

# Financial Crisis 2008 When The Money-Go-Round Stops

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Historical Precedent and Background  
Situation and Outlook  
Action



## The Great Depression vs The Financial Crisis

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- 1.8 billion people
- 0.25 billion in US, EU, Japan
- Rich GDP per head \$ 7,000
- Europe 25% of population  
Africa 8.5%
- No TV
- Rail and road
- Army, church and rich science
- Newspapers and pony express
- New oil
- 6.6 billion people
- 1 billion in US, EU, Japan
- Rich GDP per head \$ 38,000
- Europe 11% of population  
Africa 14%
- TV, Cars, Homes
- Planes, cars, trucks and trains
- Education and technology
- Phones and internet
- Oil shrinking



## Credit then and now

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- Traditional standards
- Crony capitalism
- Robber barons
- Emerging regulations
- Asset backed lending
- Financial multiplier ~ 10 x
- Global weight of money  
\$ 3 trillion
- Nominal assets ~ \$ 30 trillion
- Nature's services unknown
- Industrialised lending
- Incestuous
- Regulated
- But broken
- Credit cards
- Financial multiplier ~ 100 x
- Global weight of money  
\$ 70 trillion
- Nominal assets \$ 7 quadrillion
- Nature's services ~ global  
economy

# 1929



- 
- October 29 to November 13  
“\$30 billion disappeared from the US economy”
  - 13 million people were out of work
  - Industrial production dropped by 45% between 1929 and 1932
  - House-building fell by 80% between 1929 and 1932
  - From 1929 to 1932, 5,000 banks went out of business
  - Stock market dropped 90% over 3 years.

# 2008



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- The crash has been building for some years
  - Early 2006 the warnings about the sub-prime crisis were loud, but ignored by regulators.
  - Deflation of credit bubbles was staved off for political expediency from late 1990s
  - China, Asia, Africa have been providing the demand pull for the global economy.
  - July 2007 cracks opened up. But papering over was performed by incumbents.
  - Housing, consumption and credit dried up.
  - 2008 full extent started to be realised as banks and then governments became insolvent.

# World Economic Outlook - IMF October 2008



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- Deleveraging process becoming disorderly and costly for the real economy.
  - Confidence in global financial institutions and markets has been badly shaken.
  - Threats to systemic stability became manifest in September with the collapse or near-collapse of several key institutions.
  - Higher cost of funding and credit default protection and depressed asset prices.



## What might be done ...

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- Stabilise financial system and allow orderly deleveraging
  - improving funding availability, cost, and maturity to stabilize balance sheets;
  - injecting capital to support viable institutions with sound underpinnings that are currently unable to provide adequate credit; and
  - buttressing troubled assets by using public sector balance sheets.
- Rapid, consistent policy across jurisdictions.
- Temporary action that is paid back and is progressive in cost (tax).
- Accountability
- Medium term improvements in policy and regulation.

# Policy options



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- Interest rates reduction – ongoing, but not a solution.
  - Central bank lending – money supply increased, but costs taxpayer.
  - Fiscal options needed:
    - Lower taxes – especially poor.
    - Public spending – fixed term projects.
  - Monetising public debt is an option
    - Inflate away debts, buoy up asset prices BUT this encourages moral hazard – rescues indebted, hurts those with savings.
    - Erodes trust and civil society.

## What is being done ...printing money and bail outs



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- The only solution to avert anarchy is to bail out the system which created the problem.
  - Governments must print money and change the rules of the game.
  - Nationalisation of banks is ongoing.
  - The system is being preserved by providing guarantees and capital to banks to allow liquidity back in to the financial system.
  - If the economies of the west resuscitate, real incomes will stabilise as the debts are paid off over the coming years.
  - If economies do not resuscitate, stagflation will ensue ... and rule of law will break down.



