# HOW TO BEAT INFLATION SURVIVAL GUIDE

**By**

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# HOW $100 LOSES VALUE OVER TIME

**Pick the rate of inflation you expect and see what it does to the buying power of your money**

**NUMBER OF YEARS**

**RATE OF INFLATION**

| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 21 | 22 | 23 | 24 | 25 | 26 | 27 | 28 | 29 | 30 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1% | $99 | $98 | $97 | $96 | $95 | $94 | $93 | $92 | $91 | $90 | $90 | $89 | $88 | $87 | $86 | $85 | $84 | $83 | $83 | $82 | $81 | $80 | $79 | $79 | $78 | $77 | $76 | $75 | $75 | $74 |
| 2% | $98 | $96 | $94 | $92 | $90 | $89 | $87 | $85 | $83 | $82 | $80 | $78 | $77 | $75 | $74 | $72 | $71 | $70 | $68 | $67 | $65 | $64 | $63 | $62 | $60 | $59 | $58 | $57 | $56 | $55 |
| 3% | $97 | $94 | $91 | $89 | $86 | $83 | $81 | $78 | $76 | $74 | $72 | $69 | $67 | $65 | $63 | $61 | $60 | $58 | $56 | $54 | $53 | $51 | $50 | $48 | $47 | $45 | $44 | $43 | $41 | $40 |
| 4% | $96 | $92 | $88 | $85 | $82 | $78 | $75 | $72 | $69 | $66 | $64 | $61 | $59 | $56 | $54 | $52 | $50 | $48 | $46 | $44 | $42 | $41 | $39 | $38 | $36 | $35 | $33 | $32 | $31 | $29 |
| 5% | $95 | $90 | $86 | $81 | $77 | $74 | $70 | $66 | $63 | $60 | $57 | $54 | $51 | $49 | $46 | $44 | $42 | $40 | $38 | $36 | $34 | $32 | $31 | $29 | $28 | $26 | $25 | $24 | $23 | $21 |
| 6% | $94 | $88 | $83 | $78 | $73 | $69 | $65 | $61 | $57 | $54 | $51 | $48 | $45 | $42 | $40 | $37 | $35 | $33 | $31 | $29 | $27 | $26 | $24 | $23 | $21 | $20 | $19 | $18 | $17 | $16 |
| 7% | $93 | $86 | $80 | $75 | $70 | $65 | $60 | $56 | $52 | $48 | $45 | $42 | $39 | $36 | $34 | $31 | $29 | $27 | $25 | $23 | $22 | $20 | $19 | $18 | $16 | $15 | $14 | $13 | $12 | $11 |
| 8% | $92 | $85 | $78 | $72 | $66 | $61 | $56 | $51 | $47 | $43 | $40 | $37 | $34 | $31 | $29 | $26 | $24 | $22 | $21 | $19 | $17 | $16 | $15 | $14 | $12 | $11 | $11 | $10 | $9 | $8 |
| 9% | $91 | $83 | $75 | $69 | $62 | $57 | $52 | $47 | $43 | $39 | $35 | $32 | $29 | $27 | $24 | $22 | $20 | $18 | $17 | $15 | $14 | $13 | $11 | $10 | $9 | $9 | $8 | $7 | $6 | $6 |
| 10% | $90 | $81 | $73 | $66 | $59 | $53 | $48 | $43 | $39 | $35 | $31 | $28 | $25 | $23 | $21 | $19 | $17 | $15 | $14 | $12 | $11 | $10 | $9 | $8 | $7 | $6 | $6 | $5 | $5 | $4 |
| 11% | $89 | $79 | $70 | $63 | $56 | $50 | $44 | $39 | $35 | $31 | $28 | $25 | $22 | $20 | $17 | $15 | $14 | $12 | $11 | $10 | $9 | $8 | $7 | $6 | $5 | $5 | $4 | $4 | $3 | $3 |
| 12% | $88 | $77 | $68 | $60 | $53 | $46 | $41 | $36 | $32 | $28 | $25 | $22 | $19 | $17 | $15 | $13 | $11 | $10 | $9 | $8 | $7 | $6 | $5 | $5 | $4 | $4 | $3 | $3 | $2 | $2 |
| 13% | $87 | $76 | $66 | $57 | $50 | $43 | $38 | $33 | $29 | $25 | $22 | $19 | $16 | $14 | $12 | $11 | $9 | $8 | $7 | $6 | $5 | $5 | $4 | $4 | $3 | $3 | $2 | $2 | $2 | $2 |
| 14% | $86 | $74 | $64 | $55 | $47 | $40 | $35 | $30 | $26 | $22 | $19 | $16 | $14 | $12 | $10 | $9 | $8 | $7 | $6 | $5 | $4 | $4 | $3 | $3 | $2 | $2 | $2 | $1 | $1 | $1 |
| 15% | $85 | $72 | $61 | $52 | $44 | $38 | $32 | $27 | $23 | $20 | $17 | $14 | $12 | $10 | $9 | $7 | $6 | $5 | $5 | $4 | $3 | $3 | $2 | $2 | $2 | $1 | $1 | $1 | $1 | $1 |
| 16% | $84 | $71 | $59 | $50 | $42 | $35 | $30 | $25 | $21 | $17 | $15 | $12 | $10 | $9 | $7 | $6 | $5 | $4 | $4 | $3 | $3 | $2 | $2 | $2 | $1 | $1 | $1 | $1 | $1 | $1 |
| 17% | $83 | $69 | $57 | $47 | $39 | $33 | $27 | $23 | $19 | $16 | $13 | $11 | $9 | $7 | $6 | $5 | $4 | $3 | $3 | $2 | $2 | $2 | $1 | $1 | $1 | $1 | $1 | $1 | $0 | $0 |
| 18% | $82 | $67 | $55 | $45 | $37 | $30 | $25 | $20 | $17 | $14 | $11 | $9 | $8 | $6 | $5 | $4 | $3 | $3 | $2 | $2 | $2 | $1 | $1 | $1 | $1 | $1 | $0 | $0 | $0 | $0 |
| 19% | $81 | $66 | $53 | $43 | $35 | $28 | $23 | $19 | $15 | $12 | $10 | $8 | $6 | $5 | $4 | $3 | $3 | $2 | $2 | $1 | $1 | $1 | $1 | $1 | $1 | $0 | $0 | $0 | $0 | $0 |
| 20% | $80 | $64 | $51 | $41 | $33 | $26 | $21 | $17 | $13 | $11 | $9 | $7 | $5 | $4 | $4 | $3 | $2 | $2 | $1 | $1 | $1 | $1 | $1 | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| 21% | $79 | $62 | $49 | $39 | $31 | $24 | $19 | $15 | $12 | $9 | $7 | $6 | $5 | $4 | $3 | $2 | $2 | $1 | $1 | $1 | $1 | $1 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| 22% | $78 | $61 | $47 | $37 | $29 | $23 | $18 | $14 | $11 | $8 | $7 | $5 | $4 | $3 | $2 | $2 | $1 | $1 | $1 | $1 | $1 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| 23% | $77 | $59 | $46 | $35 | $27 | $21 | $16 | $12 | $10 | $7 | $6 | $4 | $3 | $3 | $2 | $2 | $1 | $1 | $1 | $1 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| 24% | $76 | $58 | $44 | $33 | $25 | $19 | $15 | $11 | $8 | $6 | $5 | $4 | $3 | $2 | $2 | $1 | $1 | $1 | $1 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| 25% | $75 | $56 | $42 | $32 | $24 | $18 | $13 | $10 | $8 | $6 | $4 | $3 | $2 | $2 | $1 | $1 | $1 | $1 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| 26% | $74 | $55 | $41 | $30 | $22 | $16 | $12 | $9 | $7 | $5 | $4 | $3 | $2 | $1 | $1 | $1 | $1 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| 27% | $73 | $53 | $39 | $28 | $21 | $15 | $11 | $8 | $6 | $4 | $3 | $2 | $2 | $1 | $1 | $1 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| 28% | $72 | $52 | $37 | $27 | $19 | $14 | $10 | $7 | $5 | $4 | $3 | $2 | $1 | $1 | $1 | $1 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| 29% | $71 | $50 | $36 | $25 | $18 | $13 | $9 | $6 | $5 | $3 | $2 | $2 | $1 | $1 | $1 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| 30% | $70 | $49 | $34 | $24 | $17 | $12 | $8 | $6 | $4 | $3 | $2 | $1 | $1 | $1 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 |

Money retains most of its original value

Money begins to lose SUBSTANTIAL value

Money loses over HALF of its original value

Money becomes WORTHLESS confetti

*** Values rounded to the nearest dollar for simplicity ***

***Be aware that the information presented in this book is for educational purposes only; it should NOT be taken as financial advice. You should do serious research and consult with a financial advisor before you commit significant money to any investment asset.***

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**New York City**

## TABLE OF CONTENTS

## INTRODUCTION

**This book has two parts. Its *beginning* provides strategies to "protect" from rising prices . . . and, perhaps, benefit from them. These procedures *immediately* deal with price inflation and can *improve* standard of living now . . . and into an uncertain future.**

**The *last part* of this book explains *price inflation's causes*. It goes into the "cascading" effect of Government actions. Understanding this helps "time" inflation-protecting tactics . . . based on whether price inflation is likely to speed up, or slow down.**

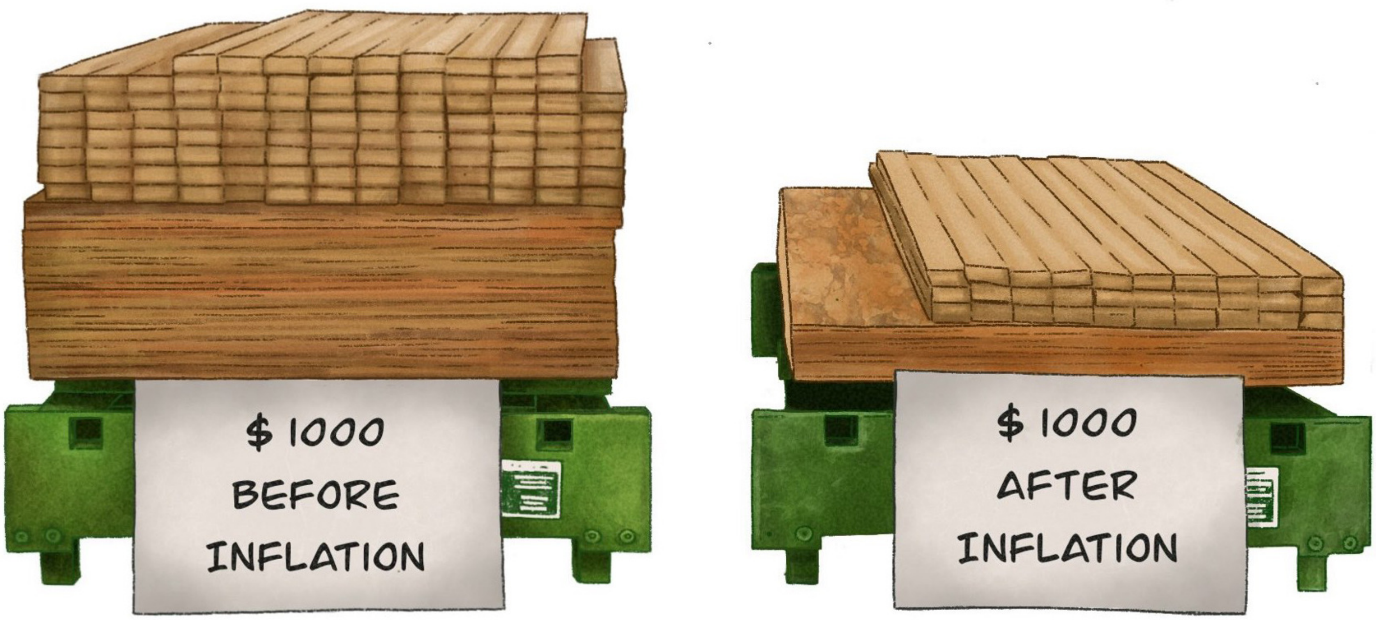
**Feel free to skip around in the book. It's table of contents is a roadmap of topics covered.**

**Good luck! Before your money turns to confetti....**

**PART I**

**STOP LIVING LIKE A PAUPER AND START LIVING LIKE A KING !**

**The wealth of kings was**
**made from the toil of servants.**
**Make inflation your servant**
**and reap the rewards.**




***Inflation causes prices to rise because your money has less value.***
***This means the same amount of money buys less and less each year.***


**CHAPTER 1**

**TRICKS TO BEAT INFLATION**

**During inflationary times you are forced to take consumer guerrilla actions . . . to become a financial Ninja!**

**Here are the first steps toward dealing with rising prices. Follow these techniques, and you will s-t-r-e-t-c-h your money further. This will leave you with extra money "left over!" Then, you can *invest* this money into assets likely to match, or possibly exceed, the rate of price inflation. Here are time-proven methods:**

**BUY IN ADVANCE**

**Beat inflation to the punch! Buy in advance. Once it was possible to buy things as you needed them . . . and save up money to buy major items. However, in times of skyrocketing prices, it's better to "buy now" rather than later. As prices continue to rise, you will then have a good supply of things that you will NOT need to buy at future "higher prices."**

**Buying in advance works for standard, non-perishable things like paper products, canned foods, sheets, towels, and other staples you are *sure* to need in the future. When you see them on sale, stock up. Also, take advantage of quantity discounts.**

**Storage space can be a problem, but price inflation makes it worth the time and effort to make the space. Be careful not to buy ahead of your needs on things that may become stale, outdated, or which you are not certain to use. Also, store food items so that newer purchases are put *behind* earlier ones. If necessary, write dates on labels. This way, older things will be used first.**

**Buying ahead also makes sense for major things like a house, car, or appliance. Consider your future needs. Will your family be growing? Are you approaching retirement? Will you be moving to another location? Buy a size, style, and quality of durable item that suits your *future* needs, as well as your present ones. After all, people end up keeping most things longer than they expect.**

**Look around for the best price you can find, and when you discover a good value, buy *now* rather than later. Even with limited storage space, you will be surprised how much money you can save by *advanced buying*. You'll find yourself using less expensive rolls of toilet tissue . . . long after the price has risen much higher. Your car purchase will have been a bargain, when a comparable model is selling for much more. Also, you may have been able to finance your car purchase at a lower interest rate . . . than later on, when interest rates rise much higher.**

**With a high rate of price inflation, there is no better investment for your money than "buying in advance." The money you save can go toward raising your standard of living . . . and buying things you *really* want.**

**Another possibility is to use the money you eventually save (from avoiding higher prices) and use it toward inflation-beating investments . . . which we will discuss later.**


## CHAPTER 2

### RAISE YOUR STANDARD OF LIVING . . . AND MAKE MONEY AT IT

**There is money hidden in your closets, garage, and attic! These places are bulging with unused, unneeded, and unwanted junk. What is "junk" to you can be "valuable" to someone else. In fact, a sign above an Antique Store once jokingly said, "We Buy Junk . . . and Sell Antiques!"**

***It is possible to raise your standard of living, and improve your surroundings, as much by getting rid of undesirable things . . . as through buying new things.*** **Try not to discard things that require replacements.** ***Then, without buying anything new, the overall, average quality of what you own will be raised.***

**Poor selection, changing styles, and low quality account for this unwanted accumulation. At one time or another, all of us have stumbled into buying things we eventually didn't really like.**

**Once you discover you no longer want or need something, you might as well get rid of it. Chances are, you'll never change your mind. In the meantime, it will be around cluttering your life and making you miserable as a reminder of your**

**poor decision at buying it.**

**To get clutter out of your life, you can:**

*** Sell it.**

*** Give it to charity for a possible tax deduction.**

*** Swap it for things you *do* want.**

*** Throw it away.**

**It's always nice to have extra money, and selling things helps raise cash. You'll be surprised how much money your unwanted things will bring. After all, one person's junk is another person's treasure. Repeat this process as often as necessary.**

**Try a garage sale. Check with used furniture dealers, pawn shops, and resale shops. If you live in an apartment building, put a sign in the laundry room listing what you have for sale. If you live in a home, put a sign in your yard, and have a *yard sale*, or *garage sale*.**

**Since it takes time and effort to sell things, you may want to give less salable items to charities. You can also give your unwanted things to a struggling friend, and make a real difference in that person's life.**

**Be sure to get receipts for gifts to charity, so you can take deductions on your income tax. This, too, will mean extra money in your pocket. Tax refunds always come in handy.**

**In addition, you can swap unwanted things with other people. Both of you will come out ahead. Swap sales can take place at a wide variety of large spaces. They are advertised in newspapers, on billboards, and on the internet, so you**

**shouldn't have any trouble finding them. Also, try swapping things with your neighbors.**

**Always look things over *very* carefully for hidden defects. Consider whether you *really* want the item. Be careful not to end up swapping one piece of junk for another. If you don't trust yourself, it's better to sell or give things away.**

**If all else fails, throw things away. Think of all the added closet and drawer space you'll have. You might even be able to get your car into the garage. Do more with less . . . pare down your possessions.**

**Happiness and a high standard of living don't mean eating off of gold plates. It's simply enjoying what is around you. A few carefully selected things can give more pleasure than a lot of clutter you don't really like . . . or want to look at!**

**Once your clutter has been eliminated, you'll have a good feeling about what you own, enjoy life more, and feel more successful. After all, isn't this what a high standard of living is all about!**


## CHAPTER 3

## SPEND TIME, NOT MONEY

**Spend more time comparison shopping. The money you save, finding better prices, is tax-free! The saying is, "A Penny Saved is a Penny Earned!" However, *you don't pay taxes on money you save through comparison shopping*. Thus, a "penny saved" comes out to *more* than a "penny earned" once you consider the effect of taxes. You don't lose part of the money you avoid spending . . . to income tax *and* sales tax!**

**However, thanks to price inflation, a "penny" doesn't buy anything anymore! And, before long, neither will a dollar!**

**Most of us are sloppy in our buying. We only look at a couple of stores and quickly buy. We're too lazy to spend enough time and effort comparing alternatives.**

**It's worthwhile to continually reevaluate products you constantly buy, like groceries, paper products, and gasoline. With inflation, some prices go up faster than others, changing the appeal of one thing relative to another. It's also**

**important to consider quality differences when evaluating prices. The quality of a particular product often changes in response to rising manufacturing costs.**

**Shopping around means dollar savings. The more major the item, the more worthwhile it is to shop around.**

**The secret of successful shopping is not only comparing price, but other factors as well:**

*** *Quality***
**(ease of operation, comfort, appearance, and trade-in value)**

*** Durability**
**(useful life)**

*** *Costs of Operation***
**(repairs, fuel, taxes, insurance, and throwaways needed)**

*** *Suitability to Your Needs***
**(Is it the right size and type? Will it go with other things you own? Do you really like it, or, will you grow tired of it?)**

*** *Functionality***
**(How easy is it to operate? Does it make your life easier and more efficient . . . or require less maintenance?)**

**These are usually *more important* than initial purchase price. Combined with purchase price, these determine how much "value" you receive for your money.**

**No matter what you shop for, it helps to comparison shop.**

**You can:**

*** Look at reviews and information on the internet.  However, be cautious of "fake reviews."  Sometimes "fake reviews" can be determined by *strange wording*, or too-good-to-be true comments.  Read all the product *specifications* as well.  Certain review sites and publications, such as *Consumer Reports*, give good information.**

*** Watch for advertisements of special prices.  There are certain times of year that companies traditionally offer "special deals."  Watch for these, and get on appropriate mailing and emailing lists.  However, be careful not to become "swamped" with too great an inflow of advertising.  Also, try not to become "too tempted" by the deluge of incoming offers!**

*** Ask friends who are familiar with products you are considering.**

*** Check on the internet, and also call around, to compare prices and deals.**

*** Ask salespeople about the strong and weak points of their own and competitors' models.**

*** You can often try a product at a large retail store, and then find a lower price on the internet.  Many retail establishments will price-match.  Be careful with "too good to be true" prices on the internet because they are often a scam!**

**At some point it is not worth looking further to compare values.  Transportation expenses, time, and hassle must be considered.**

**Eventually the costs of looking further equal any extra savings likely to be found.  Then it is time to stop looking and buy the best value you have discovered.**

**This approach leads to a *better price* than if you are lazy, just browse a**

**couple of stores, or buy whatever strikes your fancy.**

**Active comparison shopping *pays off* in dollars saved. You'll be pleased by the results!**


**CHAPTER 4**

**LEARN HOW TO BARGAIN**

**If you pay full price, you're often paying too much! It's amazing how few people ever question the price they pay in a store, or online.**

**In many countries, "bargaining over prices" is a way of life. In the United States, it's not nearly as widespread. However, a surprising number of opportunities exist where you can bargain for a lower price.**

**Often, you can *get a discount* when you deal with the *owner of a store or manager* of a department. Salespeople don't have much freedom to give discounts. The smaller the business, the better your chances for a discount, especially if you are a repeat customer. Small businesses will often give a discount when selling older inventory or a display model.**

**If you are alert to opportunities, more situations exist than you may realize. Try to get a:**

*** *Cash Discount***

It costs the merchant extra money to extend credit. He is out paperwork and billing costs. Merchants also lose 2%-3% when the customer uses a credit or debit card, and checks have a risk of bouncing. If you offer to pay with cash, ask for a small discount. You just might get it.

