

# Wealth Creation and Preservation

WCandP.com

## Hot Topics: *Inflation*

Information you can use

Updated 4 February 2010

There hasn't been much to update in this section of the Hot Topics. We remain in that "schizophrenic" world where we actually have massive deflation on the one hand and consumer price inflation on the other. In theory, the value of the dollar should be increasing, and in terms of other commodities it has been for several weeks. However, corporations are desperate to generate profits, and they're doing everything they can to raise their prices as quietly and as quickly as possible.

How can we be in a deflationary period when the Federal Reserve is "printing" so many new dollars? The answer is simple; the huge number of dollars than Bernanke has printed still totals less than the amount of dollars destroyed in the economic collapse. We always like to think that there is counterparty in every trade; when the big banks lost billions as their toxic derivatives fell apart they should have been someone else on the other side of the trade who would have made immense profits, but that may not be the case. Clearly, as stock markets and housing prices fall, wealth and dollars evaporate into thin air.

Robert Prechter of Elliott Wave International is insistent that deflation is here to stay. He projects that stock and commodity markets all over the world are going to fall in a major way between now and 2014 -- 2015. On days like today (When the Dow Jones Industrial Average has been down as much as 240 points) it looks like he may be right.

### What can you do?

How can you protect yourself in a deflationary environment when consumer prices (except for housing) continue to rise? The simple answer is that you can't. Inflation hedges are just that; they help you to hedge or protect yourself against inflation. The only good deflation hedge we have is the dollar, but because we have no inflation in dollar terms interest rates are extremely low. *If you hold dollars or T-bills you simply cannot be adequately compensated for the loss in purchasing power brought on by the current consumer price inflation.* Most **foreign currencies** are going to fall against the dollar over the next several months, making them another place where you simply don't want to have your money.

There is one thing that you can do, but it involves significant risk. If you are a subscriber to my *Wealth Creation and Preservation* newsletter you may have a look at the "**inverse ETFs**" we are buying in order to profit as these markets fall. It is a strategy I have never used before, for these inverse ETFs didn't even exist a few years ago, and there is no guarantee that they will work even if the markets to fall. However, I believe that if they are carefully applied, these ETFs can at the very least offset the decline in the remaining stocks and ETFs we are holding onto. Today, in my "test" account with real dollars the inverse ETFs are beginning to prove their value.

In the meantime, be careful not to commit any of your money for the long-term. Interest rates cannot go much lower, to be sure, but they can certainly go much higher once dollar inflation begins again in earnest. You need to be very careful that you don't miss out on what's coming. This is the time to "keep your powder dry". Stash some cash in your fire-resistant and burglar-resistant safe at home which is bolted to the floor, and leave it there for the time being.

Don't sell your **silver**, especially because it's already too late and we are well below the recent highs. **Gold** has fallen significantly, but it might not be a bad idea to take some profits if you still can. Again, you can hedge against a decline in silver and gold by using

these inverse ETFs - if you know what you are doing.

Please take a look at the *Current Investment Recommendations* and the *WCandP Portfolio*. You will see some strategy changes and some changes in holdings. I fully expect to make money for my clients in 2010 despite the declining markets, and I would be happy to show you how you can do it as well.

### Not a Subscriber?

If you are not currently a subscriber to *Wealth Creation and Preservation*, we invite you to "try us out". If you purchase a copy of my new book *moneywise: Your Guide to Keeping Ahead of Inflation, Taxes, and the Declining Dollar*, you will receive a free two-week trial subscription to *Wealth Creation and Preservation*. During that time you will have access to everything on the [www.wcandp.com](http://www.wcandp.com) website, including my Current Investment Recommendations and my Recommended Investment Portfolio.