## What is not being done ...

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- State capital must be backed by reduction in income inequality, forced responsibility, return to traditional lending standards.
- Consistent policy generally, though some independent action (Ireland).
- It appears that accountability is not being executed.
- It appears that the tax burden may fall on the low and middle income groups rather than the high earners.
- Fiscal measures not yet enacted.
- Does not bode well for medium term systemic improvements.
- Consequences are likely to be short term relief but extended stalling of economies
  - rationale for giving people economic responsibility and power has been ignored.

# Situation



- 
- Financial system (bank) equity wiped out
    - Too much debt built on unproductive/overvalued assets
  - We are in unknown territory
  - Nationalisation of banks. “Socialism”?
  - Is government debt good/risk free?
  - Taxation up, benefits down.
  - Are even the rich insulated?
  - Real economy is threatened
    - No flow of money, no consumption, no compensation – a vicious downward spiral
    - Food production threatened
  - But infrastructure (roads/IT/energy) is in place.

## Early November update.

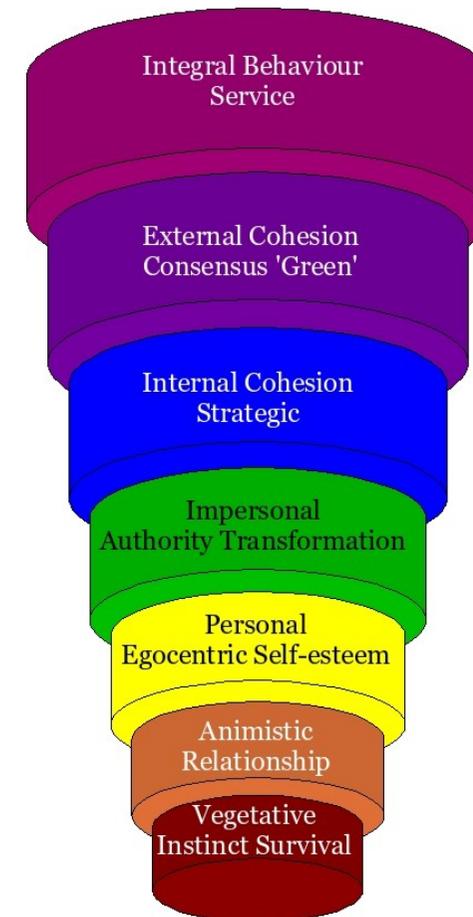


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- Investors are selling what they can, not what they like
    - Emerging markets.
    - Banks and hedge funds are selling. Caused by redemptions and capital requirements.
    - International carry-trade unwound and self perpetuating.
  - Money markets seem to be reliquifying.
  - Banks lending but not so eagerly and with tighter standards.
  - Confidence down.
  - Consumption down.
  - Oil prices down, but still high, and benefit only ~ \$ 100 billion.
  - Global losses now admitted to be in the \$ 2 – 3 trillion range.

# Cultural maturity threatened.



- Social culture remains materialistic.
- May regress to disciplined traditions and even primitive rites.
- Required emergence of natural equality and integrated interdependence.