* *Quantity Discount*
Buying larger amounts from the merchant saves him money. Any time you buy more than people normally do, ask for a discount. One large sale is more efficient than many small sales, and the merchant will often pass the savings on to the customer if asked.

* *Professional Discount*
Teachers, doctors, lawyers, engineers, musicians, businessmen, and many others can refer extra business to a merchant. You can also offer to write good reviews on multiple websites. This is valuable to the merchant, so think of creative ways you can benefit the merchant, and ask for a discount in return.

* *Flaw-In-Merchandise Discount*
The merchant has a hard time selling damaged things. If you're interested in buying, he'll often give you a discount, just to get them off his shelf. This also applies to obsolete models.

* *Potential for Future Business Discount*
This is a quantity discount over time. If you are a new customer, or a regular customer, you can give the merchant a large amount of business over time. For this reason, he will often cater to you . . . and give special prices so you will keep coming back.

* Slow-moving Merchandise Discount
If you have been the store several times, and noticed that something you are interested in hasn't sold, you can ask the merchant, "Is this going on sale soon? I'm not interested in paying full price, but I'd consider it for less money." This will often spur the merchant to give you a discount because it's hard for him to resist a

**serious buyer for a slow-moving item.**

*** *Accessory Discount***
**Ask the merchant if he can *include some accessories or extras* in the basic purchase price. He may do this as a matter of course for customers who seem to be "wavering on the brink" of making a purchase. "Accessories" often have a much higher profit margin than the primary item. This makes it easier for the merchant to offer a "good" deal.**

*** *Sales Tax Discount***
**Ask the merchant if he can "absorb the sales tax." It will help if you seem to be wavering on the brink of making a purchase. Often people make their buying decisions on the basis of pre-tax price . . . then they balk at the after-sales-tax price. The merchant knows this and may give a discount equal to the sales tax.**

*** *Tight Budget Discount***
**Tell the merchant you like the item but are strapped for money and can't pay the full price. He may suggest that you pay a deposit so he can hold it until you pay the rest. Tell him you don't believe in doing things this way. He'll think your ideas are old-fashioned, but, if you are persistent, he may give you a discount.**

**When bargaining, don't act too interested. With practice you'll become better at using "body language" to appear disinterested and keep a "poker face" and be prepared to walk away from a bad deal.**

**Be alert to every opportunity for a lower price that comes along. As you gain experience, you'll be surprised how often you can get discounts from posted prices.**

**Discounts often run from 10 to 20 percent . . . but sometimes you can do much better. Slow-moving, damaged, and discounted items have the biggest discounts. Usually, something is *not* sold below the price a company paid for it.**

**Practice makes perfect. At first you'll feel uncomfortable asking for a discount . . . but, remember, you have every right to as low a price as you can get. Besides, bargaining can be fun. It's a challenge to see how well you can do.**


## CHAPTER 5

## BUY LASTING STYLES

**Your possessions don't need to be dreary and dull . . . but, you shouldn't be a passing fad collector either!  Barrels of money are spent every season on "the latest thing"--be it clothing, furniture, appliances, jewelry, and so on.  Merchants and manufacturers love to promote "styles," "fads," and "fashions" because *they sell more this way*.**

**You don't want to be "stuck" when styles change?  Most people can't afford to buy a new wardrobe every season.  Very few people have enough money to do this, plus it's wasteful.  With fad styles you'll soon get tired of what you own . . . spend too much money replacing things . . . and still feel "out-of-fashion" and miserable.**

**There is a solution to this dilemma.  *Buy lasting styles*.  These are the ones that are attractive and never look dated.  They involve subtle designs and subdued colors that are easy on the eye.  You'll never go wrong with classic styles.  That's why they are called "classic!"**

**Things to notice in your shopping are:**

| LASTING | CHANGING |
|---|---|
| * Easy to look at, again and again | * Tiring to look at |
| * Subtle colors | * Harsh colors |
| * Color combinations that blend well | * Color combinations that clash |
| * Smooth, flowing lines | * Sharp, abrupt lines |
| * Uncluttered designs | * Busy, cluttered designs |
| * Subtle, soothing patterns | * Bold, harsh patterns |
| * Balanced, pleasing proportions | * Awkward proportions |

Most things are not totally classic . . . or totally changing. The more classic, lasting features something has, the better value it is. It's more likely to blend in with changing styles without looking dated. Finding lasting designs is just a matter of looking. Also, go for the best, most lasting quality you can afford. All this just means being more selective in what you buy. *If you're not sure* something is lasting enough . . . *don't buy it*.

Manufacturers often try to disguise low-quality, shoddy merchandise with fads and fashions. The "latest fashion" helps them sell mediocre merchandise at higher prices. Moreover, it insures you'll be coming back for more . . . when styles change next season (or as soon as the shoddy quality gives out).

Lasting styles may not catch your eye as instantly as fad designs, but you aren't likely to grow tired of them either. Classic styles are timeless . . . they have staying power.

**This doesn't mean you must buy things that are dull and uninteresting. However, by selecting designs and colors that are less extreme, you will be able to keep things much longer.**

***Have you ever stopped to consider that very few things you replace are actually worn out?*** **We grow tired of most of our possessions, or they go out-of-style, long before they actually wear out.**

**So, to beat inflation and raise your standard of living, the classic look is the most economical way to go. This reduces your need to replace things at constantly rising prices. The money you save can go toward buying higher quality which looks better, wears longer, and gives added prestige and satisfaction in ways "always-going-out-of-date" things never do.**


## CHAPTER 6

## TRICKS TO WASTE *LESS* MONEY

**Stop dribbling your money away! The less money you spend on unimportant things, the more you'll have for things that *really* matter.**

**Here is how you can stretch your money farther:**

*** *Shop Less Often.***
**This reduces your exposure to wasteful, impulse purchases.**

*** *Don't Use Shopping for Diversion or Entertainment.***
**You're bound to see things you want to buy. It's too easy to dribble money on "nothing-purchases."**

*** *Is It Important?***
**Before spending money on *anything*, ask yourself if it is *really* important. And, will it be important in the future?**

*** *Don't Take Credit Cards, Debit Cards, or Much Cash With You.***

**When "comparison shopping" bring only minimal cash and, if possible, avoid bringing credit or debit cards with you. This will prevent "impulse buying." Good values are worth another trip, and this gives you extra time to think about it.**

*** *Buy Used, Rather than New.***
**You get more for your money in long-lasting, durable things like a car, furniture, or jewelry when you buy used, rather than new. However, do careful research and inspect items carefully. If appropriate, have an expert evaluate potential purchases.**

*** *Use a List When You Shop.***
**Do careful research, look at sales promotions, and make a list. Then, buy *only* what is on the list.**

*** *Fix Things Yourself.***
**Learn how to do simple repairs. It's easier than you think. Online videos and books are available on home, car, and appliance repairs.**

*** *Pride and Vanity are Costly.***
**Don't buy things just to polish your ego. Weddings, parties, funerals, clothes for social occasions, and cars for personal use are as expensive as our vanity requires. Money spent on them is soon gone. Advertisements for expensive cars, designer clothes, and cosmetics cater to the ego in all of us. Recognize these urges for what they are . . . and resist them.**

*** *Take Better Care of Things You own.***
**Price inflation means higher replacement costs. Buy the best, longest-lasting quality you can afford, and take good care of your possessions. They'll last longer than you realize.**

**These tricks add up to big savings. After all, why dribble money on unimportant purchases when, with a bit of planning, you can really make your money count!**


## CHAPTER 7

## RETIRE IN COMFORT

**Reduce living costs in your old age. Retire in a low-cost-of-living area.**

**Certain places in the United States are much cheaper to live than others. The South and Southwest are less expensive than the Northeast and Upper Midwest. Also, small towns are usually cheaper than large cities.**

**As you approach retirement, take a series of trips to see where you want to retire. You might start looking in Alabama, Arizona, Florida, Georgia, Louisiana, Nevada, New Mexico, South Carolina, Oklahoma, Texas, and Utah. The most expensive retirement areas are in the Northeastern United States and California—because of high taxes and utilities.**

**Factors you should consider in selecting a retirement location are:**

*** Inexpensive Housing**

*** Low Taxes**

*** Freedom From Oppressive Regulations**

*** Low Utility Rates**

*** Medical Services**

*** Adequate Shopping**

*** Pleasant Environment**

*** Opportunities to Pursue Your Hobbies**

*** Mild Climate (For Lower Heating and Cooling Costs)**

*** People You Enjoy**

*** Opportunities for Part-time Work**

**It isn't necessary to make an extreme change, such as from a big city to a small, rural town. But, your retirement costs can be greatly reduced by moving to a smaller, less expensive city . . . or farther out into the suburbs. This still provides many of the advantages of a metropolitan area. Or, you might decide you like the change to small-town living after all.**

**In some cases, a home can be sold in a high-cost-of-living area . . . and the proceeds used to buy several homes (or a duplex apartment) in a less expensive area. You can then live in part of the space, and rent out the rest for extra income. Or, you can buy just a single, inexpensive home and place the remaining money in other investments.**

**Carefully scrutinize so-called "retirement communities." They may, or may not, suit your needs. Look at the activities available, other residents, and price of**

**housing. No two are exactly alike, so check them out thoroughly. The brochures and sales pitches are always impressive, but keep in mind that developers created them to make a profit.**

**You may find cheaper, and better, places to retire. Living close to younger family members offers many of the same benefits as a retirement community at a much lower cost. Family members are more likely to be there when you need them, and you can offer assistance to them as well.**

**Besides moving to another part of the United States, consider retiring in a foreign country. If you speak, or are willing to learn, another language, consider other countries where living costs are lower than in the United States.**

**Visit countries and locations you are considering. Consult experts and attorneys, and do plenty of research before making your decision. Take into account political stability in the country . . . and where price trends and exchange rates are likely to go.**

**With careful research you can retire where living costs are lower, stretching your money farther and giving you a higher standard of living.**


## CHAPTER 8

## SUMMARY OF TIPS

**Use the suggestions in this chapter which suit your needs. You'll be surprised how much money these tips can save you. In summary:**

*** Buy in Advance**

*** Sell Unwanted Things**

*** Comparison Shop for Best Values**

*** Bargain**

*** Buy Lasting Styles**

*** Match Things More Closely to Your Needs**

*** Shop Less Often**

*** Don't Use Shopping for Diversion or Entertainment**

*** Question All Purchases**

*** Carry Very Little Money**

***Avoid Impulse Purchases**

*** Buy Used Rather Than New**

*** Use a List When You Shopping**

*** Fix Things Yourself**

*** Avoid "Ego" Purchases**

*** Take Better Care of Things You Own**

*** Retire in a Low Cost-of-Living Area**

**The money you save can be invested in a higher standard of living. It can also be invested to beat inflation. Coming chapters will tell you how.**


**CHAPTER 9**

**RAISE YOUR STANDARD OF LIVING . . . AND BEAT INFLATION**

**Make your money count; don't dribble it away. During inflationary times it pays to "invest" in high-quality, long-lasting things.**

**This not only raises your standard of living . . . it also increases your wealth. Most important, these long-lasting possessions hold their value in times of soaring prices.**

**In life, you have a choice of spending your money on four things: services, disposables, durable consumer goods, or investments. Some of these can be money dribblers; others are excellent inflation-beaters.**

***Services* are things like travel, entertainment, and restaurant meals. These leave nothing to show after they are consumed. The money spent is gone forever.**

***Disposables* are necessary, but they are used up very quickly. Examples are food, gasoline, paper products, and toothpaste. Here again, you are left with nothing to show for your money once these things are gone.**

**_Durable consumer goods_, on the other hand, give you something long-lasting to show for your money. Examples of durable consumer goods are a car, stove, refrigerator, computer, and hair dryer, to name a few. You can enjoy using these for many years, and even sell them "used" for a large percent of their original price.**

**Finally, you can put your money into _investments_. Examples of traditional ways to "invest" your money are bank savings accounts, corporate and Government bonds, and shares of companies bought on the stock market. The annual earnings you receive from bank accounts and bonds are subject to Government taxation. Any stock "dividends" paid out by corporations are also subject to Government taxation. The rate of return from bank accounts and bonds are usually _less_ than the rate of price inflation, and to add insult to injury . . . their meager returns are taxed by the Government.**

**Stocks sometimes do very well, but their prices can often fluctuate widely. Then, if you _do_ sell the stocks at a "profit," the Government _taxes_ that "profit." However, if you are fortunate enough to find an expert who can "manage" your investment properly in the stock market, it is possible to do extremely well.**

**But, be careful! There are many money managers who charge sizable "commissions" such that much of any "gain" in the stock market is consumed by their management fees. Trying to do the research and manage stock purchases and sales _yourself_ is tricky business. The classic joke is, "To end up with a 'small fortune' in the Stock Market, it is sometimes necessary to start out with a 'large fortune!'"**

**As price inflation rises to higher and higher levels, some companies listed on the stock exchanges may experience problems finding raw materials . . . and in retaining experienced workers. At a high enough level of price inflation, investing on the Stock Exchange can be a "minefield." Whole industries, and even the entire stock market can take a severe drop.**

**During times of high inflation, investment "tangibles" are the classic way of protecting yourself. Examples are real estate, antiques, precious metals, diamonds, and high-quality jewelry. In countries like India, it is traditional for women to hoard gold jewelry. In locations where monetary systems are not "sound," people look for tangible things they can own . . . rather than money.**

**As a result, *how* you spend your money determines if you survive inflation . . . or are a slave to it. A good approach is to spend much less on "services" . . . like restaurant meals, haircuts, and travel.**

**Also, buy less, and possibly lower quality, "disposable goods" . . . like paper towels, etc. Then, invest the money you save, from these actions, into buying higher-quality durable consumer goods . . . and, most importantly, into buying investment tangibles.**

**To cut down on services, keep restaurant meals (and ordering takeout deliveries) at a minimum, don't take unnecessary trips/vacations. That coffee you buy at Starbucks every day, and lunches out, can add up to a lot of money over time. Take a "staycation," and do things locally, when you have time off from work.**

**Perhaps "go camping," rather than staying at an expensive resort. When you *do* eat in a restaurant, choose a less expensive restaurant, and order "conservatively." You *don't deserve* the most expensive thing on the menu. Do you *really* need dessert and that "special drink?" Drinking tap water is MUCH cheaper! Desserts and soft drinks are how fast food restaurants add enormously to their profit margins! The hamburger at is a "cheap" price . . . so you will think their overall prices are reasonable. However, restaurants make a really "big profit" on their desserts and drinks! So, it is wise to eat in less expensive restaurants, eat out less often, and order conservatively.**

**It is often worth taking the time to learn how to perform many common**

**services on your own. For example, learning how to cook a "restaurant quality" meal at home will save a fortune over your lifetime. Investing time learning valuable new skills is especially useful during times of high inflation. You can then trade use of these skills with friends, and save money while enjoying companionship. Additionally, the Government hasn't figured out how to tax bartered services yet . . . but I'm sure they are working on it.**

**To save on disposables, buy the lowest quality that suits your needs. Whenever possible, use supermarket house brands and no-frills lines in food items and paper products. The exception to this is healthy food. Do not cut corners on healthy food. Living a healthy lifestyle is substantially more cost effective than paying for expensive medical services later on.**

**The money you save on services and disposables can be used to buy long-lasting investment tangibles. These provide nicer surroundings and convert your wealth into a form that is protected in times of soaring prices.**

**"Quality" is the key. There is an old saying that, *"It hurts only once to buy good quality. It hurts many times to buy low quality!"***

**High-quality *durable consumer goods* give pride of ownership and last longer before they need to be replaced. They hold more of their value for resale and trade in. Repairs are less frequent, and therefore less costly. Of course, it goes without saying, with high-quality possessions it is important to take very good care of them.**

**It also pays to buy high-quality "investment tangibles." This gives the dual benefit of *lower dealer markup* and *greater ease of resale*. For example, the difference between wholesale price and retail price is usually much smaller on a high-quality diamond than for a lower-quality stone. (Of course, work with a reputable dealer and do careful research.) A well-maintained house in a good neighborhood sells more readily than one in run-down condition in a less desirable neighborhood.**

**Good value is where you find it, though. It is possible to overpay for both high-quality and low-quality items. Don't be foolish and overpay merely to get higher quality. Only careful research and comparison of values helps you decide what is a good value. *Always keep in mind what you can resell an item for. This is a good way to avoid overpaying. It also helps to focus your investments in areas where you have expertise.***

**In buying durable consumer goods, don't confuse price with quality. The two don't always go hand-in-hand. It's true that higher quality often costs more, but *extra features also increase price* . . . and they often add nothing to the item's quality. For example, an automatic ice cube maker and cold water tap on a refrigerator merely add to operating and maintenance costs . . . without adding to durability. Extra features are something quite apart from higher quality . . . and should only be considered if they meet your needs.**

**Snob appeal can also add to price without adding to quality. Designer labels and being "imported" from Europe don't necessarily mean higher quality.**

