

Joseph Stalin plus 75 (years) = Vladimir Putin

Seventy-five years ago another Soviet thug by the name of Stalin chased a food supply and starved the Ukraine. He killed between 7 and 10 million people and thought nothing of it. In an ironic quirk of history, Stalin was born in Gori, Georgia.

We now say "Ukraine" and not "the" Ukraine because Ukraine is supposedly an independent country. The Orange Revolution was supposed to have peacefully freed it from the Soviet sphere. So much for wishful thinking.

Georgia's experiment with western-style freedom has ended. The modern-day Stalin looked in George Bush's eyes and seized the moment. Now Putin is ready to take Ukraine. Anyone who thinks the Georgia events were a one-off and isolated incident is overindulging on vodka.

Ukrainian president Yushchenko's attempt to limit Russian troop movements and obtain notice of them will fail. Putin will use this as the next pretext. We can learn from Georgia how brutal the Russian "ursus horribilus" can be when it chooses to send a message.

It will get harder for Mr. Putin when he starts to mess with Poland, Estonia, Latvia, and Lithuania. These are now member states of the European Union. So are others like Slovakia, Slovenia, and Czech Republic. The Russians may draw a line between the EU members and the EU nonmembers. They will use economic warfare against the former and military intervention against the latter.

All this leads to more trouble. The EU now faces a real solidarity test and it faces the need to think about defense expenditures.

The US faces so many issues now and has demonstrated a complete lack of power or even suasion or influence. American weakness is now at an extreme and invites more trouble. Putin leaned over to Bush and made nice at the Olympics opening ceremonies while knowing full well that he was presiding over an invasion about to commence. One has to be delusional to think the Russians could spontaneously stage a movement about the size of a full division, with complete air and naval support, without preparation and staging.

Other clues about their intention came from the cyber attack launched against Georgia during the three weeks prior to the invasion. In the old days an antagonist degraded infrastructure with bombing and long-range artillery before an attack. He introduced subversives and paratroopers to cut communication lines. Degrade communications and defense, and the attacker will improve his chances when the fighting gets intense.

In the present day the rules are different. Militarily, you must seize complete air control. Tanks are wonderful instruments of combat after you have achieved total air superiority. Without air support tanks are very vulnerable. When it comes to communications, we live in the cyber world. So bombard your enemy and undermine his websites and Internet backbone. That occurred in Georgia from the middle of July.

We saw other evidence of that approach in Estonia in the recent past. In Georgia's case most of the Internet backbone connects through Turkey. That makes it harder for Russian-based Internet service providers to disable or derail Georgia. They were only partially successful.

In Ukraine there will be a different story if Putin prepares to move. Watch the Internet traffic in Ukraine for clues about a forthcoming Soviet intervention.

For investment strategy, we have totally exited the Russian

connection in ETFs, and that includes the Central European emerging sector. Anything tied to Russia is now a very high-risk proposition. Also, we will underweight activity tied to foreign direct investment in former Soviet-sphere countries. Who would spend foreign direct investment money in Georgia now?

We also have taken the tech sector to a major overweight. The lesson from Georgia is in the cyber warfare arena. Worldwide upgrade in tech and defense from tech attack will lead to huge incremental spending. This will come on top of deployment of capital for business upgrades as the economy forces this spending on the fastest payback sector. Companies raise IT budgets first when coming out of recession or slowdown.

Tomorrow we are off to the Baltic on a Saturday night flight. Helsinki, Copenhagen, and Tallinn loom ahead. A CNBC interview on Worldwide Exchange is scheduled for Monday morning at 5:20 AM NY time.

In Tallinn, Estonia, the subject of the conference is energy and Central Europe and the Baltic and the dependency on Russia for energy. The festivities start next Wednesday night and end Friday morning.

For more details see: www.interdependence.org. There are a few last-minute seats in the GIC delegation for anyone interested in attending.

What a time to go to Estonia for this meeting which was planned about 10 months ago. Who'd a thunk it?