# Emergent values



Level/Zone	Values	Organisation values	Essence	Opposite essence	Objective	Positive traits	Action	Soul	Elemental force	Excessive traits	Negative traits
Holonc Being	Collective individualism, cosmic spirituality, earth changes	Natural interdependence – holarchy not hierarchy.	Being		A-personalisation				Space-time		
Integral Behaviour/Service	Natural systems, self principle, multiple realities, knowledge	Service to Humanity – ethics, social responsibility, future generations, cooperation.	Awareness	Attachment	Self-knowledge	Wisdom, knowledge, consciousness	To know	Universal	Information	Overly intellectual, spiritual addiction, confusion, dissociation	Learning difficulties, spiritual skepticism, limited beliefs, materialism, apathy
External cohesion/Consensus	Egalitarian, feelings, sharing, caring, community	Strategic Alliances – employee fulfilment, community involvement.	Intuition, imagination	Illusion	Self-reflection	Psychic perception, accurate interpretation, imagination, clear seeing	To see	Archetypal	Light	Headaches, nightmares, hallucinations, delusions, difficulty concentrating	Poor memory, poor vision, can't see patterns, denial
Internal cohesion/Strategic	Materialistic, consumerism, success, image, status, growth	Development of cohesive culture – commitment, enthusiasm, shared values.	Communication	Lies	Self-expression	Clear communication, creativity, resonance	To speak and be heard	Creative	Sound	Excessive talking, inability to listen, over-extended, stuttering	Fear of speaking, poor rhythm
Impersonal/Authority/Transform	Meaning, discipline, traditions, morality, rules, live for later	Continuous renewal and learning – adaptability, innovation, teamwork.	Love, relationships	Grief	Self-acceptance	Balance, compassion, self-acceptance, good relationships	To love and be loved	Social	Air	Codependency, poor boundaries, possessive, jealous	Shy, lonely, isolated, lack of empathy, bitter, critical
Personal/Egocentric/Self-esteem	Gratification, glitz, conquest, action, impulsive, live for the moment	High performance systems – pursuit of profit, productivity, efficiency, quality, professional growth.	Power, will	Shame	Self-definition	Vitality, spontaneity, strength of will, purpose, self-esteem	To act	Ego	Fire	Dominating, blaming, aggressive, scattered, constantly active	Weak will, poor self esteem, passive, sluggish, fearful
Animalistic/Relationship	Rites, rituals, taboos, superstitions, tribes, folk ways and lore	Routines for the organisation – communication between employees, customers, suppliers.	Sexuality, emotions, desire	Guilt	Self-gratification	Fluidity, pleasure, healthy sexuality, feeling	To feel, to want	Emotional	Water	Overly emotional, poor boundaries, sex addiction, obsessive attachments	Frigidity, impotence, rigidity, emotional numbness, fear of pleasure
Vegetative/Instinctive/Survival	Food, water, procreation, warmth, protection, staying alive	Pursuit of revenues – financial solvency, employee productivity.	survival, grounding	Fear	Self-preservation	Stability, grounding, physical health, prosperity trust	To be here, to have	Physical	Earth	Heaviness, Sluggish monotony, obesity, hoarding, materialism, greed	Frequent fear, lack of discipline, restless, underweight, spacey
Level/Zone	Values	Organisation values	Essence	Opposite essence	Objective	Positive traits	Action	Soul	Elemental force	Excessive traits	Negative traits

# Scenarios

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- High road – isn't going to happen
- Recession
  - Economic growth stalls.
  - Unemployment rises.
  - Consumption slows – focus on basics and cheap luxury.
  - People are depressed by resilient.
- Depression
  - Economic growth is negative.
  - Unemployment spirals up.
  - Consumption drops – focus on food. Little investment/development
  - People become destitute and angry

# New metrics and new thinking



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- Financial system will experience volatility and uncertainty
  - It can return to normal over the next three years, but will retain the same weaknesses of moral hazard.
  - New metrics, which include social and environmental demands, facilitate efficient systems based on natural law.
  - Must be accompanied by more enlightened consumption pattern by humanity – **success without growth.**
  - Already happening
    - Eco-housing
    - Telecommuting
    - Healthy eating
    - Community living

# China and Africa



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- China and Asia will buy America and Europe.
    - China has \$ 2 trillion in foreign exchange reserves
  - The US dollar will decline in importance, to be replaced in part by the Euro and then by the currency of energy.
    - Energy is the currency of the biosphere
  - Africa will become the new China, but will be different
    - Growth from a very low base; Market for simple technologies
    - Can leap frog
    - More democratic economic systems must be adopted
  - America must adopt a culture of community and share its successes and technology with the world.
  - Europe must set the ethical standard and demonstrate success with no growth.

What can you do ...

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Consumer

Investor

Business

- Analysis and scenarios
  - Cash
  - People

# Personal consumption

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- Reduce travel
- Spend on education
- Cut out the junk.
- Cook at home. Cook healthy (less meat, less processed, less packaged)
- Reduce alcohol, cigarettes.
- Holiday/vacation with family/friends/locally. Bicycle and camp.
- Repair and maintain. Don't buy new.