**Genuine high quality is when something is built better so it lasts longer, costs less to repair, operates more efficiently, and has higher trade-in value. These savings are important in times of skyrocketing prices. As a rule of thumb, what you pay extra for higher quality should be less than these expected savings.**

**If you can't afford high-quality "new," then buy high-quality "used." You will still get good value for your money this way.**

***For best prices, cut out the middleman.* Consider buying "used" *durable consumer goods* and *investment tangibles* directly from individuals or at auctions. However, "buyer beware" is the watchword. Inspect for hidden flaws. Watch out for "false bargains"--like cars that use too much fuel, appliances that need extensive repairs, or a house that is too costly to heat.**

**With careful shopping, price savings from "buying used" can outweigh lack of guarantees found on new products. Also, when "buying used" you can *resell*, if necessary, for a larger part of what you paid than if you bought new. *You can also consult a friend who has experience with the type of item you are looking to purchase.***

**"Investment tangibles" are a better inflation hedge than "durable consumer goods." Durable things like cars and appliances wear out—reducing their value—while investment tangibles like real estate last indefinitely with proper care. Besides, there is usually a smaller gap between wholesale and retail prices of investment tangibles than with durable consumer goods. As a result, investment tangibles can usually be resold for a larger percent of what you paid for them.**

**The secret of beating inflation is to convert your traditional assets (like bank accounts and bonds) into investment tangibles. An initial loss occurs in this process of conversion, but it is small compared to the buying power otherwise stolen by high inflation and heavy taxes over time.**

**Furthermore, it is important to time your purchases and sales with the business-inflation cycle . . . buying when price inflation starts rising from a low rate, and selling when it starts dropping from a high rate. (This technique is detailed in a later chapter.)**

**In summary, spend *less* on *services* and *disposables* so you'll have more money to invest in long-lasting things. Along with the pleasure these possessions provide, your increased wealth will give you an extra measure of control over your life and serve as an excellent hedge against price inflation.**


**CHAPTER 10**

**BUDGET TO BEAT INFLATION**

**As price inflation tightens its grip . . . we are forced to cut back on our lifestyle.  Fixed obligations press us to the wall.  We must work longer and harder, and we still have less to show for our efforts.**

**Yet, there is a way out.  Good budgeting!  Budgeting can restore discretionary income (income we have control over), and it can build material wealth.  What we need is an "investment budget!"**

***A "budget" is a plan of what you expect to earn and how you intend to spend it over time.*  This may exist only in your mind, on a computer, or on a piece of paper.  However, very few people *budget* systematically.  They are haphazard and fail to see their budget pay off in growing wealth.**

**The first step in any budget is to estimate your income and expenses.  *Many people overestimate their income and underestimate their expenses.*  This leads to trouble!**

**Income "extras" such as overtime pay and job bonuses should *NOT* be included in your estimated income. *These can't be counted on* . . . they're just icing on the cake.**

**Furthermore, allow a "cushion of extra money" in your budget to take care of unexpected expenses. Repair bills have a way of hitting us when we are *least* able to pay for them. One month . . . the car breaks down, another month the roof needs repair, next the water heater stops working. Also, what about buying special "bargains" that can't be passed up? Often a "special deal" comes up at a wonderful price; it is very difficult to pass up! Each month something different hits you and "throws off" your planned budget.**

**So, be sure to allow enough money for "unexpected expenses!" *This is the "make-or-break" area of most budgets*.**

**Now, will your budget work? Subtract all your expenses from income. For example, subtract: taxes, social security withholding, health and other insurance, housing, utilities, food, transportation, payments on debt, clothing, entertainment, and so on.**

**Is anything left? If not, start cutting back on your expenses until extra money is left over. Now you have a "survival budget" . . . but it *doesn't* build wealth and beat inflation.**

***You need an "investment budget" to build wealth and beat inflation. Take your basic survival budget and go one step further. Cut expenses until another 5 to 10 percent of your income is left over. (This is beyond the cushion for unexpected expenses.) Then at the BEGINNING of each pay period, take this 5 to 10 percent of your money and set it aside to buy material wealth . . . primarily investment tangibles. Take this money out BEFORE you spend on anything else.***

**Sometimes the only way to have this money is to cut back on your fixed obligations. Your lifestyle may suffer for a short time, but you'll soon move ahead**

**into a higher standard of living as your wealth accumulates.**

**Most people carry their budget in their heads. They make minor changes as necessary. If they are running short of money, they cut back. If they have extra money, they soon find ways to spend it. A *mental budget* isn't always successful because it's easy to overspend.**

**At the other end of the scale is a *formal budget*. Everything is worked out . . . from planned income to itemized purchases. Often, an "expense record" is used is used in which all spending is recorded. A fully formal budget tends to be too rigid for many people . . . even though it's usually the most successful way of budgeting.**

**A word of caution. Don't try to put too much of your paycheck toward accumulating wealth. You'll be too squeezed to buy essentials, and may be tempted to "junk the system." Put *only* a "comfortable amount," say 5 or 10 percent of your pay toward building wealth. It should be an amount you won't really miss out of your paycheck.**

**This 10 percent saved during every pay period may not seem like much, but it will really amount to something over time. You will be using this money to buy long-lasting investment tangibles that hold their value.**

**To buy investment tangibles that cost more than you can afford out of a single paycheck, borrow the money to buy them. Then, use the 5 to 10 percent from every pay period to pay off the loan. *This works well if you can borrow at a lower interest rate than the projected rate of price inflation. Be careful not to borrow more money than you can pay off if you have a drop in income!***

**Do you remember that bonus money and overtime pay mentioned earlier? If you're lucky enough to receive it, put a small part of it into a fun/entertainment category . . . and the rest into *investment tangibles*. This will reward you for your good budgeting, and at the same time help you raise your standard of living and beat inflation by accumulating more tangible wealth.**

**Eventually, you can use your growing tangible wealth to borrow money for additional investment tangibles . . . and leverage your holdings to beat inflation further. (This will be discussed in the next chapter.)**

**The main thing is that, with an *investment budget*, part of your income will go into building tangible wealth that keeps up with price inflation. This, in turn, will provide financial security and more control over your life. You will then have inflation-protected buying power you can use at any time.**


## CHAPTER 11

## BORROW TO BUILD WEALTH AND BEAT INFLATION

**You can make a profit *borrowing money* (but you must be VERY, VERY careful). The trick is knowing *what* to buy and *when* to buy it. Also, you must be *sure* you have an income stream which can handle your payments for the borrowed money!**

**When you use borrowed money to buy "investment tangibles," you *can* come out ahead. Their dollar value typically increases with inflation, while the dollars you pay back become worth less than those you borrowed.**

***Too much money* issued by the government causes price inflation. At the same time, competition to loan out this excess money drives down interest rates to borrowers. As a result, you can often borrow money at an interest rate *lower* than the inflation rate.**

**To top it off, interest payments on borrowed money are often tax deductible . . . further lowering your borrowing costs by the percent tax bracket you are in.**

***To build wealth, use credit ONLY to buy investment tangibles*—things like real estate, precious metals, antiques, and so on. These don't wear out, and they tend to hold their value relative to price inflation. After a few years, your debt will have been paid off in inflation-cheapened dollars, and you will own these assets outright.**

**Using borrowed money to buy investment tangibles is worthwhile any time the after-tax interest rate you pay is *lower* than the inflation rate. This has been the case most of the time in recent years.**

**Occasionally, the after-tax interest rate you pay to borrow money is *higher* than the inflation rate. This occurs at the peak of a business cycle. At such a time you will not make a profit, so *do not* borrow additional money if the interest rate is too high. In fact, at this time, consider selling some tangible assets to pay off debts . . . unless transaction costs make this too expensive. Sell investment tangibles that look less promising for future price appreciation, and keep those that seem more promising. As an economic recession follows this cycle peak, and offers lower interest rates, new investing opportunities will eventually appear. (Investment timing will be discussed in a later chapter.)**

**Occasionally you must borrow to buy durable consumer goods that you need —like a car or major appliance. This *won't* build wealth, since durable consumer goods usually can't be resold for nearly as much as you paid for them. Chances are, the consumer durable goods you buy with borrowed money will wear out, or lose most of their value by the time the money is paid back. *Quality* plays a *huge* role in how long something will last and what its resale value might be. C-a-r-e-f-u-l-l-y evaluate the "quality" of anything you buy.**

**By all means *avoid borrowing money to buy services and disposables*. Happy memories can't be resold to pay off debts. Furthermore, small, impulse items usually have no resale value. A sure way into the poor house is using credit to buy services and disposables. These are quickly gone, and you still owe the money. *Borrow to accumulate assets, not memories*.**

*With price inflation, the money you borrow is working for you when you buy investment tangibles.* This *isn't* the case when you borrow money to buy services such as entertainment, travel, restaurant meals, and so on. The situation is neutral . . . or somewhat against your benefit when you borrow money to buy durable consumer goods such as a car, furniture, or appliances.

The accompanying list gives a general idea of the "lifespan" and "resale value" (under good circumstances) of various items. To build wealth, credit should *ONLY* be used to buy things with extremely long lifespans and high resale values. In effect, don't use credit to buy things at the top of this list . . . use credit to buy things toward the bottom of the list:

## LIFESPAN AND RESALE VALUE

### SERVICES:

Examples: Travel, Restaurant Meals, Concerts
Lifespan (Gone as soon as consumed)
Resale Percent in Constant Buying Power (None after consumed)

### DISPOSABLES:

Gasoline, Paper Products, Food From Supermarket
Lifespan (Gone as soon as used)
Resale Percent in Constant Buying Power (Not Practical)

Shirt, Trousers, Blouse, Dress
Lifespan (1-3 Years)
Resale Percent in Constant Buying Power (Negligible)

Gold Plated and Costume jewelry
Lifespan (1-5 years)
Resale Percent in Constant Buying Power (Negligible)

**Men's or Ladies' Suits**
**Lifespan (3-7 years)**
**Resale Percent in Constant Buying Power (Negligible)**

**DURABLE CONSUMER GOODS**

**Low-Quality Furniture**
**Lifespan (3-10 years)**
**Resale Percent in Constant Buying Power (Negligible)**

**High-Quality Furniture**
**Lifespan (Indefinitely)**
**Resale Percent in Constant Buying Power (20-30%)**

**Car, Refrigerator, Stove**
**Lifespan (8-15 years / Depends on quality, care, & usage)**
**Resale Percent in Constant Buying Power (declines quickly)**

**INVESTMENT TANGIBLES**

**Antiques**
**Lifespan (Lengthy)**
**Resale Percent in Constant Buying Power (Variable 20-40%)**
**(Be VERY Careful of flaws which reduce value.)**

**14 or 18 Carat Gold Jewelry in a Classic Design**
**Lifespan (Indefinitely)**
**Resale Percent in Constant Buying Power (20-40%)**

**Diamonds**
**Lifespan (Indefinitely)**
**Resale Percent in Constant Buying Power (40-60%)**
**(Evaluate VERY Carefully for Cut, Color, Clarity, and Carat Size.)**

**Gold - Bullion Coins (Such as Krugerrands)**
**Lifespan (Forever)**
**Resale Percent in Constant Buying Power (80-90%)**

**House and Other Real Estate**
**Lifespan (Indefinitely with Repairs and Upkeep)**
**Resale Percent in Constant Buying Power (80-90%)**

**The above information is merely intended to provide "general" guidelines. The indicated price spreads are "estimates" for more or less normal transactions under favorable circumstances. Also, keep in mind that ALL these tangibles fluctuate considerably in price as market forces vary.**

***Prices can easily fluctuate outside the ranges suggested above.* Also, *it may take considerable time and marketing effort in order to sell* any of these tangible items.**

**Unfortunately, all these tangibles suffer the following drawbacks: A "Gap" between purchase and resale price, Time and Effort Needed to Resell, "Buyer Beware" Purchasing (where you must be VERY CAREFUL of quality and flaws). These are "drawbacks" you will face . . . as you try to escape the devastating loss of buying power your money has due to price inflation.**

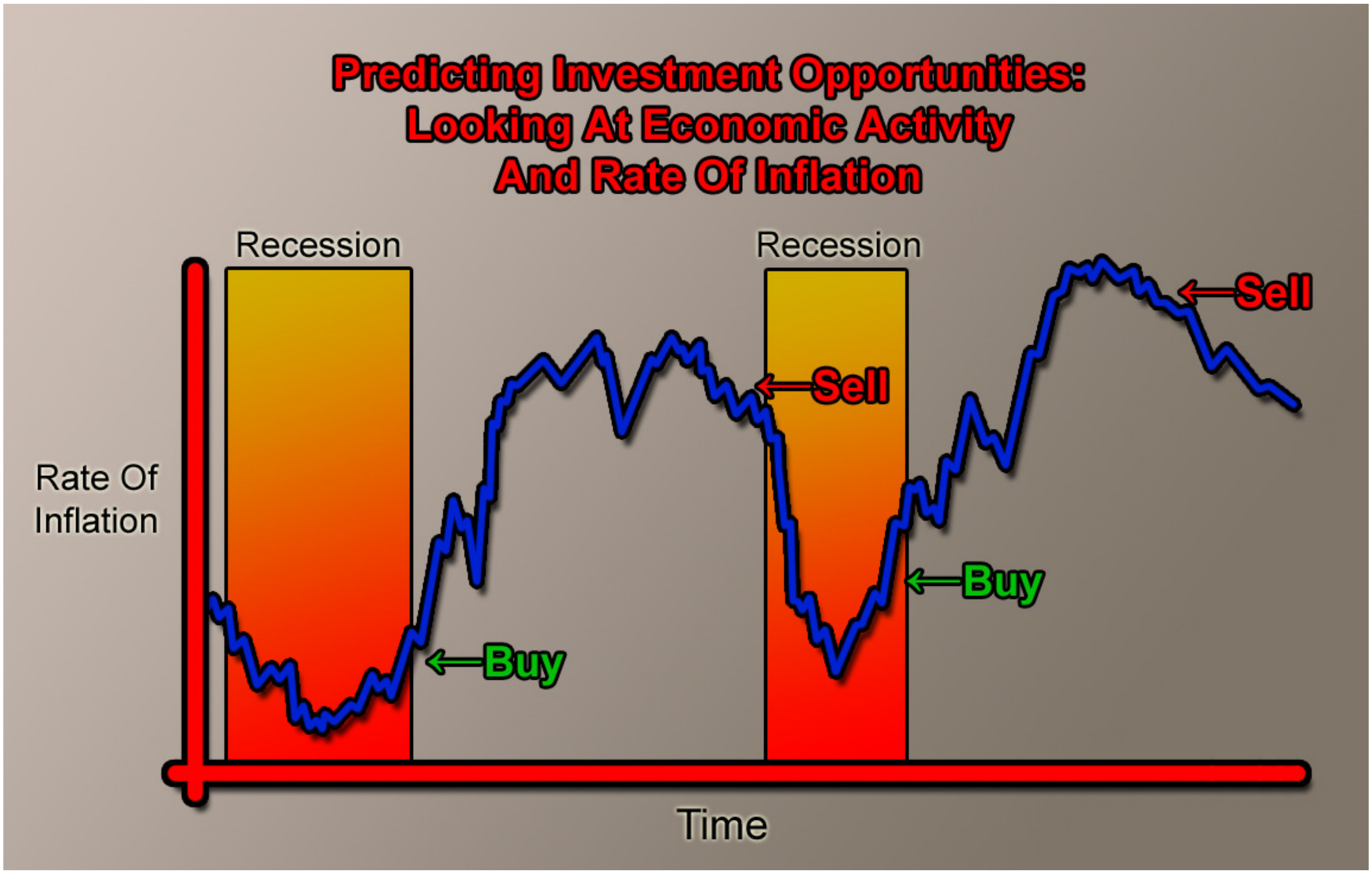
**Dealing with a bank, for example, is quick and easy. However, with a high rate of price inflation, your money in a bank quickly loses its purchasing power. Price inflation is VERY corrosive to our economy, and the best you can do individually is to protect yourself as best you can.**

**The more nearly something is to being an investment tangible, the more worthwhile it is to borrow money to buy it . . . but *only* if you can borrow at an after-tax interest rate lower than the rate of price inflation. Of course, proper selection, timing, and diversification make a great difference in how well you do, and later material in this book is devoted to these topics. Also, make certain you**

**will be able to manage the "payments" necessary on your borrowed money!**

**Search out investment tangibles which can be resold for as large a percent of their purchase price as possible. Real estate and precious metals are particularly good in this respect. However, be aware there can be considerable up and down overall price fluctuations in these markets. Also, in the case of real estate, it may require a considerable amount of time, perhaps months, to sell!**

**Avoid overpaying for investment tangibles. Their prices are subject to cycles of speculation-boom and sell-off-bust. Be careful not to overpay near the *peak* of a speculative cycle. (When the irregular *upward movement in prices slows down* . . . THAT is the time to sell.)**




**Also, shop around for the lowest rate of interest when you borrow money. This makes a BIG difference. For example, a quarter of a percent lower interest**

**rate on a home mortgage loan amounts to a large sum of money over a typical thirty-year span.**

**Usually the least expensive ways you can borrow money are:**

*** Mortgage Loan on a House – Make as small a down payment on a home as possible (but large enough to get a low interest rate). Also, take as long as you can to pay off the loan, providing the interest rate is quite attractive. Instead use your extra money to buy additional investment tangibles. Try for a clause in your loan agreement stating that it can be renegotiated at no penalty to you if interest rates should drop.**

*** Second Mortgage Loan on a House – You may already have paid off a considerable part of your home mortgage loan. You can take out an *additional* loan on the house, if the interest rate on a new loan is attractive. Then, you have the possibility of using this money to buy additional investment tangibles.**

*** Government Loans – Often Government loans are available at low interest rates for disaster victims, people starting new businesses, members of minority groups, farmers, students, and so on. *Even if you don't need the loan for its intended purpose,* borrow the money anyway if you qualify . . . and if the interest rate is low enough. Then use the borrowed money to buy carefully-selected investment tangibles.**

*** Borrow from Relatives – Your parents, grandparents, or an aunt or uncle might loan you enough money to make the down payment on a house or other real estate. Often, they'll be happy to help you. And, if you pay them an interest rate nearly equal to price inflation . . . it's a better deal for them than they can get from alternative "income-paying" investments. In effect, you and they will have eliminated the"middleman" (e.g. the bank, savings and loan, etc.)**

**Generally speaking, you can borrow money at a cheaper rate from a bank or savings and loan . . . than from a finance company, the store selling you something,**

**or credit card debt. Your profit shrinks when you pay too high an interest rate for borrowed money.**

**The trouble is, many Americans are not systematic in their buying and borrowing to beat price inflation. They run up big credit card bills (a very expensive way of borrowing) to pay for services and disposables like restaurant meals, travel, clothing, and so on. After the money is spent, they have nothing of value to show for it . . . and they still owe the money.**

**A high percent of all short-term consumer debt in America is credit card borrowing. A blizzard of credit cards is offered to Americans, and usually these offers are too tempting to resist. If you sign up, you are often able charge purchases on your credit card for the first six months, or year, with NO INTEREST PAYMENTS. Credit card companies do this knowing you will likely accumulate a large amount of debt that will be difficult to pay off. At this point you will be hooked and stuck paying a high interest rate on your debt!**

