

Introduction

“Inflation is always and everywhere a monetary phenomenon.”

Milton Friedman

Inflation is coming. It is the inevitable result of past and current policies adopted by politicians and the Federal Reserve Bank (Fed) over the past two decades. Significantly higher inflation rates may still be a year or two away, but they will come and they will come with a vengeance. Count on it. There is only one way to finance ever increasing budget deficits and the \$100 trillion of unfunded entitlement programs and that is with a depreciated currency. And that is what inflation is: the death of money.

This book was written to help readers see what is coming down the road and prepare for it. We live in very confusing times. There are two powerful competing forces: asset price deflation brought about by credit contraction in the economy and monetary inflation provided by the Fed and government-related stimulus programs.

Stagflation is likely the next step on this road to financial ruin. Stagflation is the rare simultaneous occurrence of economic stagnation and inflation. I believe the stagflation we experience will be similar to the 1970s, but probably worse. Most people, including most investment professionals, do not understand how we can have inflation at the same time that we have a weak economy. The stagflation trap, as I refer to it, is very difficult to escape from because policies that help the stagnant economy tend to feed inflation and vice versa. This subject is discussed more thoroughly in Section I.

We now live in a foolish age of “funny money” (un-backed paper money that can be printed up out of thin air or created electronically). Currency debasement inflation occurs when people lose confidence in money’s function as a store of value and turn to alternatives, such as gold and silver, to fill that role. Confidence in money can be here one minute and gone the next. That is why I gave Section II the title of “Inflation Time Bomb.” When inflation comes, it will come quickly and catch most people by surprise.

In Section III of the book, I provide an investment strategy that should do well in just about any environment, but is especially well suited for the coming inflation. It is very important that you prepare for this financial storm

by building a firm foundation. From there, you can proceed to build wealth through wise investing in cash-flow generating assets and assets that maintain purchasing power. I provide a list of exchange-traded funds (ETFs) in Chapter 19 for investment categories that should do well in an inflationary environment:

- Gold and silver
- Energy
- Clean energy
- Food and water
- Emerging markets
- Materials
- Infrastructure

Shown below is a diagram of how I believe the financial storm will play out over the next five to ten years.

Financial Storm Diagram