# Investment

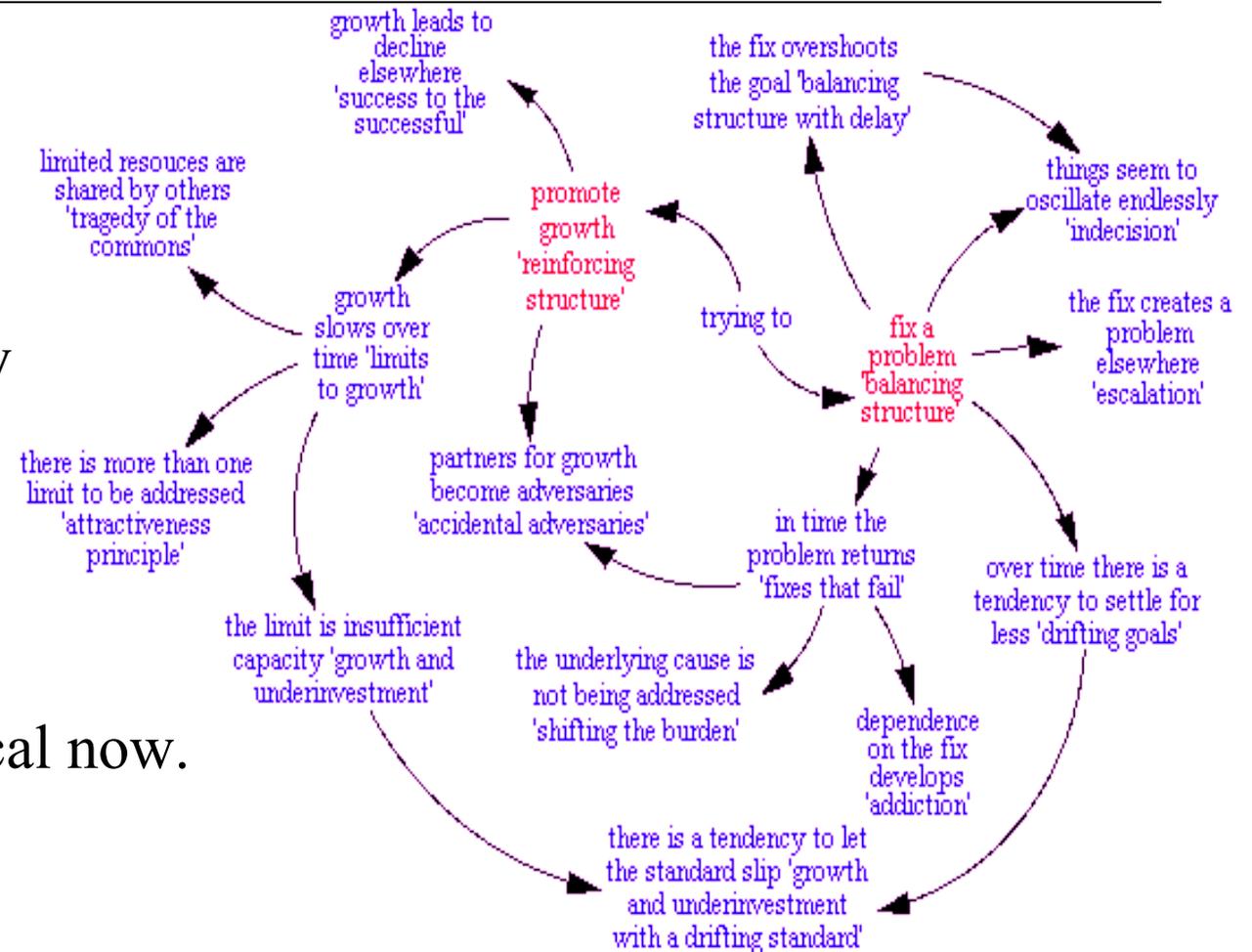


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- Direct investment is preferred. Long term rather than short term.
  - Price (and low management fee).
  - Due diligence: **cash** flow, value, capital structure, margins, market, management.
  - Diversify.
  - Buy operating assets in the real economy that are not dwarfed by debt.
  - Invest in Asia and Africa (via/with local operators).
  - Real assets – food, energy, commodities, agriculture, forestry
  - Not land-fill assets – shirts, motorbikes, CD players
  - Budget/quality providers. Eco-related businesses.
  - Later on – financials and builders.