**Credit cards give instant buying power and easy payment plans. They are VERY easy to use—much more convenient than going to a bank and applying for a loan. Furthermore, only a seemingly small, minimum amount is due each month.**

**It's easy to forget you are typically paying 18 to 24 percent annual interest on your unpaid credit card balance. This rate of interest generally *exceeds* the rate of price inflation Americans have been experiencing. Also, the credit card debt most people owe has been accumulated buying things with no lasting value!**

**Because of its high cost, borrowing through credit cards is *not* a way to buy assets and accumulate wealth. The invention of the credit card created "borrowing for instant gratification." The inherent drawback of credit cards is that it becomes far too easy to spend for frivolous whims.**

**Credit cards should be used for their convenience only, and the *entire balance* should be *paid off in full every month.* If you owe money on credit cards**

**that you can't readily pay back, then go to a bank and try to get a loan at a lower rate of interest. Then pay off your credit card debt with the proceeds of this loan. In the future absolutely avoid building up credit card debt again! A sure road to financial hell is excessive credit card debt . . . and, it is a very easy road to get lost on.**

**If you find you are becoming overcommitted and borrowing too much money, the best way to solve your problem is to go on a *CASH BASIS* with all your current expenses. Lock away *all* your credit cards, and use cash to pay for everything. By doing this, you will consider your purchases much more carefully. Spending cash is considerably more painful than using credit cards. After all, when you spend cash, things cost "real" money . . . rather than seem to be "free." With cash, the pain is instant, rather than delayed, making you think twice about a purchase. Furthermore, you'll either have the money to spend . . . or you won't.**

**It's important *not to borrow too heavily*—beyond your ability to meet the payments. Consider what you would do if you lost your job or had a major illness.**

**If you have invested the borrowed money into investment tangibles—such as real estate, precious metals, antiques, and so on—the investment tangibles could possibly be used as backing to borrow additional money to "tide you over." Or, the investment tangibles could gradually be sold to meet your living expenses and debt.**

**If you have "blown" the borrowed money by spending it on services and disposables like entertainment and fad clothing, then you're in real trouble. You have nothing to show for your borrowing. In addition to the debt you owe, you are now faced with additional, major expenses.**

***During inflationary times, your savings should be in the form of tangible investments*. Of course, you will need to keep a small, minimum amount of money in the bank to meet unexpected and emergency needs. Also, make sure you have a reasonably secure source of income if you borrow heavily.**

**Credit is a tool you can use to improve your situation in life . . . or to destroy it. Everything depends on *what* you buy with credit. Borrowing money during inflationary times to buy the right assets (investment tangibles) can increase your wealth. If you choose wisely, your investment assets will "gain value" faster than the rate of price inflation. However, borrowing merely to pay for entertainment and short-lasting things is "money down the drain." Remember, for financial success, spend carefully, budget for discretion, and borrow wisely to build wealth.**

**The key to financial success is creating a budget that allows extra money for investment, or repayment of debt should investments not go as planned. Without a proper budget that allows money for debt repayment, your options to build wealth will be greatly limited. Priority should be placed on quickly paying off debt with an interest rate higher than the rate of inflation. Minimal payments are fine for debt with an interest rate lower than the rate of inflation, since extra money can then be used for investments.**


## CHAPTER 12

## HOW TO SELECT YOUR INVESTMENTS

**The combination of price inflation and taxes can take away more than 100 percent of the earnings on your traditional, income-producing investments. The exact "take" depends on yield, price inflation rate, and your tax bracket. The shame is that Government collects taxes on your so-called "earnings" even though you have *less* buying power in your bank account after a year's price inflation. If inflation doesn't wipe out the *value* of your traditional investments, taxes will finish the job!**

**What about investing in the stock market? During times of moderate price inflation stocks can do well at mirroring the economy's price increases . . . and even do better. The real danger is if price inflation kicks into overdrive, and really takes off. Extremely high inflation causes all kinds of "distortions" in the economy, in terms of supplies and labor. Many companies will not do well in these conditions. Beyond a certain rate of price inflation, the cash flow of these companies is insufficient to replace aging production equipment, replace inventories, pay taxes, and possibly increase dividends to match the rate of price inflation.**

**Furthermore, when you deal with a "stockbroker," he may advise you to put your money into a "mutual fund" (a "professionally-managed" group of stocks where money is pooled from many investors) . . . one that he, or she, suggests. The broker often has a strong, personal incentive to select a fund which has a large, up-front "load" fee, or commission, which HE or SHE will receive. This is money subtracted from your money, *before* it goes into your actual investment. Then, often your invested money will have a significant *annual management fee,* which is also subtracted from your money. *These are factors to be very careful of!***

**In contrast, to manage your own personal stock portfolio requires a considerable amount of personal expertise and time spent in research and following the markets closely. Not many people have this expertise and time available to commit. Even so, in the best of situations, the *individual* often receives relevant investment information *later* than the investment professionals managing their own money. This puts you at a large information disadvantage, since most money is earned by making an investment decision before everyone else does.**

**Furthermore, the ordinary individual usually lacks expertise to select industries (related groups of stocks) as they "rotate," and rise or fall in price. It is also difficult to judge the "time" when the overall stock market will go up or down.**

**It can be argued that some stocks *always* outperform the averages. As a practical matter, finding these stocks is like looking for a needle in a haystack. The odds will be against your success in finding "up" stocks which resist a "down" market. *The stock market is generally an "inside game" where the really big money is earned by people with special knowledge that is unavailable to regular people!***

**Bonds are an especially poor investment during inflationary times. The after-tax interest rate most bonds pay has been *below* the inflation rate in recent years. Furthermore, a high percent of bond interest "income" is then taxed away by the Government. Tax-exempt bonds exist. But, the interest rate they pay is**

**usually far below the rate of price inflation.**

**Once the smokescreen of price inflation is stripped away, traditional "earning investments" often lose purchasing power. Bank accounts, bonds, and stocks only hold their value in times of low price inflation. Keeping these traditional, "income-paying" investments during times of high inflation is an invitation to poverty! A different approach is needed when government is churning out money like a confetti factory.**

**Today we live in a society where interest and dividend income is taxed to death—even though they fail to keep up with price inflation. In contrast, the interest you pay to borrow money is sometimes tax-deductible. In effect, Government penalizes saver-lenders . . . and rewards borrowers.**

**In this environment, the strategy of borrowing money to buy investment tangibles is worth considering. Often you can borrow money at a lower after-tax interest rate than the rate of price inflation. Then, a possible strategy is to buy tangible assets whose value is likely to equal, or exceed, the general rate of price inflation. With these tangible assets there is no dividend or interest income to be taxed away. (Income-producing real estate is an exception, but its rental income can largely be offset by tax deductions—such as interest expense for borrowed money, the cost of management and repairs, and an allowance for "depreciation.")**

**Furthermore, no capital gains taxes are due on tangible assets until they are sold. (A "capital gain" is when you sell something at a higher nominal dollar price than you paid for it.) In fact the sale of small, compact investment tangibles (concealable tangibles) for cash is usually so difficult for Government to trace that people are tempted to break the law by failing to declare their inflation-caused "gains" when they sell these assets.**

***A word of warning, banks keep computerized copies of all checks, deposit slips, and withdrawal slips as standard practice. Also, banks are suspicious of people who deposit or withdraw large amounts of cash. Since large amounts of cash***

***often indicate illegal activities, banks are required to report to the Federal Government cash transactions of $10,000 or more, but will often report cash transactions exceeding $2,500 - $3,000. Often banks have low threshold dollar amounts of a few thousand dollars, which set off warnings in their systems. Check with your own bank to see what their particular threshold is.***

**Of course, instead of investing in tangible assets as mentioned here, you may be tempted to try "other" ways of beating inflation and taxes. Various salesman-promoted "tax shelters" are available. From time to time you may be approached by a salesperson to buy a "tax shelter" . . . possibly an almost-dry oil well in Texas, a time-share apartment in a remote location, a complicated real estate deal, underwriting a record album for a recording group you've never heard of, and so on. But, the commissions, rake-offs, and kickbacks to the companies, suppliers, and salespeople pushing these deals are enormous. As a result, these so-called "opportunities" are usually unattractive, in spite of high inflation and heavy tax brackets. The sales promotion information for these tax shelter "plans" is typically written in such a complicated way that only the tooth fairy could figure it out. It is purposely vague and totally baffling for ordinary people.**

**In general, most so-called "tax shelters" are very poor business deals. This is why the sales information is so obscure and confusing. Tax shelters are only worthwhile if the taxes they save you *exceed* the money you lose on the tax shelter. As a result, only people in the very highest tax brackets can make use of them. For most people, investing in so-called "tax shelters" isn't worthwhile. It is far more straightforward for the average person to carefully select, and invest in, investment tangibles.**

**A similar warning goes for speculating in stock options and commodity contracts. Except for true experts—and only a handful exist—who have access to enormous expertise and moment-by-moment information, money put into these is wasted. *Over the long run you can't win.* Trading commissions are enormous and eat up your money. It's *impossible* to know what is going to happen over the short span of time covered by these contracts. Too many random, and unknowable,**

**factors affect the short run. Even the experts frequently "lose their shirts" in these markets. For the ordinary person to make money trading stock options and commodity contracts is like trying to walk on water . . . or quicksand! These are *speculations*, not investments. A gambling casino is an equally certain—and probably more pleasurable—way to lose your money!**

**So, as long as our nation's money is turning into sawdust, and traditional "income-earning" assets are being taxed away, you have little option but to put money into investment tangibles . . . unless you like poverty.**

**Fortunes can sometimes be made from price inflation. However, for those of a more conservative bent, savings can at least be largely preserved. *Investment tangibles* provide the means to do this.**

**It is possible to be *either* an aggressive or a conservative investor in investment tangibles. The aggressive investor borrows as much money as seems reasonable, and buys investment tangibles. During highly inflationary times, this is a self-preservation risk to preserve, and possibly increase, wealth and buying power.**

**However, this is a *VERY* risky strategy. One small "bump" can derail this plan if your budget does not allow for sufficient emergency expenses. For most people, it makes more sense to preserve what they already have . . . and, perhaps, try a few aggressive things. A young, single person is often in a position to take greater risks than someone who is married with a family to support.**

**The conservative investor, who is primarily interested in "preserving" what is already owned, simply converts most traditional investments—such as savings account money, bonds, and stocks—into *investment tangibles*. *Why not everything? It is wise to keep some money in liquid, cash form. Holding cash provides for emergencies and allows purchases when good opportunities present themselves.***

**By holding *investment tangibles*, no longer will inflation and unjustified taxes be robbing you. In fact, price inflation will no longer be a problem at all. Now inflation will be working *for*, rather than against you. (However, excessive price inflation *will* have a VERY destructive effect on any Nation . . . devastating its social fabric, destroying jobs, businesses, and even entire industries!)**

## INVEST TO BEAT INFLATION AND HIGH TAXES

**Inflation's desert of opportunity contains**
**occasional investment oases . . . .**
**if one knows but where to look**

## CHOOSING WHAT TO BUY

**A number of factors should be considered when selecting *investment tangibles*. For example, *is the value of the investment tangible likely to keep up with price inflation in general?* How has it done *recently* as an inflation hedge? *Is it priced high, or low, relative to other investment tangibles*? *What external factors are likely to affect its price*. In other words, what supply and demand factors do you expect in the future that will increase, or decrease, its price?**

**Another thing to look at is ease of resale. *How easily can the item be resold?* Real estate can take months to sell, while gold bullion coins (such as American Gold Eagles, Canadian Maple Leafs, or South African Krugerrands) can be sold relatively quickly. (To sell a gold bullion coin, go to a local pawnshop, jewelry store, or a place which advertises "we buy gold and jewelry." However, shop around for the "best" resale price you can find. Some places offer better prices than others.) Also, you may be able to find an individual who wants to buy gold bullion coins from you. However, sell for "cash" or a certified check . . . definitely not for a personal check, where payment can be stopped!**

***Uniformity* is an important factor in resale. For example, gold bullion coins**

**are standardized, and it is possible to find ready resale markets. In contrast, each piece of real estate is unique in size, type, and location . . . and you must find an interested buyer before you can sell.**

**Also, *what percent of its purchase price can an investment tangible be resold for?* Under good conditions, in constant buying power, there is sometimes only a 10 to 20 percent gap between purchase and resale prices for real estate, in constant buying power. However, real estate can often take MONTHS, or even YEARS, to sell . . . unless you are prepared to sell it in a hurry at a "distressed price" for less money. *Gold bullion coins typically have a 10 to 20 percent gap between purchase and resale prices, in constant buying power, are faster to sell, and can be used in barter.***

**This widens to perhaps a 40 to 60 percent spread between purchase and resale prices for diamonds, in constant buying power. There is usually an even greater spread between purchase and resale prices for gold jewelry, antiques, stamps, and rare coins. These have various degrees of "marketability." However, gold jewelry can be sold in most major cities, where pawnshops and jewelers advertise to buy gold. Various specialized events, antiques shows, etc. are held where collectors gather to buy and sell antiques, stamps, and rare coins. Of course, there is also the internet . . . but be VERY careful in any of these venues!**

**As the rate of price inflation increases, and ramps up at an increasing rate, speculators jump into *tangible investments*. This can cause the prices of tangibles to increase at a rate *faster* than the overall rate of price inflation! Of course, any time the rate of price inflation significantly slows down (in a long-term trend), this price appreciation will work in REVERSE! Prices of tangibles can DROP . . . as well as go up. Not only watch for increasing rates of price inflation (general price increases) . . . but look CAREFULLY for signs of decreasing price inflation (a slowing of the rate of price increases). When the rate of price increases S-L-O-W-S . . . this is a time to consider a strategy of SELLING some of your *tangible investments* you feel are the most "overpriced."**

**So, it is important to carefully watch what is happening around you. Note prices in your local stores, follow government reports (with a touch of skepticism), talk to those around you, and do research on the internet.**

***Because of the usually significant "gap" between purchase and resale price, an "investment tangible" must perform VERY well relative to price inflation OVER A NUMBER OF YEARS to make up for the big initial loss in buying power.***

**A large difference between purchase and resale prices is not particularly important if you expect to hold the tangible asset a long time. However, a big difference between purchase and resale prices *IS* important if you expect to be "trading" in-and-out of the asset over short spans of time.**

**One way you can minimize the "spread" between "bid" and "asked" prices of investment tangibles is to *cut out the middleman whenever possible.* Buy and sell from individuals, or at auctions, rather than from a dealer.**

***Price volatility* is another important consideration. For example, precious metals prices can fluctuate wildly over short spans of time. In contrast, the prices of diamonds have in the past been controlled by an international cartel . . . and their prices have been much more stable. Also, a number of jewelry stores are willing to buy used diamond jewelry.**

***Ease of storage* is another factor. A small amount of gold can have as much value as a house. A tiny investment-grade diamond can hold more value than a car.**

***Can the investment tangible's value easily be determined? Is the investment tangible "divisible" into small dollar amounts?* Gold bullion coins are easy to identify because of their high-quality stamped designs. Their value is easy to determine by checking price quotes on the internet. Furthermore, *gold coins are available in various sizes* and can be purchased in fairly small dollar amounts. However, buying larger, one-ounce gold coins provides more gold for the money . .**

**. than buying, say, 1/10th of an ounce gold coins.**

**In contrast, few people can accurately determine the value of most precious stones . . . or real estate. If fact, most people can't tell if a diamond is real, or fake. With both diamonds and real estate, it is difficult to determine their value accurately. They vary in size, type, and quality . . . and they are not divisible into small, spendable amounts.**

***Concealability*** **from thieves and vandals (and from the tax collector) is sometimes a consideration. Precious metals, gems, stamps, coins, and small antiques are good in this respect. Real estate and bulky antiques rate very poorly.**

**Your *personal interests and needs* are also an important consideration. Some people find that collecting antiques, stamps, or rare coins can be a rewarding hobby . . . while buying gold and storing it in a bank safe deposit box (or a hidden safe at home) would provide far less pleasure. Others have a real talent for investing in real estate or art. Your personal interests and abilities are very important considerations because this will give you a knowledge-based advantage. (Be aware that managing real estate properly requires a considerable amount of knowledge, time, and effort.) Regardless what investment tangible(s) you choose, *became an expert at whatever you invest in.***

**The options and trade-offs go on and on. Any one particular investment asset is not right for everyone . . . or right for all times. Risk, convenience, and suitability to your mental temperament, expertise, and interests are all important.**

**Furthermore, the relative attractiveness o*f various investment tangibles* changes over time. With*out* good reason, some fall out of favor (making them possible "bargains"), while others are carried away by speculative excesses (making them overpriced).**

**Keeping all these factors in mind, here is a brief outline of strengths and weaknesses of various investment tangibles:**

## REAL ESTATE

**An appeal of investing in residential real estate is that you can live in it, and thus avoid paying rent. The drawbacks are property taxes, insurance, repairs, and upkeep expenses you face.**

**Owning income-producing real estate is attractive for the flow of income that adds to its inflation-hedge aspect. The drawback is that personal management and overseeing are necessary. Hired managers may do a poor job . . . and sometimes let the property become run-down. Furthermore, hired managers may "skim off money" (kickbacks from companies that do repairs . . . or from tenants for special services). As a result it's essential to take a personal interest in managing your real estate. Be sure you have the time, expertise (or can quickly acquire it), and interest in managing the real estate. (Fixing a tenant's broken toilet at 3**
**AM will be no fun.) Be sure to do a careful background check on any tenant you are considering taking in. Generally you would want to get a credit report on this person, research criminal history, and check on social media . . . to see if they would be a "responsible" tenant.**

**Real estate can serve as a good inflation hedge . . if you select real estate *in the path of progress* and are *careful not to overpay*. As the saying goes, three of the most important things about real estate are *location, location, and location*! One advantage to buying real estate is that the transaction cost, to buy or sell, is usually reasonably small . . . typically no more than 10 percent. A drawback is that, in order to get a good price, sometimes it takes MANY MONTHS to sell.**

**Some changes in the value of real estate do occur along with the business cycle (the level of business activity). This is something to be cautious of. The trick is to *buy* real estate when people are out of work, business is slow, and factories are operating at reduced levels . . . and to *sell* real estate when people are employed (making lots of money) and factories are busy.**

## ANTIQUES

**The nice thing about antiques is that, in many cases, you can use and enjoy them. Assembling a collection can be a rewarding hobby. A drawback is that proper care against breakage, damage, and theft is needed. Furthermore, you must be cautious of changing tastes and buying trends that may hurt the value of your collection. Of course, if you buy antiques for the beauty and pleasure they bring you (this is the best way to select them), you won't be as disturbed by fluctuating values. Buying antiques because you, *personally*, find them attractive usually yields far better results than buying because someone "told you" they would make good investments.**

**Allow at least several months to resell your antiques in order to get a good price. Chances are, you'll do better buying or selling at an auction than you will buying and selling from from a dealer. (In order to "buy" successfully at an auction, you must "inspect carefully" before the bidding begins for flaws and defects, and you must know exactly what you are doing.)**

