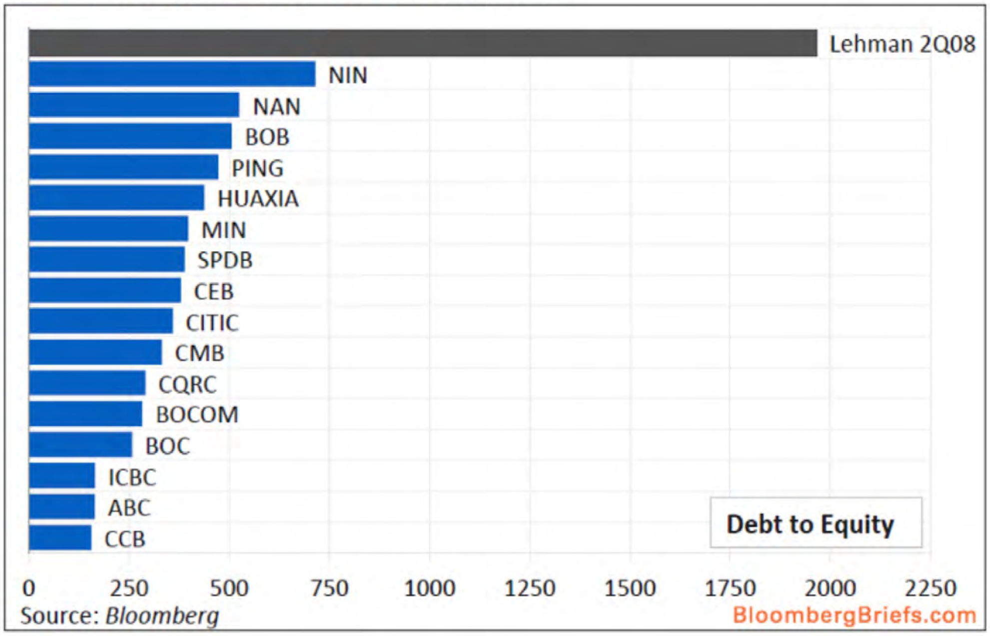
China's Major Banks Dwarf Lehman in Size



Bloomberg Brief, Economics Asia. 7/29/2014

And while conventional wisdom suggests that China's bank leverage ratios are more than manageable, whether they actually will be ultimately depends on whether China's banks are reclassifying and rolling all but the worst loans.

Low Leverage Reduces Risk of Failure



Bloomberg Brief, Economics Asia. 7/29/2014

Leland Miller, President of China Beige Book International, was kind enough to send me this short but enlightening note on the question surrounding China's nonperforming loans:

> ***The NPL situation is completely opaque – it's the deepest and darkest of Beijing's state secrets.*** But we can be very confident of a few things:
>
> a. The level of reported NPLs is completely unrealistic (take, e.g., China Development Bank's sub-1% NPL level for many years… despite a portfolio of borrowers that includes Central Asian kleptocrats, unprofitable Chinese SOEs, African small businesses, and Latin American energy plays);
>
> b. NPL levels have always been kept artificially low simply by rolling over the debt, so that the debt never technically becomes "nonperforming"; and
>
> c. NPLs are recorded as part of a 5-level classification system, but the levels are subject quite easily to mass manipulation simply by tweaking the particular classification of the loan. If you have too many level 3 loans, e.g., then just move a bunch of them to level 2 as an administrative matter.

We have seen this movie before in Japan and know that ***manageable rot within a still largely state-controlled banking system can explode into higher-than-expected NPLs in the event of a real crisis.*** Rather than assuring John and me that China's banks are not a problem, the charts above send chills up our spines. The market has no idea how exposed China's banks are to the inevitable slowdown, and any kind of sudden realization of the facts will inevitably lead to a system-wide loss of confidence. That's why we believe Beijing may be rethinking their reform agenda and delaying all but the most harmless shows of reform progress. The reforms required to set China onto a sustainable growth path may also pop its debt bubble; and if so, no one knows better than Xi Jinping (except maybe his lead economic advisor, Liu He).

While China does boast substantial buffers that can – at least in theory – allow it to paper over bad loans for another few years or resist the pressure of foreign capital outflows for a time, those buffers cannot protect China indefinitely. The longer the People's Republic continues down the path of low-quality credit growth and widespread misallocation, the bigger the bubble will become. China may suffer one of the defining economic crises of our lifetimes. There is no way to avoid significant rebalancing, and at this point it may no longer be possible to make the transition in a manageable way… though of course I can't blame Xi for trying.

I would define a successful rebalancing as one which, though it might initially entail an outright recession, ultimately enables growth to accelerate back above 3% after the adjustments are made – that is, if the New China can quickly rise from the ashes and there is no serious geopolitical fallout. All things considered, there is not a major developed country in the world that would not kill for those kinds of numbers. Given China's massive size, a 3-5% compound growth rate would be phenomenal. We can even imagine how, with the proper reforms, that could be possible.