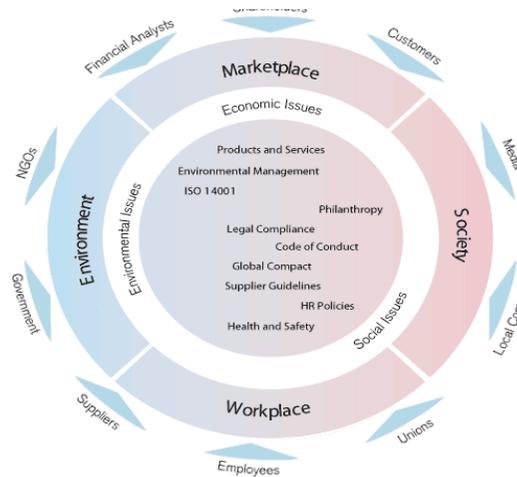


# Business Action: Analysis and scenarios

- Systems dynamics
- Full spectrum
- Anthropomorphic analogy
- Financial
- Strategic
- Scenario planning is critical now.

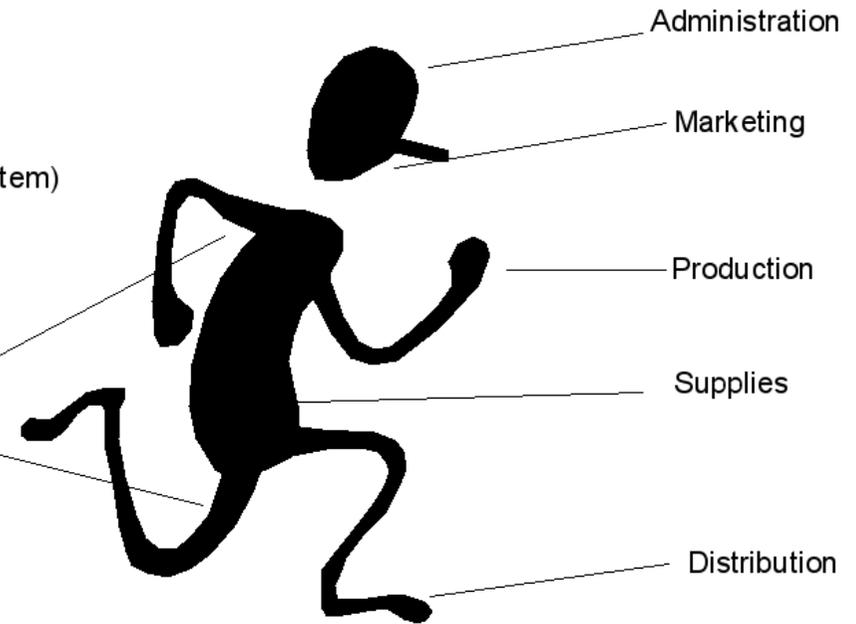


# Analysis: full spectrum, anthropomorphic, ...



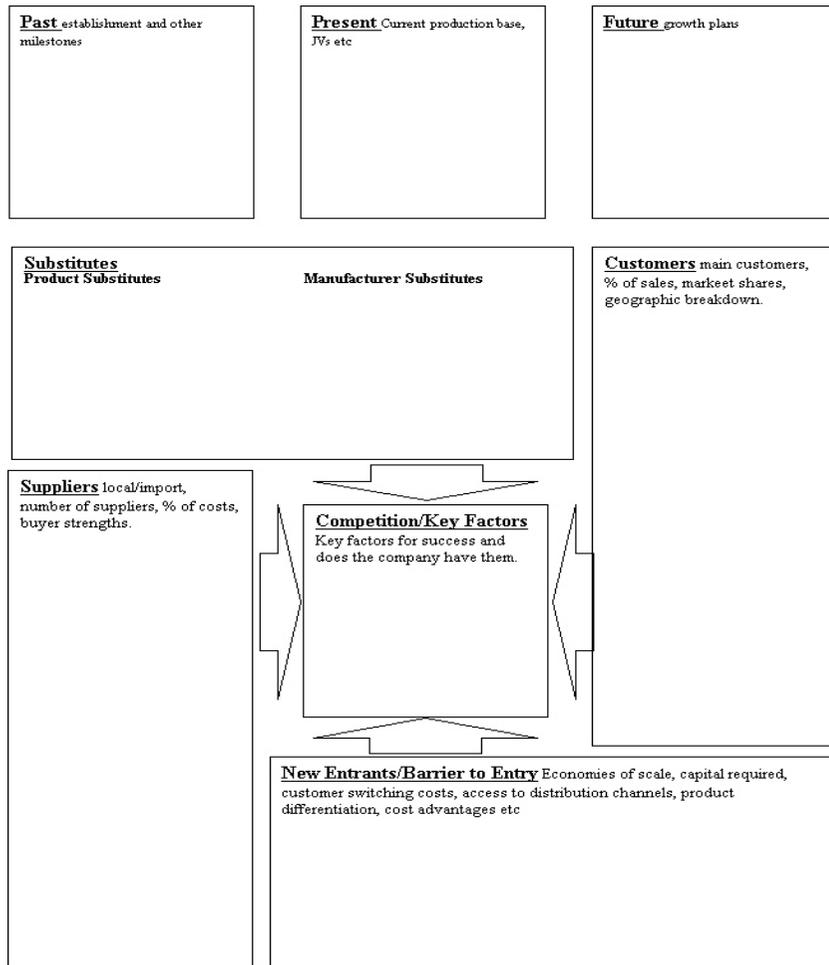
Communications  
(circulation & nervous system)

Working capital  
& fixed assets





# Analysis: Strategic, financial.



Company:					Date:				
Business:									
<b>Income Statement</b>	<b>Yr-2</b>	<b>Yr-1</b>	<b>Yr0</b>	<b>Yr1</b>	<b>Ratios</b>	<b>Yr-2</b>	<b>Yr-1</b>	<b>Yr0</b>	<b>Yr1</b>
Sales					Sales Growth				
OP					EBITDA Growth				
EBITDA					EBIT Growth				
Depreciation					PAT Growth				
EBIT					EPS Growth				
Financial Costs					OP Margin				
Exceptional Items					EBITDA Margin				
PET					EBIT Margin				
Tax					PAT Margin				
Minorities					Ave Assets				
PAT					Ave Equity				
Dividends					EBIT/Ave Assets				
Retained					PAT/Ave Equity				
<b>Balance Sheet</b>	<b>Yr-2</b>	<b>Yr-1</b>	<b>Yr0</b>	<b>Yr1</b>	EBITDA/Fin Charges				
Cash					Debt/Assets				
Accounts Receivable					Days AR				
Inventory					Days Inventory				
Bad Debts					Days AP				
Other Current Assets					Share Data				
Total Current Assets					Shares				
Investments					Ave Shares				
Fixed Assets					EPS				
Total Assets					BV/S				
Accounts Payable					P/E				
Overdraft					P/B				
Other current Liabilities					Capital Structure				
Total Current Liabilities					Shares				
Long term debt					Issues:				
Long term liabilities					Major Shareholders:				
Minority interests									
Capital									
Reserves									
Total Equity									
<b>Cash Flow</b>	<b>Yr-2</b>	<b>Yr-1</b>	<b>Yr0</b>	<b>Yr1</b>					
PAT									
+ depreciation									
- increase in current assets									
+ increase in current liabilities									
- Capital expenditure									
+ Increase in Debt									
+ Increase in Equity Capital									
Change in Cash									