**Determining the value of antiques requires study and experience. Pick an area of personal interest and become "expert" in it. Unfortunately, a sizable gap exists between purchase and resale prices for antiques. However, this can be reduced through well-informed buying and selling.**

**Also, unless you become a very knowledgeable "antique dealer," you have no business rapidly buying and selling antiques. The gap between bid and asked prices is too great.**

## ART

**Art is another asset you can enjoy daily. As with antiques, be careful of damage and theft. Value is difficult to determine unless you do considerable research and become an "expert." Investing in art requires specialized knowledge**

**and skill. Buy ONLY what you really like—not what somebody talks you into buying. Avoid art somebody says is a "good investment" just because this person has too much of it and wants to "unload" it on you. Price trends change, and you are likely to get stuck with what you buy. DO YOUR OWN RESEARCH!**

**Deal with reputable galleries, and obtain written descriptions on their letterhead of what you are buying. You don't want to get stuck with a fake. Allow at least several months for selling at an auction and receiving your money. Unfortunately, a large gap also exists between purchase and resale prices for works of art. Buying at auctions, rather than from art dealers, can help minimize this purchase-resale price spread. However, do VERY careful research. *A drawback of art is that it is not divisible . . . if you need to sell a fraction of it, in order to raise money.***

## RARE COINS AND STAMPS

**Rare coins and stamps are very compact for the amount of value they hold. Furthermore, becoming an expert and collecting these can provide a great deal of satisfaction.**

**Be wary of theft. To maintain their value, keep coins and stamps in "mint" condition. Don't touch coins or stamps with your bare fingers. Wear gloves to handle coins and use tweezers for stamps. Better yet, leave them in their transparent cases.**

**Beware of buying over-graded items (lower-quality, worn, scratched, or damaged items sold for higher-quality prices). Over-grading is a VERY FREQUENT con game! Unfortunately, there is a considerable purchase-resale price spread for rare coins and stamps.**

## GOLD AND SILVER

**Precious metals are a compact way to store value. Gold bullion coins (such**

**as American Gold Eagles, Canadian Maple Leafs, or South African Krugerrands) provide a low-mark-up way to hold precious metals. So-called "junk silver coins" bought in $1,000 "face value" bags (or smaller quantities) of pre-1965 United States silver coins provides another, although bulkier way to hold buying power. Also, these silver coins, individually, provide "buying power" in small, incremental amounts.**

**High-quality gold 14 or 18 carat jewelry has precious metal content, and it can give personal pleasure at the same time. However, jewelry carries a big markup due to manufacturing and artistry costs. It also invites theft.**

**An advantage of precious metals is the relatively small purchase-resale price spread (usually no more than 10-20 percent). But, *beware of significant price fluctuations in the value of precious metals over relatively short spans of time.* Ideally, you should be a buyer when price inflation is at temporarily "low" levels. Be cautious of overpaying for precious metals when price fluctuations go to extremely high levels.**

## DIAMONDS AND OTHER PRECIOUS GEMS

**Diamonds are among the most compact and concealable stores of value. A diamond can hold the value of a sizable building. The trouble is . . . probably less than 1 out of a 1,000 people can tell a real diamond from a fake. As a result, you should *only buy from a reputable dealer*. The same is true if you sell. Do VERY careful research before you buy or sell!**

**No two diamonds are exactly alike. This *lack of uniformity* can cause disagreement (even among experts) as to a diamond's value. As a result, get several offers before you sell. Also, make sure a fake stone is not "switched" for your real one during the examination process.**

**Generally, you get better value for your money when you buy larger, higher-quality, investment grade diamonds. Unfortunately, it's not practical to divide a**

**diamond into small, spendable amounts.**

**By the way, if you have a particularly valuable diamond, consider wearing a good fake and keeping the real one in your safe deposit box. This will eliminate any risk of loss or theft, and nobody will know the difference.**

**Other gemstones also lack uniformity, making it difficult to determine their value. Furthermore, resale markets for other gemstones aren't as good as for diamonds.**

**With diamonds and other gemstones *beware of paying over-graded prices for inferior stones*. This is *not* an investment area for a novice.**

## CRYPTOCURRENCY

**An argument can be made for various *Cryptocurrencies*. Bitcoin has sometimes been called "Digital Gold." However, there must be at least 10,000 different cryptocurrencies, and it is difficult to tell which ones will do well in the future.**

**Historically, money has two characteristics. Money can serve as *a means of exchange* for buying things. Second, in normal times, money serves reasonably well as *a store of value*. Cryptocurrencies have both these characteristics: *means of exchange* and *store of value*.**

**In earliest man's history, *money evolved from* various types of *barter*. The trouble is, you can't barter HALF A GOAT for something. The goat is not divisible. Even though you can cut a freshly caught fish in half, it won't serve as a "store of value." The fresh fish will quickly "spoil" and go bad.**

**Beads and attractive stones worked for barter, but their value was indeterminate. Finally mankind discovered that small lumps of precious metals like silver and gold worked reasonably well. Governments (think Ancient Rome**

**and Greece) would "stamp" known amounts, and purities of precious metals into lumps with the imprint of an Emperor, and these "coins" served as a means of exchange.**

**Over time, people discovered they could chip off part of the edges of these precious metal coins . . . and still try to pass the coins for their "full value." Another trick was to place precious metal coins into a bag and shake the bag vigorously. This process, called "sweating" the coins, gave the people flakes of precious metal . . . and again they tried to pass the coins off for full face value.**

**Eventually this led to coins being minted with "milled edges" (small ridges on the edges of the coins) which would show if any of the precious metal was removed. However, in 1933, the United States called in all its gold coins . . . and payed American citizens (in U.S. Dollars) about $20.67 an ounce for their gold. (Take a look at the price of price an ounce of of gold now!) Then, in 1965 the U.S. mint stopped issuing silver coins.**

**The "scarcity" of precious metals, PLUS "The Full Faith and Credit of the United States" gave the U.S. Money Supply its value. Now our money no longer consists of precious metal coins. Our money has its value because people are habitually willing to accept it as a "medium of exchange."**

**As price inflation has occurred since the 1930's people have looked around for alternatives for our nation's money. However, barter is very inefficient. Moreover, investment tangibles are generally not divisible . . . and generally have a wide "gap" between their purchase and resale prices.**

**A Government jealously guards its role in managing the nation's money supply. This is because its "INFLATION TAX" is a terrific way of raising money . . . even though it is "theft" from the people!**

**In recent years decentralized cryptocurrency has become a "threat" to National Currencies because Governments have little control due to the**

**decentralized nature. Governments are doing all they can to stifle this "threat" to their "Inflation Tax."**

**Using the internet, a group of digital currencies (Cryptocurrencies) has arisen. In Cryptocurrencies, transactions are verified and records are maintained by a decentralized system of computers . . . using cryptography, rather than being VERIFIED by a centralized Governmental Authority. The intent is that Cryptocurrencies, such as Bitcoin, are mostly "beyond restriction and confiscation" by Governmental Authorities, though Governments are working hard to solve this "problem."**

**Governments feel VERY threatened by this and impose every restriction they possibly can on this mode of *storing purchasing power* and providing a *means of making transactions*. Current U. S. Federal Government Income Tax Forms ask if you own any Cryptocurrencies . . . and the Government expects you to report all your transactions (showing appropriate "gains" or "losses" on EVERY transaction you make . . . even if for a cup of coffee).**

**Some people have a strategy of simply "buying and holding" a "market basket" combination of Cryptocurrencies . . . hoping that these will "go up in value" RELATIVE to the U. S. Dollar. When sold, the Cryptocurrencies are subject to (depending on the time held) "Short Term"or "Long Term" Capital Gains (or Losses) on your Personal Income Tax Form.**

**A potential problem with Cryptocurrencies is that there are literally Thousands of Cryptocurrencies. It is the "Wild, Wild West!" Some of the Cryptocurrencies will survive and do well . . . while others will lose value, and fall by the wayside! This is NOT a market for the fainthearted!**

**Investing in Cryptocurrencies requires a considerable amount of skill and savvy on the internet. Also, a great amount of "research" is needed. You are able to hold your Cryptocurrency in EITHER an Exchange . . . or, in a Personal Wallet. If the exchange "fails," or "goes bankrupt," you will lose your money. If you "lose**

**the pass code" to your personal wallet . . . you ALSO lose your money. If you incorrectly type the destination address for a digital transaction, your money will disappear into the abyss and be unrecoverable (*learn how to copy and paste*). Furthermore, you need to be careful of scammers and hackers!**

**Finally, if price inflation and government mismanagement get totally "out of hand" . . . "Rolling Electrical Blackouts" could occur. Trying to access your cryptocurrency without electricity would be a real problem.**

**After hearing all these "negatives" there *ARE* several considerable positives to Cryptocurrencies. Prices can fluctuate wildly, but Cryptocurrencies can, to a degree, serve as a "store of value" and, if accepted, serve as a readily divisible "medium of exchange." Cryptocurrencies are "concealable," and can easily pass through an International Customs or Security Checkpoint . . . all you need is your "pass code." Unlike traditional money or investment tangibles, such as gold, your Cryptocurrency pass code is *not* visible to an x-ray machine. Transactions can be rapidly sent between individuals, regardless of location, and are immune to "banking hours."**

## COMPARISON

**Here is information on a variety on a variety of investment possibilities. Many factors must be considered. No one asset is right for everybody . . . or attractive all the time. In addition, price fluctuations make some assets more attractive than others at different times.**

### *Diversify—Don't Put All Your Investment Eggs in One Basket*

**Because you won't have perfect knowledge, it's wise to diversify your holdings of investment tangibles. Spread your risk by becoming expert in several areas and buying in those you feel are most promising for future price increases. Doing this will protect you from the varying results of different investments. If**

**your investment tangibles are well-chosen, *on average* they should perform very well relative to price inflation.**

## ALTERNATIVES

**Residential Real Estate**
**Portability (None)**
**Advantages (You can live in it and avoid paying rent.)**
**Drawbacks (Property Taxes, Repairs, and Upkeep.)**

**Income-Producing Real Estate**
**Portability (None)**
**Advantages (It yields investment income. Tax write-offs are available.)**
**Drawbacks (Personal management overseeing are usually necessary. Hired managers often a poor job. Property Taxes, Repairs, and Upkeep.)**

**Antiques-Furniture, Rugs, Glassware**
**Portability (Fair)**
**Advantages (You can use and enjoy these.)**
**Drawbacks (Proper care is needed. There is a risk of breakage or damage. Also, changing tastes and buying trends may hurt the value.)**

**Art-Paintings & Sculpture**
**Portability (Fairly Good)**
**Advantages (You can use and enjoy these.)**
**Drawbacks (Investing in art requires specialized knowledge and skill. Buy only what you *really* like; price trends change, and you could get stuck with what you buy.)**

**Rare Coins and Stamps**
**Portability (Excellent)**
**Advantages (These are very compact. Also, you can enjoy your hobby.)**

**Drawbacks (Specialized knowledge is required. Collecting trends may change, wiping away much of the value.)**

**Other Collectibles: Baseball Cards, Antique Toys, Old Guns**
**Portability (Fairly Good)**
**Advantages (You can enjoy your hobby.)**
**Drawbacks (Collecting trends and values can change against your favor.)**

**14 or 18 Carat Gold Jewelry in a Classic Design**
**Portability (Good)**
**Advantages (You can use and enjoy it.)**
**Drawbacks (Be careful of theft.)**

**Gold (e.g. Bullion coins, such as gold Krugerrands)**
**Portability (Good)**
**Advantages (This is a relatively compact way of holding value. Krugerrands and other bullion coins are easy to identify and determine their value.)**
**Drawbacks (Wide price fluctuations may occur over short spans of time. Be careful of theft.)**

**Silver (e.g. Bags of old U.S. silver coins)**
**Portability (Fair)**
**Advantages (Silver is less costly than gold—an advantage for the small investor.)**
**Drawbacks (Silver is bulky for the value it holds.)**

**Diamonds**
**Portability (Excellent)**
**Advantages (You can use and enjoy diamonds in the form of jewelry.)**
**Drawbacks (Value is difficult for a non-expert to determine. Be careful not to overpay. Diamonds are not divisible into spendable amounts.)**

**Investment Intangibles—Cryptocurrencies**
**Portability (Excellent)**

**Advantages (Can be bought and sold *quickly*. Cryptocurrencies are digital assets which hold value and are *easily divisible*.)**
**Drawbacks (Big Fluctuations in Value—it is the Wild West! Cryptocurrencies are only lightly regulated. *Many will fail.* Trading *Exchanges can go bankrupt*, and you will then lose your money held by them. Careful Research and Management is Needed. If you have your cryptocurrencies in a private wallet, don't lose your pass code or allow yourself to be scammed. Currently, cryptocurrencies are not practical for most everyday purchases.**


## CHAPTER 13

## TIMING IS IMPORTANT

**The most important thing in buying an investment is *don't overpay*. Good timing is one of the secrets of buying at an attractive price.**

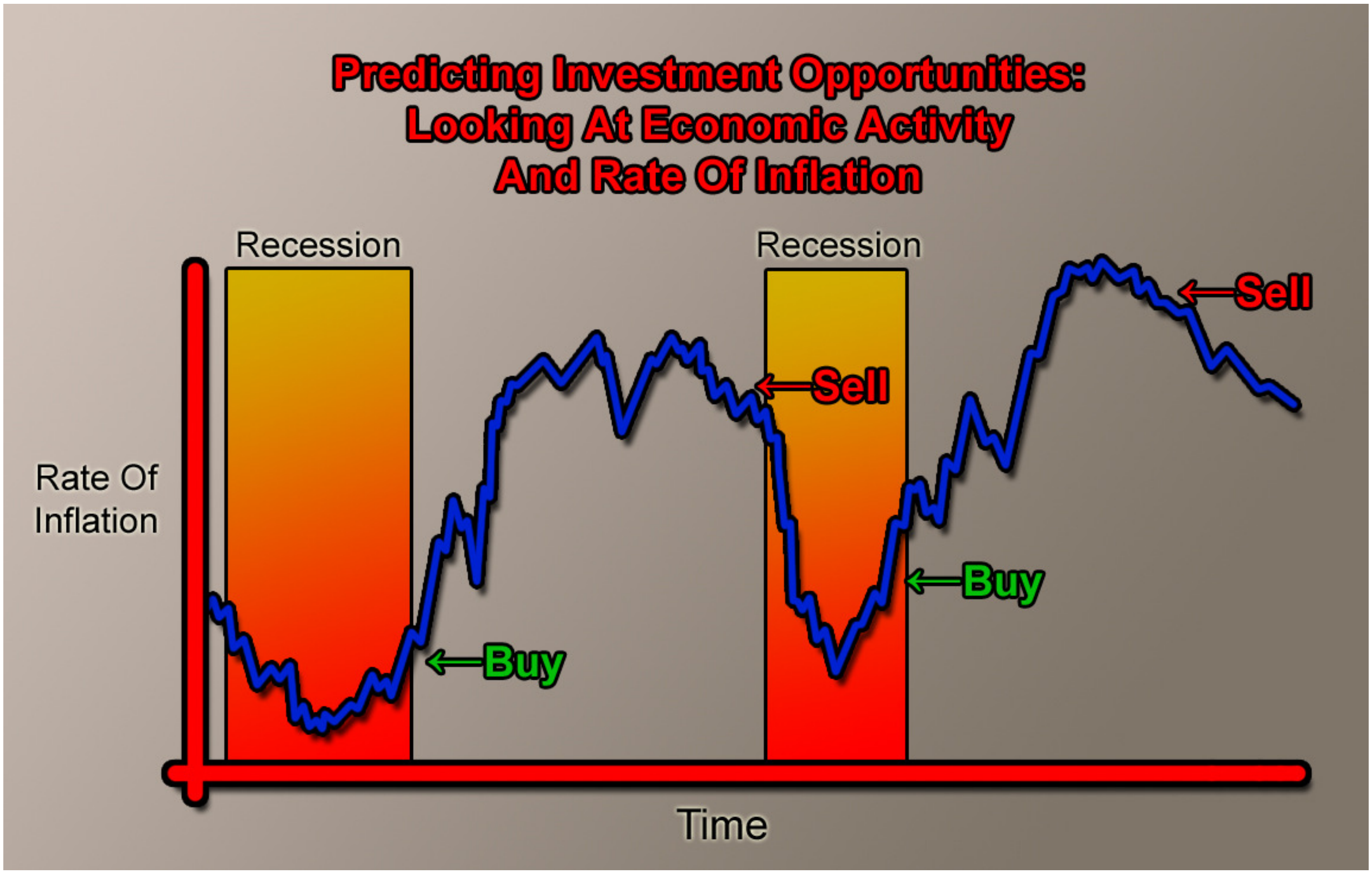
**Value is like a roller coaster. Prices constantly go up and down. Sometimes investment tangibles are cheap . . . and, sometimes they're very expensive. The trick is to buy at rock bottom prices and sell for top dollar.**

**In considering investment value, keep two things in mind . . . the overall *trending inflation rate* (higher or lower) and *popularity trends*. The business cycle, with its associated trending inflation rate, is like an ocean tide which can go up or down six feet . . . with little waves of popularity on top of it. The overall business cycle inflation rate raises and lowers the prices of investment tangibles in general (like an ocean tide). Independent of this, waves of popularity determine how much higher or lower the price of each investment tangible goes.**

**Shortages, crises, and wars are additional waves which affect each investment tangible differently . . . and in addition determine the highs and lows**

**the price each investment tangible goes.**

**Because of price inflation, the business cycle tide keeps peaking at ever higher levels . . . and dipping to valleys that aren't quite as low as previous dips. The inflation cycle is like driving up a mountain range . . . even though the general direction is up, there are dips along the way. For best results, buy investment tangibles at each valley, and sell at each hilltop. Or, simply buy at the lowest valley you can find . . . and hold.**




**The business-inflation cycle (including both the"up" part and the "down part) usually lasts a number of years. During this period, business activity first increases and then decreases . . . like the tide rising and falling. More is produced in our economy as the business cycle goes up. Then, less is produced as the business cycle goes down. The number of people employed increases for several years . ... . and then decreases for several years. Price inflation speeds up with the**

**increase in business activity . . . and then temporarily slows with the drop of business activity.**

**Eventually, the business-inflation cycle always repeats itself . . . but a bit differently. No two cycles last exactly the same length of time, and no two cycles go up and down exactly the same amount. Still, there are similarities. It's possible to tell where you are in a business-inflation cycle if you know what to look for. Furthermore, *watching business cycles is an important key to successful investment timing*.**

**How can you tell whether the business-inflation cycle is beginning a major rise out of a valley (a time to buy), and how can you tell when it is beginning to drop after forming a hilltop (a time to sell)? *Internet, and various new sources (television, radio, newspapers), give only a general idea of business activity. Furthermore, much of what is reported in the news is politically motivated* . . . intended to serve government, big corporations, or labor unions. Thus, *an individual is better off interpreting economic data for himself*.**

**Look at the world around you. What is happening in the stores you usually go to? Talk to people you know; what are their impressions and observations. If you travel, or talk to others who have traveled around the country . . . ask what is happening, what is changing? The internet provides a treasure trove of information. Do widespread research on it!**