Final Thoughts from John on the Inevitability of Restructuring

A little over 30 years ago Deng Xiaoping looked around at his economic reality (after a visit to booming Singapore) and decided to push for massive change. For him to try to transition from the system they had into a full-blown free market economy would have been beyond chaotic and probably not possible given the infrastructure and intellectual capital China possessed at the time. Seen through 20/20 hindsight, the decisions he made have been spectacularly successful. China has moved 250 million people from essentially medieval lifestyles into the modern era. The Chinese have built physical infrastructure that is second to none anywhere in the world. They've educated multiple generations and have set the stage for multiple millions of entrepreneurs to further prosper in China. All this would have been impossible in 1982.

That's the good news. The bad news is that China's growth almost manifestly had to be accompanied by bubbles and misallocated capital. Those phenomena come part and parcel with centrally controlled economies. Philosophical purists can argue that there might have been a better way; but given the reality that Deng Xiaoping faced, philosophical purity wasn't high on his list of priorities. Bringing his nation into the 20th century was.

So yes, China has built up some rather large excesses and a credit bubble. There are a lot of misallocated resources. Restructuring and reform are going to be painful. But that all has to be put into the context of where the country stood 32 years ago. And from that vantage point, massive restructuring is just another step in the development process.

The Chinese will not forget what it took to build what the nation has today nor will they give up simply because things get difficult. The China that will emerge from the current problems, whether they are solved by a sharp correction or through a lengthier process accompanied by slower growth and a recession here and there, will be in far better shape than it is today.

However, we cannot remain sanguine. Chinese restructuring may happen at the same time that Europe is forced to restructure and reform. All the while, Japan edges closer to its dénouement of money printing. If all these events were to happen at the same time and the US were to go into a cyclical recession, now THAT would have a serious impact on our economic lives. It would be nice if the various bubbles around the world (China, Japan, Europe, and the euro, and the US debt and entitlement problems) would oblige by popping themselves sequentially rather than all at once.

However, life isn't always so accommodating, and that's why we have to be paying attention to multiple economic fronts and not just one or two. The world is too interconnected to ignore the major economic contributors and the problems they have. Stay tuned.

August in Texas, San Antonio, and Dancing with "The Beast"

I have somehow arranged to spend the next four weeks in Texas, which is traditionally the hottest part of the year. Looking at my travel schedule right now, I see no plane flights until September 17, when I will be speaking at the Casey Research Summit in San Antonio. This is a superb conference at a fabulous venue in the Hill Country, and it's one you should consider.

All of my children are gathering today for brunch, and then some of the able-bodied young men will go over to Amanda and Allen's apartment, where they will load up a U-Haul truck and then leave Monday for Tulsa, where Amanda will live close to her twin sister, Abigail. And my middle son, Chad, seems to be serious about taking a job in Colorado Springs and is also leaving Monday. I will go from having most of my seven kids in the area to having only four of them close by. Future brunches will be a little smaller, except on those few holidays when I can get everybody home. So tomorrow is kind of the end of an era of having my kids close. I am happy for them, but it is kind of a bittersweet happiness.

We will all be visiting my mother at various times this weekend; and next Thursday an ambulance will stop by her house, pick her up, and bring her to my apartment for her 97th birthday. She is bedridden but has made it clear that she would like to have her party at my place at least one last time. None of her 11 brothers and sisters made it to 97, and she is quite focused on that number. My sister will come in from Vancouver, as will a few other family members and many of her friends.

Last week in Maine was perhaps the best time I have had at "Camp Kotok." There have been numerous stories in the media about this special event, but the confluence of numerous old friends, perfect weather, biting fish, and watching my son grow up conspired to make it an especially memorable time for me.

However, I do have one apology to make. I was sitting in a boat with a few famous "chief economist" types, and we were kidding about getting to shore if the boat began to sink. I'm not sure what brought up that topic, but I boasted that I could swim the few hundred yards to the shore. "No problem."

No one turned my boast into a dare, but reality caught up with me Wednesday. I've engaged the local trainer (a.k.a. The Beast), who takes it upon himself to mix up the usual push-and-shove routine involving weights with *auxiliary* exercise sessions. Sparring 30 minutes with him gets me breathing a lot harder than 60 minutes on a treadmill.

But this Wednesday he said, "Bring your swimsuit," and we went outside to the Olympic-sized pool at the apartment. "Give me 10 laps," he said, to start. I soon found out that there were no more than a few laps in me before I had to regroup. I was never really a swimmer in any true sense, but there was a time when I could have made it a few hundred yards across a lake. No more. We spent the rest of the morning underscoring how problematic it would have been if I had gone overboard.

It turns out that I will have almost two months here in Dallas, so The Beast will get me at least four or five times a week, not to mention the extra cardio I'll do as I try to shed some of the excess weight I picked up over the last year of travel. No excuses. I turn 65 in less than two months, and I need to hit that date with a full head of steam. I've been talking a lot lately with people about their retirement plans, but I have absolutely no plans to slow down for at least the next 10 or 20 years. But I am realizing more and more that I have only my one poor old body to make that trip in, and I need to take better care of it. I see lots of lettuce wraps and protein shakes in my future. And a lot more gym time.

Have a great week. Enjoy your family and friends, because at the end of the day they are the ones that make the trip worth it.

Your trying to shake off sore muscles analyst,

John Mauldin

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