

# *America's Bubble Economy*

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## *Special Report*

### **Top 10 Strategies for Staying Afloat** **When America's Bubble Economy Sags** **Including 5 Costly Mistakes To Avoid Like The Plague and** **5 Wealth-building Ways To Cash In On The Coming Bubblequake**

#### **Have you noticed the bubbles yet?**

All across America, Real Estate is overpriced and starting to fall, the Dollar is on the decline, Consumer Debt is at an all-time high, the Trade Deficit is massive, and National Debt is now nearly \$9 trillion, with the federal government borrowing an astronomical \$7 billion a week. No matter what the “experts” say, the US economy is headed for trouble, and it's now up to each of us to understand what is coming and how to protect ourselves.

While most people ignore the warning signs, those who move quickly and correctly can position themselves now to cover their assets and profit from what will be the greatest financial opportunity of the coming decade. Here are five costly mistakes to avoid like the plague and five wealth-building strategies for cashing in on the coming Bubblequake.

## **Five Costly Mistakes to Avoid Like the Plague**

### **1) Don't Be Tempted by Falling Real Estate Prices**

Except for personal use, do not buy real estate for investment purposes no matter how good a “bargain” you think you've found. The Real Estate Bubble is popping in many areas of the country and housing prices will continue to fall in 2007. As we explain in the book, the Real Estate Bubble is just one of several linked bubbles that have been keeping the US economy afloat, and it will likely help pop the other bubbles, pulling the rest of the economy down.

Although there may be some growth potential left in some isolated real estate markets, the next two to six years are certainly not the right time to add to your real estate portfolio. Even if some markets rebound after a dip, any recovery will likely be short-lived, and the potential risks of investing in real estate over the next several years far outweigh the possible benefits.

We understand that this may seem dead wrong. Buying investment real estate has traditionally been a reliable foundation for building future wealth. But we have to face facts. American real estate is in a bubble. Since this housing boom was driven by the spectacular returns you could get in residential real estate and not the normal drivers of housing prices—income growth and population growth—it will come back down hard as those investment returns go from spectacular to negative. In some areas, very negative. Prices falling back to the level they were at in 2001 before the recent boom would not be at all surprising in some areas.

Long term, 3 – 10 years, the biggest factor affecting the housing market will be the dollar. If the dollar falls, interest rates will rise. If the dollar falls a lot, interest rates will rise a lot—potentially to 10% or 15% or even higher. The increasing and enormous trade deficit makes such a fall very likely. Not immediately, but during that 3 – 10 year period, almost a certainty. China can buy a lot of dollars to prop up the value of the dollar, but they will have increasing trouble buying them at the increasing rate we need them too.

Also, if the Federal Reserve doesn't start raising interest rates again, that will make it even harder for China to prop up the dollar, because the dollar will become less attractive to foreigners. Of course, if the Fed does raise interest rates, the higher rates will hurt the housing market as well. Seeing these connections in the various bubbles in our bubble economy is the key to the future performance of your investments.

As mentioned earlier, each individual situation is unique and we are not suggesting that we know what is in your particular best interest. It is important to consult a tax advisor before selling any real estate, particularly if you anticipate a capital gain.

## **2) Don't Be Tempted By an Irrationally Exuberant Stock Market**

There are three very important reasons to avoid stocks:

- The Dow is up *tenfold* in the 20 years from 1982 to 2002, while real earnings were up only threefold in that same time period. Therefore the current stock market is a bubble and all bubbles eventually burst.
- With the exception of recent months, the stock market has been performing rather poorly for the last five years, especially when you look at the inflation adjusted performance. All indexes in inflation adjusted terms are still down 10% or more from their peak in 2000. It is only a matter of time before investor confidence wanes.
- Like housing, the most significant factor in the market over the longer term will be the dollar. When it falls, it will cause interest rates to increase and stocks to fall.
- When stocks fall, the dollar will fall further, exacerbating the entire problem. Another example of the importance of the interrelationships between the bubbles of our bubble economy.

The Bottom line: Most stocks are overvalued. Will there be some ups and downs? Of course. Is it worth taking a chance on it? We think not. As with real estate, although there may be some potential growth left in the stock market, the timing is very tricky and

it's not worth taking the risk. In the short run, you are about as likely to lose as to gain, And in the long run, all you will do is lose significantly when stock values begin to seriously plummet. Again, we will show you much better places to put your money.

### **3) Avoid All Long-term Bonds and Bond Funds**

Interest rates will rise prior to the bubbles falling and will certainly rise very dramatically after the fall. Hence, there's little reason to invest in long-term bonds or bond funds now. The premium for long-term is far too minimal to be worth the risk. You can probably push it for another year or two, but for the small extra return, is it really worth it?