## Business Action: Cash, Capital, People

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- Cash is king
- Working capital focus - but customers are your blood. Watch numbers.
- Cut from the top.
- Expenses – entertainment, travel, associations, “perks”
- Work with banks. Raise capital.
- Partner with other businesses.
- Emulate successful competitors – don't be afraid to change.
- Discuss with staff. Make it a team. Allow buyin.
- Focus on customers and your strengths.
- Self-help (cash) ... business coaching (fee) ... turnaround help (equity)



## Business Action: Cash is king

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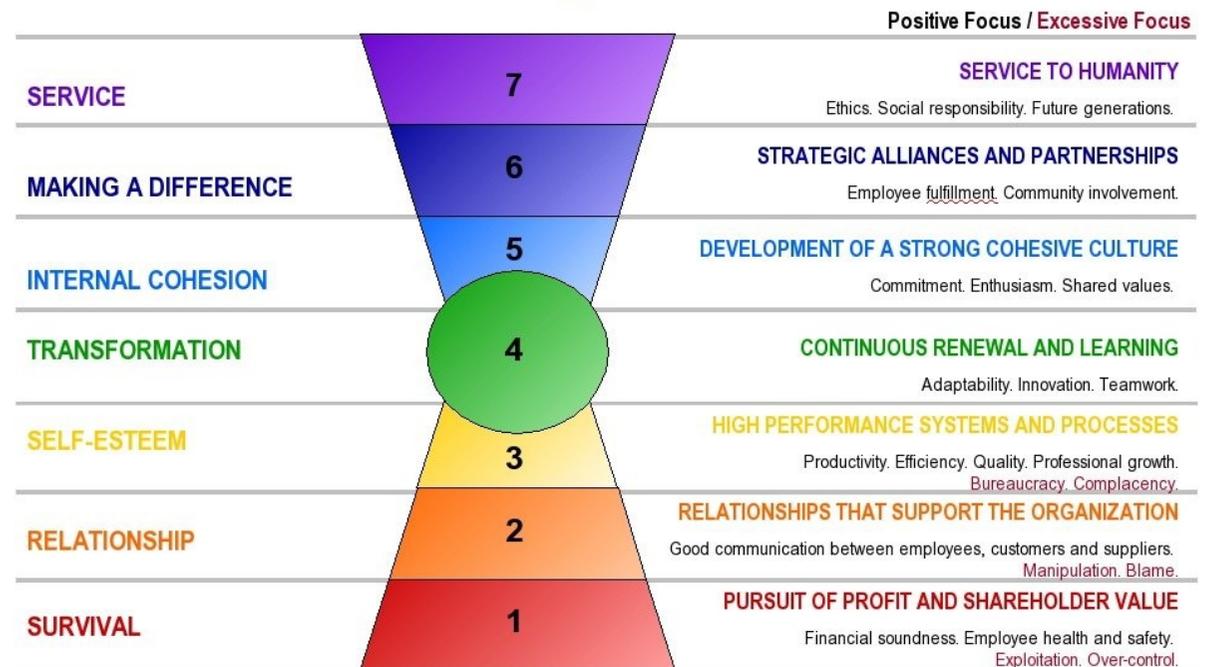
- Due diligence
- Debt is out, cash is in.
- Reduce top executive overheads. Facilitate employee equity buy-in.
- Reduce travel, but maintain relationships via phone and internet.
- Establish partnerships to reduce operating footprint while maintaining business.
- Negotiate professional service fees and long term contracts.
- Reduce inventories.
- Reduce investment.



# Business Action: People are your key

- Transform culture
- Focus on lifestyle
- Parallel decision making
- Mind mapping
- Open space
- Self-management
- Task sharing
- Manners work

## Seven Levels of Organizational Consciousness



Source: Richard Barrett



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