***Try to buy investment tangibles when the business-inflation cycle is coming out of a "valley."* Later, price inflation will gradually speed up, and people will become more interested in buying *investment tangibles* . . . bidding up their prices. Of course, *you* will have already bought at much lower prices because of the early warning signs you have been watching.**

***The business-inflation cycle is like driving a car over a series of mountains. The pattern is very irregular. No two valleys or mountaintops are quite the same, but a pattern of valleys and hilltops does, indeed, exist.***

**To BUY *investment tangibles*, you should wait until the economy turns upward from its valley floor . . . rather than risk buying too soon while economic activity is still going downward. To SELL, you should wait until things turn definitely downward from the hilltop . . . rather than risk selling too soon. Ignore all the minor "jiggles" in the economy, and look for major trends.**

**Along with the business-inflation cycle, check on the historical price trend of each *investment tangible* that interests you. Is the investment tangible's current price "low," "high," or "in the middle" as compared to its past price trend? With this information you can decide whether to buy, sell, or hold.**

**In effect, you are looking at the "waves" on top of the overall business-inflation cycle "tide." Each category of investment tangible has its own separate "wave." As mentioned earlier, waves of popularity, crises, shortage, and world turmoil can cause the prices of specific investment tangibles to go higher, or lower, than the overall business cycle "tide" which is carrying it.**

**The waves of popularity, crisis, etc. are very difficult to know in advance. But, it IS possible to tell if the price of an investment tangible is high, or low, relative to its trend of past prices.**

**For example, in the United States, the price of gold was below $100 an ounce until 1973. During 1974, it went to about $200 an ounce. In 1976, gold dropped back to $100 an ounce. Then, by 1980 its price had zigzagged all the way up to $875 an ounce (due to worldwide inflation and oil supply problems). By the end of 2021, as we complete this book, the price of gold has approached $2,000 an ounce.**

**Throughout history, the price of gold has moved higher as national currencies have been overissued. During this upward trend, gold's price has fluctuated widely between "high" and "low" levels. A wise investor can follow this pattern, factor in relevant news events, and try to buy when gold's price is relatively low . . . then sell when its price is relatively high.**

**Daily price quotes for gold, and other precious metals, are readily available on the internet. Graphs covering many years of price fluctuations are available. Such complete information isn't always readily available for all *investment tangibles*, but usually you can find an approximation of what you need to know from the internet, and by questioning antique dealers, real estate agents, coin dealers, and so on.**

**Knowing *historical price information*, even in general terms, will give you a *powerful tool* for buying and selling *investment tangibles*. When used along with business-inflation cycle timing and careful review of news events, this historical price information leads to much better results than you would otherwise achieve.**

**After all, *you should buy investment tangibles when others don't want them. And, you should sell investment tangibles when others are clamoring to buy*.**

**At any particular time, some investment tangibles are overpriced . . . while others are undervalued. When investments you own become overpriced—and their general upward price trends slow and begin turning downward—*sell* and use the money to buy things you feel have better investment prospects.**

**WATCH BOTH the *general business cycle tide* and *individual investment tangibles waves*. When the business cycle tide seems to form a "hilltop," sell your less promising holdings to pay off debt and to accumulate cash for later "bargain" buying opportunities.**

**However, it is alright to continue to hold promising items . . . especially those where the gap between buying and selling prices is great, or where you don't expect much of a price drop, based on past fluctuations. A rule of thumb is to "*sell to the sleeping point*." Sell those investments whose prospects for price appreciation bother you . . . based on what you know both on a conscious and on a subconscious level. This is your "gut feeling." You should amplify and listen to this quiet inner voice.**

**During a recession, prices of many investment tangibles drop . . . creating new buying opportunities. When the time comes to invest heavily again, choose investment tangibles that are going to be rare (or, in short supply) in the future . . . but which aren't particularly scarce now. For example, high-quality, solid, real hardwood furniture (not chipboard covered with plastic) of "nearly antique" vintage in attractive, classic designs may be a consideration.**

**Always *be careful not to invest in things you don't know about.* Do a TREMENDOUS amount of research first, become an expert . . . then invest.**

**In fact, don't invest in anything you don't feel comfortable about. Chances are it won't work out. Don't go against your "quiet inner voice" . . . that "gut feeling" inside of you. "Don't invest in a hurry," or in something just because you feel you "ought to." Don't invest because someone else says you "should," or because you "need to make some money." Chances are, you'll *lose* your money instead.**

**If you have a knowledgeable, wise, close friend you trust, you can use this person as a "sounding board" . . . to bounce your investment ideas and strategies off of.**

**If you don't feel right about investing in something, it is probably your subconscious mind telling you to be careful. Your inner voice is telling you to avoid this investment . . . based on some long-forgotten information that your subconscious mind still "remembers."**

**Also, don't fall for the "greater fool" theory of investing—paying a price you know is too high, expecting to find a bigger sucker to buy from you at an even higher price. You will likely get stuck holding the bag.**

**No one asset is right for everybody . . . or attractive all the time. At any particular time, price fluctuations make some assets more attractive than others.**

**Some investment tangibles are undervalued, while others are overvalued.**

**For example, the price of gold might skyrocket over a very short span of time. In the meantime, the price of antiques might go up only slightly. Because of gold's rapid price rise, a certain type of antique could then be a better investment choice . . . one worth selling gold in order to buy. (Warning, always look for "flaws" and "defects" in antiques, or otherwise you could end up "overpaying.)**

**What is "cheap" and what is "expensive" for investment tangibles varies from one investment tangible to another. Some become more popular . . . while others fall out of favor. What is "cheap" in one part of the**
**the United States may be expensive elsewhere. Finally, timing is important. Price inflation goes in cycles. Try to buy investment tangibles when price inflation is at a temporarily low rate . . . and sell investment tangibles when price inflation is at a relatively high rate.**

**Where there is a big difference between purchase and resale prices, say with diamonds, it is best to simply buy and hold. But, you can buy and sell things which have smaller purchase-resale price commissions such as gold or real estate.**

**Also, consider how the prices of specific investment tangibles are reacting to news events (e.g. war, crisis, political changes, etc.) and possible future news events. Is the price holding up well in spite of negative news . . . or falling in spite of positive news? What future news events, favorable or unfavorable, are likely to occur?**

**When you study price trends, they will NOT be "smooth." Instead, the trends will be jagged . . . full of squiggles. Sometimes a graph line will NOT behave in a predictable pattern because special news events occur which give an extra push upward, or downward, to prices. For example, a sharp increase in the price of oil, or a war, can throw the pattern outside its usual range of fluctuations. Remember, no business-inflation cycle is exactly the same as the one before it. Otherwise it would be too predictable . . . and too easy for everyone to make money from it.**

**In effect, when investment tangibles you own become too overpriced, sell and use the money to buy other investment tangibles you feel have better prospects of price appreciation. For those investment tangibles which have histories of big price fluctuations with the business-inflation cycle, sell when you feel the business-inflation cycle has peaked. Then, keep the money readily available until new investment opportunities come along.**

**What do you do with the cash you receive when you sell investment tangibles? It is best to put the money where you can obtain it quickly: a bank account, a "money-market mutual fund," or in U.S. Government "Treasury Bills" (3-months, 6 months, or 12 months until maturity . . . a "$10,000 amount required) which can be "sold" on short notice. The important thing is to keep your money "liquid" so you can take advantage of the next investment opportunity.**

**Then, when it is time to buy investment tangibles again, you will have the ready cash to do so.** ***Avoid long-term bank savings accounts or long-term bonds,*** **because your money won't be as readily available. Also, as price inflation heats up with its accompanying rise of interest rates, the VALUE of your long-term bonds will DROP (making the fixed interest rates of your bonds less desirable).**

**Remember, it is only worthwhile to sell investment tangibles at the peak of the business-inflation cycle if their past history of price fluctuations indicates you can cover your selling and re-buying commissions . . . and** ***still*** **buy them cheaper in the future. This is sometimes the case with real estate, where commissions are relatively small. But, it probably won't work with antiques or art . . . where the difference between purchase and resale prices is much greater.**

***In cases of really severe price inflation (annual rates above 30 percent) business cycle timing goes "out the window." Simply buy investment tangibles at the best prices you can find . . . and then hold. Price inflation will be too severe to risk putting your money into cash*** **. . . even for a very short time! Do feel free, though, to sell investment tangibles whose investment prospects "fade" . . . and**

**quickly reinvest the money in more promising investment tangibles.**

**During times of somewhat lower price inflation, the system of investment timing outlined in this chapter should be a help in deciding when to buy and sell investment tangibles. If you are not willing to do the necessary work to follow these investment timing procedures, a buy-and-hold investment tangibles strategy is best. Otherwise, your profits will be eaten up by the commission costs of buying and selling. Furthermore, you will miss out on "attractive" buying and selling prices. For occasional purchases and sales you do make, keep in mind the general approach described here. It will help you buy and sell investment tangibles at better prices.**


## CHAPTER 14

## REAL ESTATE—LOCATION IS THE KEY

**Throughout history, being a "landowner" has always meant being someone special. A person was no longer in the peasant class if he owned land. In fact, many of our ancestors came to this country for the opportunity to have land of their own. In the Old World, land ownership was often a privilege of the upper classes . . . and denied to the lower classes. Hence, the saying, "A man is nothing if he doesn't own land."**

**Land ownership also carries a sense of being settled . . . of being able to stay. It provides security in uncertain times.**

**Since the earliest days of our nation's history, America has been a place where ordinary people could acquire land. This opportunity has continued up to the present time.**

**Current U.S. tax laws are quite are quite favorable to buying and owning real estate. Interest payments on money borrowed to buy real estate currently are tax deductible. Local property taxes are also sometimes deductible from taxable**

**income.**

**If you can come up with enough money for a down payment, it is probably easier to borrow money to buy real estate than any other tangible investment. This is because the lender knows real estate can't be moved or hidden like most other investment tangibles can.**

**A further advantage to owning real estate is that the difference between purchase and resale prices is usually quite small . . . typically less than 10 percent. Of course, you need to be careful of changes in real estate values which often accompany the business cycle. During the "up" part of the business cycle, real estate prices typically increase. And, during the "down" part of the business cycle, prices usually drop somewhat . . . and real estate takes longer to sell.**

**There are some drawbacks to owning real estate. One is the considerable amount of personal management and maintenance needed to keep it from becoming "run down" . . . especially if it has buildings located on the raw land. Repair and maintenance expenses on real estate are high compared to other investment tangibles. Also, it is difficult to live very far from investment real estate you own. Personal supervision is needed because hired managers don't always do a good job for absentee owners. Real estate management companies are sometimes more motivated by the "management fees" they collect . . . than by doing a good job for their absentee clients!**

**Real estate is subject to annual property taxes which can be avoided by investing in concealable investment tangibles like gold or diamonds. Also, real estate is subject to inheritance tax, also known as *death tax*. Concealable investment tangibles, however, hold the promise of being passed down secretly to the next generation.**

**Finally, you can get "locked into" holding real estate when its value goes up with inflation. Let's say the price inflation rate is about 5 percent a year. If a person buys land, its dollar value might triple twenty years later. This means the**

**price of the land has merely kept up with the general rate of price inflation.**

**In other words, if this person has paid a price equivalent to 10 automobiles for his land . . . and years later he sells the land for a price equivalent to 10 automobiles, he hasn't had a "real" gain. However, according to current Government tax law this person is "liable" for a capital gains tax when he "sells" the land. (If does a "tax swap" for a similar piece of real estate, the taxation can be avoided.)**

**In contrast, when things like antiques are sold for small amounts of cash, the transactions are difficult for tax authorities to trace. Yet, the sale of real estate must be placed in public records, and the dollar amount of a real estate transaction is usually so large that it is publicly available.**

**Current tax law makes exceptions for homeowners selling their houses who reinvest their money in another house, within a specified amount of time . . . or, who are over a particular age. Also, it is sometimes possible to arrange real estate "exchanges" for similar real estate of equal value (consult a tax expert). In spite of these "loopholes," capital gains taxes are more of a problem with real estate than with other investment tangibles.**

**Many people aren't aware that houses and commercial buildings are "wasting assets." This means they "wear out" and become obsolete . . . just as an automobile or refrigerator does. The only difference is that things built on land wear out at a much slower rate (e.g. 100 years, rather than 10 years). The long time spans involved usually conceal the deterioration of these buildings.**

**Price inflation disguises the fact that buildings are wearing out and losing real value (unless money is spent on their maintenance). The resale prices of buildings keep rising in current dollars, while "real" value, in terms of what the money will buy, is slowly declining. In other words, you would not be able to replace the old building with a similar new building for the same amount of money.**

**Of course, with enough money spent on maintenance and modernization, buildings can be made to last indefinitely. But, as buildings grow older, they become more expensive to maintain and repair.**

**In contrast, the raw land buildings are sitting on *doesn't* wear out. It holds its value in real terms unless shifts in population and land use change its value. For example, as the population in an area increases, it bids up land values. And, as the population declines, it causes land values to drop. Also, the prospect of building a factory on raw land can make the land more valuable than if it is used for farming.**

**A major advantage of real estate, at least in the case of buying your own home, is that you can LIVE in it, and thus avoid paying rent. Also, your home and other real estate can serve as collateral for loans to build your wealth through accumulating additional investment tangibles.**

**All in all, real estate is an asset everyone should seriously consider investing in. It can provide pleasure, security, a place to live, and (in the case of rental real estate) a source of income that usually keeps up with price inflation.**

## How to Evaluate Location and Timing

***Location* is the most important factor to consider in choosing real estate. Each location is unique . . . with its own advantages and drawbacks.**

***Location* determines how valuable a particular piece of real estate is. For example, is the real estate located in the city center . . . in the suburbs . . . or in a rural area? Is it near a lake resort . . . or in the middle of nowhere? Is it in a prosperous region . . . or in a poor part of the country?**

**Real estate located near a city's center is usually worth more than land in outlying areas of the city. Businesses like banks, insurance companies, and retail**

**stores are willing to pay high prices for central locations. In contrast, most people can only afford to spend limited amounts of money for housing, and they are willing to live in outlying areas where real estate prices are lower.**

**There are exceptions to lower real estate prices in outlying areas. For example, businesses are sometimes willing to pay high prices for suburban locations along major streets or intersections . . . where they can make good profits. Also, certain "prestige" residential locations are worth more than their distance from the city's center would otherwise warrant. *Generally*, though, *real estate prices drop the further away they are from a city's center*.**

**In rural areas, land is usually worth even less than in suburban areas. Its main use is for growing crops, which makes the land land less valuable than when it is used for building houses. Of course, if a lake resort is built in a rural area this can increase real estate prices. Even though the location is too far away from a city for people to commute daily to their jobs, they might want to build "weekend" or "vacation" homes in this outlying area. If, for example, good internet service comes to this area and people are able to "work remotely" by computer, real estate values could "spike" sharply upward!**

**Another possible exception would be a mineral discovery—for example oil or uranium—which can also raise the price of rural land in certain areas. So, unique characteristics—such as a lake, minerals, climate, a better highway going through will affect real estate prices.**

**Along with location, a number of other factors combine to determine real estate value:**

*** What *future population increases, or decreases*, are likely? Population increases generally drive up real estate prices. For example, as a town's population grows, its real estate prices rise accordingly. Moreover, land formerly on the edge of town rises in price as it becomes part of the town. In contrast, as a town's population decreases, real estate pries drop. Furthermore, land on the**

**edge of town drops in price as it is no longer used for the town. In a rural area, as more people buy cottages at a lake resort, real estate prices rise. As a lake fills up with silt, or becomes polluted, and people move away . . . real estate prices near the lake drop.**

*** What *changes* in income and wealth of the population are likely? When people in a region become more prosperous, real estate prices generally rise. When people in a region become poorer (think "factory closing") real estate prices usually drop. For example, if an important, new business firm comes into an area and provides high-paying jobs . . . local real estate prices will rise. Or, if an existing business closes down, the resulting loss of jobs and income will drive down real estate prices in the area.**

*** Land *use* also determines real estate prices. For example, farmland is only worth so much. However, the prospect of building houses or a factory on it can make the land more valuable. Furthermore, Government zoning of land use is important. What are the zoning laws that limit the land's uses? Can the zoning laws be changed . . . or, can exceptions be made? For example, land in a city zoned for single-family homes could rise in price if the zoning is changed to permit apartment buildings or office buildings.**

*** The *quality* of what built on land helps determine the price of real estate. Is the structure well-built and likely to last a long time with few repairs needed? Or, is the construction shoddy and likely to require frequent and costly repairs? High-quality construction means a higher real estate price . . . low quality means a lower price.**

*** The *age* of a structure is another consideration. Is it old, obsolete, and in need of many costly changes to bring it up-to-date? Is more, and better, wiring, plumbing, or insulation needed . . . and, how much will it cost to install this wiring, plumbing, or insulation. Negatives like these reduce its price. In contrast, the structure might have been built in an earlier period when better-quality materials and workmanship were used. These are pluses which increase the**

**structure's price.**

**For example, a *new school, fire station, hospital, shopping center, lake, or golf course* can *add* to the value of residential property. In contrast, the addition of a nearby garbage dump, sewage treatment plant, or livestock slaughter house can *reduce* the value of your property.**

*** *Changes in travel times and costs* can affect real estate prices. For example, the addition of a new, fast superhighway can *raise* real estate prices in a formerly remote residential suburb. Improved bus or commuter train service has the same effect. Travel times to downtown work areas are reduced . . . making houses in the suburb more attractive. In contrast, deteriorating highways, increased traffic congestion, and more expensive cars and gasoline *reduce* real estate prices in the area affected. Bus or commuter train service that is slower, less reliable, or more costly does the same thing. The outlying real estate becomes less valuable because of increased travel costs in time, money, and frustration required to commute to work.**

*** The *population mix* of an area is a consideration. Are prosperous "up-and-comers" moving into your neighborhood . . . raising real estate prices? Or, is the area slowly deteriorating . . . depressing real estate prices?**

***What is the *level of real estate taxes*? A tax increase reduces the price of real estate . . . because it reduces the demand for the property. In contrast, a tax cut increases the price of real estate . . . because it increases the demand for the property.**

*** *Rising fuel costs for heating and cooling* hurt the prices of houses that are poorly insulated . . . and hurt the prices of houses located at the extreme Northern and Southern parts of the United States where more heating and cooling is needed. Also, rising fuel costs reduce the prices of free-standing houses which are less fuel efficient . . while helping the prices of more heat-efficient dwellings like row houses and apartment buildings where heat and cooling from adjacent units is**

**shared.**

*** Consider the *changing distribution of the Nation's population*. In the past there was a trend for people in the U.S. to move out of small towns and rural areas to large cities. Now, the trend seems to be reversing itself. This should benefit real estate prices in smaller towns and cities . . . at the expense of real estate prices in large cities. In recent years, Americans have also been moving away from the Northeastern part of the United States to the South and Southwest. This will help real estate prices in the South and Southwest . . . while hurting real estate prices in many parts of the Northeast. Furthermore, it is important to watch changing numbers of people in various age groups of the nation's population. For example, as Americans live to older ages, the demand for retirement and resort housing should increase. This will help housing prices prices in places like Florida and Arizona where many people go to retire.**