The declining dollar will force interest rates up thus lowering the value of long term bonds. Longer term, the huge federal government deficit makes the specter of high inflation a near certainty. Again, this isn't going to happen in the next few years, but as interest rates rise and the dollar falls, it will become increasingly difficult for the US to service its debt using taxes alone. The printing presses will have to start rolling at some point and when they start rolling, inflation will soar. Long term bonds will be a very poor investment.

### **4) Avoid All Adjustable-Rate Debt**

All adjustable-rate loans, credit cards, and mortgages will become an absolute disaster when the bubbles burst. Interest rates will rise dramatically and so will your mortgage and other payments if you don't get out of these soon. Now is a great time to lock in low long-term interest rates. Don't take chances; get rid of ALL your evil variable-rate mortgages and other big debts now!

If you have investment or personal-use real estate currently financed at a variable rate, unload these now, either by selling the real estate or refinancing the loan. If you don't, you will be sunk when the bubbles burst and your rate shoots way up. Get out now, while the getting is good.

### **5) Do Not Depend on Pensions**

Once the bubbles pop, high interest rates and high inflation, coupled with collapsing asset values and a slew of corporate bankruptcies will make most pension plans complete losers. Only plans that are almost entirely invested in short term treasuries will be protected. And there are almost not pension plans like that. Also, even now, during the best of economic times, many pension plans, including many state and local government pension plans, are seriously underfunded. Clearly, during the coming bubble meltdown, this will only get worse.

Even funds covered by the Pension Benefit Guaranty Corporation (PBGC) are at real risk once our bubble troubles get rolling because the PBGC could easily become overwhelmed. And funds not covered by the PBGC will be in even worse shape because

they probably won't be bailed out by the government, which will struggle mightily to deal with its own massive debt and massive interest costs.

## **Five Wealth-building Strategies for Cashing in on the Coming Bubblequake**

### **1) This Black Cloud Comes With a Golden Lining**

Once you have protected yourself, as suggested above, you (and your assets) will be free to move onto the really exciting part of the coming Bubblequake. Unlike any other bubble crash, in which all you can hope for is to not take too big a loss, this bubble crash will provide something truly unique: the opportunity to jump off one set of falling bubbles to catch a ride up on some other rising bubbles. The biggest of these will clearly be gold.

Part of the key to gold's high returns is that as the dollar falls, gold will rise. Also, difficult stock markets around the world will encourage investors around the world to put more money into gold. When high inflation finally hits the US, gold will likely rise even further.

As demands continue to rise for gold, and then rapidly rises when the other bubbles pop, the price of gold will shoot up. As the price of gold shoots up, gold buying is converted to speculative bubble buying, insuring a vast rise due to the typical conditions that propel a bubble upward. The rising gold bubble is your very best bet for profits during the coming Bubblequake.

Will the Gold Bubble fall back down? Of course it will; it's a bubble, isn't it? But why not go for the ride? This could be one of the longest rides of any bubble—10 to 20 years. Some people think we already have a gold bubble, that gold prices have reached their peak and are due for a fall. While the volatile gold market will continue its ups and downs, the overall trend is most definitely still up—way up once the dollar falls and the rest of the bubbles pop.

Think of gold as having two stages of growth over the next several years: the first, relatively small but profitable, and the second very large and very profitable. Although we view gold as a long-term investment—meaning the real upside won't start for another two to five years or more—there will likely continue to be good appreciation in gold in the meantime. Gold has already doubled in value since 2001 in a fairly consistent bull market and could easily double again in the next five years. While this increase pales in comparison to the coming growth in gold, doubling in five years is really quite good, certainly better than current stock market returns.

In the book, we explain several easy ways to buy gold, including buying :

- Gold Bullion Bars and Coins
- Gold from a Gold Depository
- Gold ETFs

## 2) Riding the Euro Express

As the Dollar Bubble falls, the price of the euro will rise dramatically. Euros won't have the same appreciation potential as gold, since gold has other factors pushing it upward in addition to the fall of the dollar, but euros will do very well during the coming Bubblequake.

Timing on the peak rise of the euro will be trickier than gold. However, the huge imbalance in foreign trade will put continuing pressure on the dollar. The U.S. Federal Reserve has and will continue to offset that by raising interest rates dramatically. But we can only raise rates for so long without damaging the economy a lot. As we have said, gold and euros are long-term investments, so now is about as good a time as any to buy.

Keep in mind that gold and euros tend to be highly volatile, so look at both as a long term investment.

