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What happens to the buck if Washington doesn't clean up? And, why investors can believe in a long-term uptrend for markets.

New North Star?

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Aug. 1: For centuries, travelers depended upon a fixed point of reference, the North Star, to guide them safely over vast distances... Because of the earth's peculiar spin about its axis, we get a new North Star roughly every 13,000 years. Next up is Alpha Draconis, a star also known as Thuban. It will serve as our guiding light, beginning about 10,000 years from now.

In the financial world, the current North Star is the U.S. dollar... One might be tempted to think that the euro or the renminbi or gold will fill the role of global financial North Star—that a shift is slowly coming about. Such a shift is not [too far-fetched], considering that the British pound held the North Star position until about 80 years ago. So perhaps the euro is on the ascendant. Or the Chinese renminbi.

Most market professionals, however, quickly dismiss the euro, renminbi or gold as being able to displace the dollar as the global "unit of account." They feel these alternatives are too unstable (euro), too immature (renminbi) or too arbitrary (gold). From what I've read... most think the dollar will retain its North Star status, but with an asterisk. This means the dollar (and Treasuries) will serve as the global risk-free unit of account but will bear credit risk. The reasoning is as simple as this: What else is there?

I am surprised by how nonchalantly market professionals seem to resign themselves to the fact that soon there may not be a true risk-free asset out there. I am saddened by their advice to keep your Treasury holdings and act "as if." To me, what we are witnessing isn't so much a North Star recalibration; it's North Star elimination. The outcome, I believe, will be a global financial meltdown within the next five years whereby paper assets will have no intrinsic value as debts will be inflated away. I wish I could be more optimistic. Perhaps our government leaders will surprise us in the next few days with an innovative solution to our nation's fiscal situation. If so, I will gladly recant my views in future writings. If not, stay tuned.

-- Steve Patton