*** *Higher energy costs* make it more expensive to manufacture and transport construction materials for new buildings. This raises the prices of old buildings as well . . . since their prices are related to those of new buildings. Government laws are also making it more expensive to build new buildings. Stricter building codes and environment standards, along with greater bureaucratic delays, are driving up new construction costs in most parts of the United States. Also, real estate developers need to borrow money to buy construction materials and finance houses until they are sold. Higher interest rates for borrowed money make building costs higher . . . while lower interest rates can lower building costs.**

*** *Look at trends in real estate prices*. What direction are real estate prices going . . . up or down? If real estate prices are rising, are they increasing at a faster rate? (If so, buy and hold.)**

**Are price rises slowing . . . and forming a "hilltop?" (Prepare to sell.) Have real estate prices turned downward, and is the price decline picking up speed? (Then, sell, if you feel a big price drop is coming.)**

**Does the price decline seem to be slowing . . . and "bottoming out?" (If so, get ready for a buying opportunity when prices turn upward.) Real estate *price trends are important* . . . and should be considered before you buy or sell. To follow real estate price trends, do careful research. Use the internet, and consult with a Realtor and Appraiser to see what different types of real estate are selling for.**

*** Is the price of the real estate you are considering out-of-line with *nearby property values*? Check the neighborhood to see what similar real estate is selling for. How does the real estate you are considering differ? Is it larger, or smaller . . . newer, or older? Does it have a better view, or no view . . . and so on? Try to adjust its value accordingly to see if it is a bargain, or overpriced, relative to nearby real estate.**

*** Consider the *stage of the business-inflation cycle* before you buy or sell real estate. Real estate prices usually change with this cycle. Are current real estate prices at speculative highs, near the peak of the cycle . . .with interest rates to borrow money at high levels? Or, are real estate prices at depressed, recessionary levels when many good buying opportunities occur . . . with interest rates to borrow money at lower levels? It pays to "time" your real estate purchases, or sales, with the right time in the business cycle. However, a good buying, or selling, opportunity can't be ignored when you find it. If the price is attractive enough, in view of the real estate's merits and faults, this overrides waiting for the "right time" in the business cycle to act.**

**All of the above factors should be taken into consideration in deciding whether good value exists in real estate. Most of these factors work simultaneously. However, some factors are more important than others. For example, what part of the country is the real estate located in? Is the structure new, or old . . . fuel efficient, or not . . . and so on. Is a city growing in the direction of the real estate . . or away from it? Keep in mind that cities tend to grow unevenly . . . more in some directions than in others. Each piece of real estate is unique, with a different mix of these factors. All relevant aspects need to be considered in order to decide what the real estate is really worth. The current**

**price may be above, or below, its true value . . . making it overpriced, or undervalued.**

**Your goal should be to *search out good values in real estate relative to what you expect to happen in the future.* The secret is to do a lot of research, and then *select undervalued real estate "in the path of progress."* The big money to be made in real estate is where something *dramatic* is going to happen in the next few years. For example, is a new highway going to be built which will reduce transportation times and costs? Is a new lake going to be built which will make previously cheap, rural land much more valuable?**

**Once you have zeroed in on what interests you, be sure to *hire an "expert" to evaluate the property.* This is well worth the money you will spend.**

**During inflationary times, it makes sense to borrow part of the money to finance your real estate purchase. However, don't take on more debt than you can handle if things turn difficult.**

**It is a good idea to sell your real estate when it becomes overvalued relative to other real estate, becomes overvalued relative to other investment possibilities . . . or, if the entire business-inflation cycle turns downward. One caution is that real estate *can't be sold quickly* for full market value. Always allow 3-9 months in order to sell your real estate for top price.**

**In buying real estate, sometimes this time lag works to your advantage. Often you can pick up a real estate bargain when you find someone who is in a hurry to sell. This can happen because of a job transfer, pressing financial needs, a death in the family, a divorce, or poor management of property.**

**Of course, someone in a hurry to sell could be trying to unload "undesirable" real estate on you. For example, it could be a house about ready to slide down a cliff into the ocean . . . or, a house in a high-crime area. It's up to you, the buyer, to know the difference between a real estate bargain and a rip-off.**

**It can't be stressed strongly enough that you should do careful research *before* you buy real estate. Also, consider which of the above points will be important, both now and in the future, in determining the real estate's true value.**

**If the real estate seems "too cheap," maybe you have overlooked something. Perhaps the seller and other prospective buyers know something you are not aware of. For example, maybe the property floods every time it rains. Or, do foul odors from a sewage treatment plant drift over the property every time the wind changes direction? Perhaps there is a lot of traffic noise near the property . . . during times of day that the real estate agent finds it "inconvenient" to show you the property.**

**Then again, maybe your research has given you extra knowledge that others lack. Are better streets or a highway going to be built near the property? Or, will the city change its zoning code for the area . . . so it can be used for more valuable purposes?**

**It's up to you to do careful and extensive research into all aspects of the real estate you are considering. Even a single factor you are unaware of can have a great effect on the value of the property. For example, is the foundation of the building crumbling and in need of costly repairs? Are there termites? Talk to real estate agents, experts in the field, check city and county records which might affect zoning and future development plans, get an independent appraisal, hire an engineer to check the building . . . you can't be too complete or too careful.**

**One last caution. A successful real estate broker has a commonly-used trick. It is to talk the buyer into paying a bit more. ("After all, if you don't hurry up and buy it, someone else will.") However, at the same time, the agent talks the seller into accepting less. ("It has been on the market for three months without any serious buyers, and you'd better reduce your selling price.") This is the way successful real estate brokers earn their commissions.**

**It is up to *you* to determine what the real estate is *really worth*. You may need to make some price concessions, but hold out for a fair market price. Resist paying too much . . . or accepting too little. If you are a buyer, don't fall in love with the real estate you are watching. You can always find something else if this one slips away. If you are a seller, don't be afraid to hold a while longer. Eventually, buyers willing to pay a more realistic price will come along. An awareness of the factors which determine real estate values, plus careful research and strong determination, will help you buy and sell at attractive prices.**

## How to Buy a House

**Buying a house to live in is a big step for everyone. A typical house costs as much as 5 to 10 automobiles! It is the biggest single purchase most people make in their lifetime. So, it makes sense to know a lot about what you are doing. Whether it is your first house, or your third house, the principles of how to buy wisely remain the same.**

**A house can be an excellent investment . . . one of the best ways to beat inflation. (Or, if poorly chosen, a house can be "A Money Pit!") An important benefit is you can live in the house and avoid paying rent. In the meantime, its value typically rises with inflation. A further advantage is that you can borrow against the house to buy additional tangible investments. Or, you can use your equity in it to borrow for emergency needs, like a severe illness.**

**The irony is, price inflation and Uncle Sam's tax laws encourage you to go deeply into debt to buy a house. Furthermore, these tax laws encourage you to *stay* in debt because your interest costs are deductible from your taxable income. If you are in a high enough income tax bracket, your interest rate for borrowed money can be lower than the going interest rate due to tax considerations.**

**Therefore, once you buy a house, it is worthwhile to constantly upgrade as inflation builds your equity. Keep trading up to the best house you can afford.**

**However, don't overreach yourself. Allow for all the higher monthly bills—interest payments, taxes, utilities, repairs, and insurance—you will face with a larger house.**

**When you sell a house, the profit you make can be tax free. A catch is you must reinvest all the proceeds within a short span of time into another house. Also, after you are older than a certain age, you can sell your house, or trade down to a smaller house and take up to a certain amount of one-time, tax-free profit. In order to do this, you must have lived in the house three of the previous five years. (Check with an accountant, to be up-to-date on this.)**

**Another way to build your wealth through owning residential real estate is to rent out your previous house, instead of selling it. Use your equity ownership in the first house to help arrange a loan for a second house. Move into the second house and fix it up. Then, repeat the process. Use your ownership of the first two houses as a basis for a loan on a third house, and so on. This can build up your tangible wealth. However, *be aware of all the potential drawbacks of dealing with "tenants!"* If a tenant fails to pay the rent, some locations have all sorts of restrictive rules and regulations regarding evicting the tenant from the property. Look into all relevant regulations regarding this, and *do extensive credit and background checks on any potential tenant*.**

**When selecting a house, look at all the factors mentioned earlier. Consider the quality of nearby jobs and part-time jobs, shopping, hospitals, and schools. How "safe" and "convenient" is the neighborhood. Also, what prices are similar houses in the area selling for?**

**Most important of all, *what future changes* in things like population, incomes, and nature of the neighborhood are likely to occur in the area? These changes can increase, or decrease the value of your house. You could "overpay" for a house if you fail to consider all the important factors likely to occur in the future. Remember, housing prices can go *down* as well as up! Although new or improved highways, lakes, schools, shopping centers, police, and fire protection**

**can increase the value of your house, these things can also deteriorate . . . decreasing the value of your house. So, be careful of declining neighborhoods. Make sure any "turnaround" in the downward trend of an area is "real" . . . and not just in the minds of the seller and the real estate agent. Consider general population trends and all of the factors mentioned above.**

**The neighborhood may be losing jobs and economic activity. Nearby factories and businesses may be closing down . . . with little chance of reopening. The city could be growing in another, more promising direction. If this is the case, the downward trend of real estate prices in the area is *not* going to turn around anytime soon.**

**In addition to these general ideas, there are specific things you should look at in checking a house:**

*** Avoid buying a *house that is too unusual*, or in an undesirable location. It will be hard to sell, and it will take a longer time to find a buyer. With an unusual house, you may need to make a big cut in your asking price in order to finally sell it. Besides, there are often drawbacks to houses that are unusual. Replacement repair materials may be difficult to find. The room layout may be inconvenient. Or, the house may be difficult to heat or cool.**

*** Beware of a house in an *out-of-the-way location*. Soaring gasoline prices make houses in distant suburbs less attractive.**

*** *An older house may be built better than a newer house*. Furthermore, with today's high heating and cooling costs, it pays to look for an older house built before the days of modern air conditioning. If such a house is well-insulated, it may be a bargain. An old-fashioned "airplane bungalow" (named for a roof that hangs far out over the sides of the house and shades the windows) will stay cool on all but the hottest days . . . as breezes blow through its large windows. Also, an attic fan (often built into older houses) can be used to bring in cool evening air. These ways of cooling a house are cheaper than running air conditioning 24-hours**

**a day in a "newer" house with windows that barely open . . . and which don't take advantage of prevailing cross-breezes as those in some older houses do. Another consideration is that houses in older neighborhoods usually have tall, shade trees around them that help lower cooling costs. In contrast, many new houses are out in the sun, where their air conditioning needs to work extra hard. Furthermore, a row house, or a cluster-built condominium unit, is generally more energy-efficient (for heating and cooling) than a typical suburban house that has walls exposed on all sides. Higher energy costs are likely to make energy-efficient houses even more attractive in the future.**

*** *Look for signs the seller has taken good care of the house.* The little things you *can* see let you know how well the owner has taken care of things you can't see. For example, are all the screws in cabinet hinges and drawer pulls tight? Are the washers and gaskets in the sink faucets in good condition so they don't drip or leak? Are the faucet handles on straight, or askew in a haphazard manner? Although these things may seem unimportant, they serve as an indicator of the kind of care the owner has taken of the house. Careful attention to small things like these usually means the owner has taken care of hidden details around the house as well.**

*** *An old house that needs a lot of repairs is usually a "false bargain."* It may seem cheap, but the repairs will probably cost more than you expect. Doing the work yourself to fix up an old house can be a terrible grind. It will probably take much more time than you realize. If you remain interested, and if you have enough time, you will be able to do simple repairs and painting yourself. However, plumbing, wiring, major carpentry, and roof repairs will mean hiring expensive skilled labor. So, don't fall for a house that requires major repairs you are unable to do yourself . . . unless the price is *very* attractive.**

*** "Test" *the house's arrangement* to see how easily you could live in it. "Walk through" a morning's get-up-and-get-started activities. Are there enough bathrooms for your entire family? Fix a "pretend meal in the kitchen . . . reaching from work surface to sink, from refrigerator and cabinets to work surfaces, etc. Is**

**there enough shelf and storage space in the kitchen? How about the work surfaces and general arrangement? Try doing an imaginary load of laundry. How convenient are the laundry facilities? Are there enough electrical outlets, and are they located in convenient places.**

**Imagine that your family is sitting around home in the evening. How good is the sound isolation? Will people talking, or watching television, in the den or living room bother children sleeping or doing homework in another part of the house? Is there enough closet space in the house, and is it well arranged with built-in shelves? Many houses come up short in this respect, and this is why so much clutter accumulates in the garage.**

*** *Check to see if the house has been "settling."* This can mean major expenses in the future. Check the foundation, or basement, for cracks. Hairline cracks are common, but larger cracks can mean problems. Look for cracks on interior walls at stress points around doors and windows. Even if the cracks have been patched, you may still be able to spot the repairs. A floor that isn't level can also tip you off to settling walls. When you go to look at house take a one-inch-diameter steel ball, or a child's large glass marble, with you. Try it on bare floors to check slopes your eyes can't see. Another clue to settling walls will be doors that stick when you try to open or close them . . . or doors that have been cut off on the top or bottom so they *will* close. When the doors are shut, look to see if the door is square with the doorway. Or, is there a triangular "wedge" of space at the top or bottom of the door . . . where the door has been cut off so it will close. This is a tip-off that the house has been settling.**

*** *Is the plumbing and wiring of the house up-to-date*? If not, you'll be in for some big expenses. Also, what is the condition of the sewer line? Cast iron or plastic pipe connecting your house to the main sewer line will probably be O.K. However, tile or composition sewer pipe may be crumbling and constantly letting in tree roots . . . stopping it up. Replacing a deteriorating sewer line will be a considerable expense. Also, if the house's wiring is old, it probably won't carry enough electricity for today's needs. As a result the circuit breakers, or fuses, will**

**keep cutting off the electricity. The only solution will be a costly rewiring job for the house . . . adding heavier gauge wire and extra electrical outlets.**

*** What is the *condition of the paint* on the house? Is the outside paint chipped and peeling? In that case, you'll be in for an expensive paint job. A one-story house usually costs less to paint than a two-story house . . . especially if the two-story house has lots of elaborate "gingerbread." You can paint a one-story house more easily yourself, without using cumbersome, tall ladders. However, if the house is freshly painted, you're not necessarily "home free." Fresh paint can cover many problems. On older houses check around the corners of window frames for wood rot. Push with the end of a screwdriver or a key in these areas to see if the wood is soft and rotten. Also, look at the putty around window glass to see if the putty is cracked and missing. If so, the exposed wood will rot. If the windows have aluminum frames, *see* if they are corroded . . . and *if the windows will easily open and close.***

*** Are there *drainage problems*? Are the roof's gutters and downspouts O.K.? If water doesn't generally drain away from the house, you'll have a damp basement.**

**If the seller, or real estate agent, doesn't brag about the roof, furnace, air conditioner, or water heater, you can be sure they are old. This means major repairs and expenses may not be too far away. Also, are there any termite, bug, or rodent problems? Is the house well insulated? Ask about last winter's utility bills. Also, find out how high property taxes are on the house.**

**During your search, it is important to let real estate agents know you are looking for "good value" . . . and that you are *not* eager to buy. Also, be careful not to stretch yourself "too thin" financially. Make sure you can afford all the monthly payments that will be necessary. Allow enough for utilities, insurance costs, mortgage payments, repairs, and taxes. Also, will you have enough money left over to furnish the house . . . and deal with "unexpected" expenses that always come up?**

**If you are serious about the house, hire an expert to examine it. In many cities there are companies that make a business of checking the soundness of houses. Your expert will go down a checklist and give you a complete appraisal, along with estimates of repairs needed and their costs.**

**Furthermore, when you buy a house get the longest possible mortgage loan with the smallest possible down payment. (Your down payment will often need to be at least 20 percent of the purchase price.) A small down payment will let you take greater advantage of price inflation, and you will be able to pay back your loan in the future with the cheapest possible dollars. In addition, shop around from one lending institution to another for the lowest interest rate you can find. Try to write into the loan contract that there won't be a penalty if you pay off the loan early . . . or if you want to negotiate a lower rate of interest at some future time.**

**In shopping around for a real estate loan, you should be aware of something that lenders refer to as "Points" or "origination fees." These are one-time charges that are deducted from the amount of money you *receive* on a mortgage loan. Each point is one percent of the loan. For example, if you borrow $100,000 and are charged "one point" by the lender, you receive only $99,000 for the loan. However, you MUST pay back $100,000. If you are charged three points by the lender, you receive a loan of just $97,000 . . . but you must pay back the full $100,000. Points are deducted from the amount of the loan, while "origination fees" must be paid at the time of the closing. Although this may seem unfair, it is the way things are done. In times of changing interest rates, this is one way the lender protects itself.**

**So, in order to compare the *true* interest rates charged by various lenders, take "points" and "origination fees" into consideration. For example, two banks could be offering a loan at the same interest rate, but one could charge you one point . . . while the other charges you three points on the loan. Or, *both* interest rates and points could differ at alternative banks. You'll need to do some careful**

**checking and figuring to decide which lender is *really* cheaper. If you have trouble doing the comparisons, have the competing banks show you how.**

**If the seller of the house already has a low-interest-rate loan, see if *YOU* can assume that loan yourself. Check with the seller's lender to see if this is possible. In some cases, the lender will add a second mortgage loan (at the current interest rate) to the existing loan. Then, the previous loan can be transferred to you at its low interest rate. The combined rate of interest on the two loans will be lower than the going market rate of interest.**

**Be sure there is a clear understanding of *all* purchase terms for the house, and have these written into the purchase contract. Are the stove, refrigerator, washing machine, curtains, attached lighting fixtures, and carpeting included with the house? *All* terms of the agreement should be written down. Also, make sure the purchase contract requires the seller to pay for any necessary repairs before you move in.**

**Brace yourself for a surprise. The closing costs on a house purchase will probably be more than you expect. So, be sure to allow extra money for this. In rural areas these settlement costs are likely to be low . . . while in a large city they will probably be a lot more. You will write check after check for an assortment of fees . . . title, search, legal fees, inspection of the house, and so on. Generally there is very little you can do about this except allow for the extra expenses. Ask to see if these fees can be wrapped into the loan to reduce your purchasing burden.**

**In summary, buying a house is the same as buying other real estate. The secret is to *search out good value.* Then, when you find the right house at an attractive price, buy it.**


## CHAPTER 15

## BUYING OTHER INVESTMENT TANGIBLES

**This is the shortest, easiest-to-read chapter in the book! Our previous chapter, about buying real estate, demonstrated in great detail what is needed to carefully research the purchase a specific investment tangible, real estate. Use that chapter as an example how much knowledge, care, and research you will need in order to successfully buy *ANY* other *investment tangible*. *Sufficient knowledge about every specific investment tangible* (gold, diamonds, antiques, cryptocurrency, etc.) *is too great to be fully covered in this book*. However, appropriately detailed information is widely available on the internet, and in numerous books. Use the general information we provided earlier to decide WHICH *investment tangibles* are appropriate for YOU. Select your areas of interest . . . and then go for it. However, educate yourself completely *before* committing significant amounts of money. *One strategy is to start small and take things one step at a time as you gain knowledge in a particular investment area.***

**There, you have it . . . end of chapter . . . .**


## CHAPTER 16

## START YOUR OWN BUSINESS/WORK INTO OLD AGE

**One of the best ways to build and accumulate wealth is to start your own business. (It is ALSO a good way to *lose* money!) Starting your own business is something to consider in times of high taxation and high inflation.**

**Because of "fringe benefits" that aren't taxed, a lower take-home income through having your own business is *equivalent* to a higher salary if you work for someone else.**

**When you work for someone else, your paycheck is devastated by all the taxes and "withholdings" taken out. However, with your own business you will have tax advantages, the potential to build wealth, be able to make your own decisions, and set your own working hours. You will work hard—probably MUCH harder than if you were working for someone else—but the results will all be yours. Of course, there is no such thing as a "part-time business owner!" You will be working really, *REALLY*, long hard hours!**

**With your own business, many travel, entertainment, and other expenses**

**associated with your business will be deductible from your income tax. Possible tax deductions are:**

*** Business use of car and telephone**

*** Home office, equipment, and supplies**

*** Meals and entertaining for business purposes**

*** Business travel expenses**

*** Courses to improve your skills**

*** Subscriptions—online newsletters, newspapers, and magazines**

*** Club dues, if primarily for business purposes**

**It's usually best to start small, finding a business you can operate out of your home in your spare time. This way you can keep your regular job while your part-time business is growing. Also, try to start a business in an area that you already know something about. Your "learning curve" and "mistakes" will be much better if this is the case.**

**Look for an area where you have a "competitive advantage," an "edge." For example maybe you have superior knowledge and experience in a certain area. Or, you might have a better business location than others you are competing with. Perhaps it could be a better way of advertising, a superior product (before others can copy it), or lower costs. Without having an edge, or competitive advantage, you will just be "spinning your wheels," and work too hard...without getting anywhere.**

**Keep in mind that you still may end up starting, and failing, at a number of business ventures . . . before you are truly successful. The saying is, "Fail**

quickly." In other words, if something is not working out, close it down quickly . . . rather than unnecessarily losing a lot of money.