In the book, we discuss how to acquire euros, including buying :

- Euro ETFs
- Physical Euros
- Short-term Euro-denominated Government Bonds

## 3) Betting Against the Stock Market

As we explain in the book, despite appearances, the stock market is in a bubble and heading for a fall. Many, many stock investors will get hurt, and there's no point in joining them. Either get out of the market now, or if you are experienced and confident enough, you can try your hand at playing with fire: betting against the market.

Most stock holders get happy when stock prices rise. But seasoned investors know they can make money in *any* stock market, on its way up or on its way down. There are three tools for extracting profit from a falling stock market: buying bear funds, placing put options, and shorting stocks.

The least risky way to bet against the market is to buy *bear market mutual funds*. These funds are often designed with varying degrees of emphasis on a down market. Some funds may be designed to track the market's decline. Other funds may be more aggressive and try to double the market's decline. It's like investing in income vs. aggressive growth mutual funds, except that it's inverted.

Another way to bet against the market that could produce higher returns, but could also be much more volatile, is to *buy put options* on stock market indexes such as the Standard & Poor's 500 index. The S&P index is known as the Spider—trading symbol is SPDR. Being based on the S&P 500, it is a broad market index that tracks the market as a whole. Such indexes are traded like stock and, as such, you can buy a put option against them. Of course, options by their nature are volatile and require a higher level of skill than most investors have. However, they also offer extremely high returns—like buying stocks on steroids.

Just as you can buy put options on indexes or even individual stocks, you can also *short stocks*. Clearly, this strategy will do well in a down market, but individual stocks are riskier than stock indexes. However, options are also more volatile and more difficult

to manage. Hence, there may be a role for the more sophisticated investor to short stocks in industries that are likely to decline most significantly, such as capital goods.

#### **4) Finding a Safe Place to Stash Your Cash**

In the short term, money markets are a fine place to keep your cash and maximize your returns. However, as we get closer to the Bubblequake, the risk of corporate bond and bank CD defaults increase, so we suggest eventually moving to short-term government debt mutual funds. As mentioned before, never put any of your money in long-term bonds—the small premium is just not worth the risk.

#### **5) Creating a Plan That's Right for You**

As they say on the TV ads, no one financial strategy is right for everybody. Creating a financial plan that is right for you means, first and foremost, determining your personal level of risk tolerance. In a traditional financial planning session, this assessment would look at two key factors: 1) How much money you have available to invest (the fewer assets you have, the lower your risk tolerance), and 2) Your age (the closer you are to retirement, the lower your risk tolerance).

To these, we'd like to add one more factor: 3) Your degree of confidence that America's Bubble Economy will, indeed, burst (the lower your confidence, the lower your risk tolerance).

In the book, we outline strategies for those with high, low, and medium risk tolerance. For this report, we will focus on the middle majority: *Medium-Risk Strategies*.

Let's say your retirement is still a ways off (in your 40s), you have a modest amount of investable assets (under \$500,000), and you have a modest concern about the likelihood of the coming Bubblequake. Or you are closing in on retirement (in your 50s) with a large amount of investable assets (\$500,000 to \$750,000), and have a modest concern about the future. Or your retirement is far off in the future, you have only modest investable assets, but you have a very high concern about the coming collapse of America's Bubble economy. Here are your potential medium-risk investment options:

**Gold.** We recommend that the medium-risk tolerance investor put 30 percent of their portfolio into gold now. We recommend leveraging the gold two to three times to improve your returns. Over the next few years, it would be smart to increase the percentage of your portfolio in gold to 40 to 50 percent. Keep an eye on our web site at [www.americasbubbleeconomy.com/goldtiming](http://www.americasbubbleeconomy.com/goldtiming) for more information on when to increase your gold holdings. You can also sign up at the web site to receive e-mail alerts.

**Euros.** Diversifying your portfolio is always smart and a good way to do that is to buy some euros. We would suggest putting 15 percent of your portfolio in nonmargined euro ETFs.

***Bear funds.*** We suggest putting 10 percent of your portfolio into bear funds. It is the easiest and safest way to bet against the market. Put options or shorting individual stocks is just too complicated and risky for the moderate risk tolerant investor. However, put options on market indexes are fine.

**[Customized Analysis for Your Industry, Business, or Investment Goals](#)**

Based on the ideas in *America's Bubble Economy*, the authors and their economic experts and experienced business valuers can apply rigorous economic analysis to a variety of industries and businesses. Individual investors, investment bankers and other investment professionals can also benefit from personalized consulting to suit their particular needs. Country-specific analysis can be customized for rapidly changing conditions in the United States, Europe, Asia, or the Middle East. For more information, please contact The Foresight Group at **800-994-0018**.

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