"The Worst of All Worlds": Don't Believe the Recovery Hype, Ortel Says

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Enjoy the last days of summer and the Labor Day holiday because there is "abundant cause for concern," says Charles Ortel, managing director of Newport Value Partners, an independent research firm.

A self-described optimist, Ortel nevertheless says the "worst of all worlds" is coming, characterized by falling asset prices and higher taxes, accompanied by a rising cost of core goods and services. Echoing the "stagflation" of the 1970s, he has coined the term "skew-flation" to describe what's ahead.

As to growing consensus the global economy is on the mend, Ortel believes both government "macro" data and corporate "micro" data are painting a much rosier picture vs. actual reality. The real macro story, he says, is there's too much productive capacity around the world and not enough demand. At the same time, private sector incomes are down while debt levels are up.

"We are still in the middle of systemic shock" and emergency government programs have temporarily kept the global economy on "life support," he says. "We think governments have little additional room left to continue to postpone the restructuring that's necessary around the world."

Other causes for concern include:

- A pending commercial real estate "meltdown" that will subject the banking system to another round of big losses.
- A true accounting for the costs of government bailouts to date, even as state and local governments face a massive crisis of their own. He believes a day of reckoning is coming where foreigners will refuse to fund America's runaway deficits at today's very low rates.

It's impossible to say when these issues manifest themselves in the market but Ortel says, yes, investors should beware the ides of September-October.

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