By starting small, and keeping your regular job, you can reduce the risks associated with starting a new business. You will have income from your full-time job. By approaching things gradually, the start-up costs of your business can be spread over a long enough span to reduce your chance of failure. This approach will provide you time to learn the "ins" and "outs" of your new business without risking all your time and money in one big shot.

Initially, try to invest *only* time and energy in your new business. Invest as little money as possible . . . even if you have money available. As your business grows, you'll most likely need all the additional money you can raise.

How do you raise enough money to start, and later expand, your business? You can borrow against major things you own like a house or car. Also, your experience in the field, or at successfully running a business, can sometimes serve as additional collateral for a loan. If your bank turns you down, consider approaching the Federal Government's Small Business Administration. Another possibility is to look for investors who will loan you money or buy a share in your company. Friends and family members are your best prospects for this.

To be successful starting a new business, you should be aware of certain rules that help increase your chances of success:

## PROFITABLE AREAS

Look for new, emerging areas where competition isn't yet too great. For success, get in on the beginning of a new field . . . or a new way of doing things in an existing field. For example, don't just start another "me too" type business unless you have a "unique" approach which holds promise of being profitable.

## USE WHAT YOU KNOW

**Do something that takes advantage of your personal expertise . . . something you know a lot about. Take an inventory of what you already know and can do. In which areas do you have a "comparative advantage" over others?**

**For example, are you good at selling things? Do you have a hobby which could become a business? Also, can you quickly learn the *additional skills* you will need to operate the business?**

## EXISTING BUSINESS WITH TURN-AROUND SITUATION

**It may be possible to buy an ongoing business, if careful research indicates you can make it more profitable. Generally, the price you pay for a business reflects its profits under the previous owner. If you have a way to make it *more profitable*, then its purchase price may be a bargain.**

## HERE ARE DANGERS TO BEWARE OF . . . WHEN YOU START A NEW BUSINESS:

## LEARNING CURVE

***There are many things to learn in operating a new business.* Even if you are an expert in the field, it will take you a while to learn the unique characteristics of a business. During this "learning period" you will be at a competitive disadvantage.**

**For example, it will take time to learn the best procedures, cheapest sources of supply, the best ways to reduce manufacturing costs, the best assembly methods, the best ways to advertise, and the most profitable prices to charge. You'll need to keep trying different ways to do things . . . until you find a winning combination.**

## ENOUGH MONEY

**The main reason a new business fails is *not having enough enough money* to carry it through the first year. Often a new business is unprofitable during its first 12 to 18 months . . . until the owner learns everything he or she needs to know. Also, it usually takes time to build up customer traffic and customer confidence.**

**Be sure to allow enough money to cover this period. If you leave your present job to start a new business, you'll need enough money to cover business operating expenses, plus your living costs, for at least one year.**

**Also if you run short of money, it may be necessary to sell "part of your business" ownership to someone else. Then, later on, if you need even more money, you may find it necessary to sell off even more of your ownership. Before you know it, you won't have "your own business!"**

## BUYING AN EXISTING BUSINESS

***The previous owner of a business may know about drawbacks you are unaware of*. For example, you could be buying a restaurant, motel or gas station . . . just before the highway is moved! Or, there may be coming "technology changes" *YOU* are "unaware of."**

**Furthermore, the previous owner may have been much more experienced and skillful in running the business profitably than you may be . . . or that you will become soon enough to make it profitable. So, be *VERY CAREFUL* about overpaying for an existing business . . . or even buying it in the first place.**

## BUYING A FRANCHISE

**Sometimes buying a business franchise can lead to big profit opportunities. But be very careful. If the franchise is such a great idea, why is the firm selling YOU a franchise . . . rather than expanding the business itself (or selling it to**

**someone else)?**

**Sometimes lack of money is the reason. For example, many successful restaurant chains sold franchises in their early years. However, many other sellers of franchises are "fly-by-night" operations to beware of. Only careful research will help you discover the difference. Talk to franchise owners who currently operate these franchises. Ask them about the "pros" and "cons" of operating a franchise from this company!**

**Do internet research, check with their banking and other financial references, with their suppliers and others who deal with them. Talk with experts in the field. Check everything possible BEFORE you commit your money.**

## WORK INTO YOUR OLD AGE

**You will need much less money for your retired years, if you simply work into your older years. Your work will keep you physically and mentally active . . . and much healthier. Also, even if you have your "own" business, you may be able to taper back, work less hard, and work less hours. This will be one of the really big advantages of having your own business.**

**Furthermore, with this extra money coming in during your "semi-retirement" years . . . you won't need to accumulate such a large amount of money for your old age!**

## SUMMARY

**The keys to success in starting your own business are careful and complete research, hard work, knowledge in the field, finding a "need" that isn't being satisfied by others (and isn't likely to be filled by others in the near future), and having enough money to carry you through until the business becomes profitable.**

**By starting part-time on a small basis, you will minimize the risk of failure and give yourself enough time to learn the business.**

**The greatest advantage of having your own business is the range of "fringe benefits" you can offer yourself. During times of high inflation and taxation, take as much of your salary as possible in the form of untaxed fringe benefits—such as health care, subsidized meals, travel, etc. Otherwise inflation will throw this part of your salary into higher and higher tax brackets.**

**With your own business, you will most likely work VERY long, hard hours at first . . . and even later on. However, the results will be YOURS to reap. Furthermore, you will be able to enjoy fringe benefits usually not available if you work for someone else. Furthermore, with your own business, in your older years you will most likely be able to "taper back" and work less hard . . . yet have money coming in from your business.**


## CHAPTER 17

## INFLATIONARY RECESSION – STAGFLATION

**An "Inflationary Recession," sometimes called "Stagflation," is the worst of all possible economic worlds! You have BOTH a high rate of price inflation *AND* an economic downturn, a severe slowdown in business activity. People are losing their jobs *AND* prices are going up.**

**The dilemma is that if Government takes actions (raising interest rates and limiting money supply growth) to slow Price Inflation . . . then more people will lose their jobs, and the economy will slow further.**

**In contrast, if Government takes actions (lowering interest rates and increasing money supply growth) to help the economy . . . then Price Inflation will skyrocket even further.**

**The only way "out of this" for the Government is through *economic growth*. This can be achieved by eliminating as many unnecessary Government Regulations as possible. Unfortunately Government has a VERY poor history of reducing unnecessary Government regulations.**

**Until, and unless, the Federal Government takes appropriate measures to improve the economy *AND* get price inflation under control . . . you will need to apply the principles discussed in this book.**

**In order to *DETERMINE* whether the Federal Government is taking appropriate measures to fix our economy . . . you will want to read the *NEXT* portion of this book!**

## PART TWO

## AMERICA – A LAND OF DECLINING OPPORTUNITY

**America was once a land of opportunity.**
**Today an ever expanding government**
**has thrown a dark shadow of**
**inflation across the land.**


***Dealing with the Government is often more difficult than dealing with customers!***


## CHAPTER 18

## OUR ROTTING MONEY

**Our money is rapidly losing its buying power. Over *MY* lifetime, money in the U.S. has lost more than 95 percent of its value. As a child in the 1950's, I could buy a candy bar (Milky Way, Snickers, Baby Ruth, Hershey's) for 5 CENTS. The current price is over 20 times as high.**

**Price inflation in other countries is often even worse. This is why the U. S. Dollar has been the World's "Reserve Currency." However, if America's politicians continue destroying the value our money, it could lose this "Reserve Currency" status in the World's Financial Markets!**

**Our Government is aware that when people resist paying higher taxes, a "hidden" Inflation Tax can secretly be imposed on them. To do this it simply "prints extra money" (or electronically increases the amount). This provides the Government with more money to spend. However, once there is *more money relative to the amount of goods and services available,* prices go up. Clueless people blame "greedy merchants," but they don't realize their Government is causing price inflation.**

**The end is nowhere in sight. Inflation has become so deeply rooted in our economy that several generations of Americans have only known spiraling prices. What is disturbing is that people accept this as normal!**

**When people expect rising prices, they tend NOT to save money or put their money into investments, which would otherwise build our economy and raise our standard of living. Instead, because they expect rising prices, people spend their money on short-term pleasures, restaurant meals, vacation travel, and other things which have no long-term benefits to them, or the economy.**

**Sometimes people "invest" in a house. The house I grew up in as a child cost my parents about $3,000 just before World War II. Although it's token value now is 30 times higher, this is still the same house. In the meantime, annual "property taxes" must be paid on this house . . . making you wonder whether this house is truly "owned," or if it is simply being renting from the Government. In addition, people living in the house pay for "upkeep" and "repairs!" The same is true of many other hard assets, such as cars, where taxes and license fees are paid to the Government. In fact, houses and cars are "wasting assets," where constant repairs are needed to keep them functional. Also, they are bought on "payment plans" where a considerable rate of interest is paid to financial institutions. By the time the home, or car, is totally paid off . . . the "interest expense" often makes the "total" cost SEVERAL TIMES the initial purchase price.**

**This poses a real dilemma for anyone trying to get ahead in life and build financial security!**

**The early chapters of this book told how to protect yourself from inflation's destructive effects. However, it is also important to understand *how* inflation affects us, its *cause*, proposed *solutions*, and their *relative chances of success*. This knowledge will help you *judge which strategies to use as political and economic events occur*.**


## CHAPTER 19

## THE MIDDLE CLASS POOR

**Price inflation has created a whole new class of people in America—the "middle class poor." These are the productive people in America who are watching their money buy less and less. They are not poor enough to qualify for government assistance like subsidized housing and food stamps, nor are they poor enough for substantial scholarships to send their children to college. Still, they suddenly find they can no longer afford decent housing, well-balanced meals, and higher education for their children. Price inflation has placed these things beyond their reach. These people are eaten alive by price inflation and higher taxes, and they watch their paychecks buy less and less. Many families even go into debt just to buy basic survival needs . . . food, shelter, and clothing.**

**In 1960, my first semester college "tuition" at a Midwestern State University was $104. ($208 total for fall and spring semesters) Price inflation for a University Education has greatly outpaced the general rate of inflation in America. This has placed a University Education beyond the reach of many middle class Americans.**

**Once there was a time when Americans were able to save money out of their salaries. A person's salary was enough to buy housing, food, clothing, and still have money left over for savings. People could put that money in a bank, confident its buying power would remain—and even grow. Money held its value, fostering attitudes of thrift and investment in America's future. As a result, Americans looked forward to personal financial betterment and a higher standard of living.**

**Times have changed. Today it is difficult to have extra money left over from our paychecks that we can save. Currently, interest rates paid on savings are woefully low, and below the rate of price inflation. As a result, it no longer seems worthwhile to even try and save money in a bank. After taxes and price inflation, the *real* rate of interest you receive on your money is negative.**

**Price inflation devastates many people. When poor people are spending 99 percent of their money on necessities like food and housing, even a little bit of price inflation crushes them. Major price inflation makes their lives impossibly difficult!**

**In the meantime, government berates us for being a "me-generation," spending money on ourselves rather than saving and investing this money to make America more prosperous. Washington created the current environment which penalizes saving and investing; Americans are merely reacting to it!**

**Being middle class in America used to mean having a good job, owning a house, a car, nice clothes, and plenty of food on the table. Today these things, once taken for granted, are being squeezed away.**

**Housing has always been the family's biggest expense. In the past, the rule of thumb for Americans was to spend no more than one-fourth of income on housing. Today many are spending 40-to-50 percent, or more, on housing . . . and often have to take in roommates to help with expenses.**

**Food used to be a minor item in a middle class family's budget. Today it has become a major expense. Every weekly trip to the supermarket adds further price shocks, stretching the budget even tighter. By necessity, people are downgrading quality of food in order to maintain their budget . . . creating long-term health problems.**

**Automobiles used to be inexpensive to buy and maintain. You could buy a good car for about $2,000, and gasoline cost very little. In the 1960's, when I was in college, I recall paying about $0.27 a gallon for gasoline! *Currently, gasoline prices are rising so quickly I am hesitant to list them here . . . they will be much higher by the time I finish this book!***

**Unfortunately, after taxes are taken out, people's salaries have *not* kept up with rising prices. Furthermore, people's incomes are being heavily taxed. Almost everything we buy has a "sales tax." Also, things like phone bills and internet/cable television bills are filled with miscellaneous "excise taxes" which add up to as much as one-fourth of the bill. This is AFTER we pay an "income tax" on our "income" in the first place. After all these taxes, and continuing price inflation, people are pressed between a rock and a hard spot.**

**Americans know from their own experiences they are losing the battle to inflation. Once it was *not* a problem for middle class working people to come up with the down payment for a house or car—now it is. Shopping was *not* the constant struggle it is today. When I was younger, Middle class Americans didn't need to skimp on life's little pleasures—now they do.**

**Eating in a nice restaurant has become a forgotten luxury. Paper and plastic "fast-food palaces" are now the norm. At home, chicken and "meat stretcher" menus have replaced the favorites which were once affordable. Skimping is common on such things as dental care. A major illness is financial catastrophe. Families are spending winters in cold houses because they can no longer afford to heat them properly.**

**In addition to lowering our standard of living, price inflation adds uncertainty and financial insecurity to our lives. Contractual obligations are distorted by rising prices, unfairly rewarding one party and penalizing the other. For example, those saving or loaning out money are cheated when inflation rises to unexpectedly high levels. The money they receive back in payment is worth *less* in buying power than they were counting on.**

**Hoarders and speculators gain while other Americans lose. Inflation rewards those who hoard and speculate in tangible things, especially if they are knowledgeable in their selection and timing. In the meantime, government-controlled interest rates are below the rate of inflation, penalizing those who put their money into savings accounts and bonds.**

**Inflation distorts America's financial structure and breaks the spirit of American people. Price increases come so rapidly, by the time a down payment for a major item like a car or house has been saved, the newly inflated down payment rises out of reach . . . forcing people to take out a "lower down payment loan" at a higher interest. So instead of trying to save for a major purchase, like a house, Americans are tempted to squander their money.**

**People begin substituting things they "can afford" for things the they *REALLY* want or need. Americans begin compulsive shopping with money they do have, for fear prices will go even higher. Shell-shocked and dazed, they nickle and dime their money away before it loses even more of its value. With no particular plan, they spend as fast as they earn. *By the way nickles and dimes have lost so much value, you can't buy anything with them anymore, and pennies are only useful for sales tax!***

**Frustration sets in. Money loses its value; price inflation destroys savings and pensions. Taxes and inflation devastate your paycheck. Wage increases intended to meet inflation merely throw earnings into higher percentage tax brackets. Your "real" income drops, and the Government's share keeps growing!**

**The middle class is on a treadmill, running faster and faster trying to stay in the same place . . . and often falls behind. Americans work harder and longer, for a lower standard of living. Families which used to live on a single paycheck now require two paychecks, or even three. Our country is fast becoming a nation of two-or-three paycheck families trying to make ends meet. The American dream of a good life is slipping away. *It's been theorized that many of our Nation's current social problems are compounded by "latch key" children, who grew up without proper supervision due to parents being overworked to pay the bills.***

**Our "representatives" in Washington remain unresponsive to our suffering, and merely respond to lobbyists and pressure groups which give them large amounts of money. Government takes an increasing portion of our paychecks every year. This provides more money for pet projects and adventures in empire building. In the meantime, average Americans struggle to stay afloat.**

**Washington pacifies the electorate with an occasional "tax cut" or "hand out." But these token efforts serve only as a mirage to keep people deceived about the real problem, so that politicians can get reelected. "Special Interests" gain all the benefits while the "common people" pay the tab! *Overall, our REAL taxes keep increasing as politicians find creative ways to extract money from the taxpaying public*!**

**Price inflation is crushing the spirit of the most productive group in America —our middle class. Meanwhile, the Federal Government acts like it is an innocent bystander. Uncle Sam points an accusing finger at others for causing price inflation, while refusing to admit that government actions are the real problem. Government is living in the eye of a hurricane called price inflation, where *IT* is unaffected. Isolated from the pain and buffeting others suffer, Government continues to tax and spend, tax and spend . . . .**

**Bewildered and apathetic, the American people seem helpless to do anything about all this. The majority of Americans are middle class—the backbone of our society. Despite this, our Government remains unresponsive to middle class**

**America.**

**Lobbyists in Washington harvest an avalanche of dollars for their efforts (*basically legalized theft*) while American taxpayers stand mute and helpless. Government responds to those who make the most noise, and give the largest political donations (*bribes*). Government programs feed oil to squeaky wheels, and in the past the American taxpayer has *not* been a squeaky wheel.**

**Our Government advises Americans to "bite the bullet" and economize further—accept the idea of a reduced standard of living. Americans are *already* pinching pennies while an overweight government continues to expand.**

**Our standard of living is going down the drain as a result of higher prices and increasing taxes. Our legislators think the nation's problems can be solved by more government programs, rather than by Government "getting out of the way." Yet, these programs only add fuel to the inflationary fire by causing larger and more expensive Government.**

**Slavery may be defined as "*YOU* doing the work, someone else taking the results of your work, and leaving *YOU* with just enough to survive." Are we approaching this in America?**

**Middle class Americans are proud, hardworking, self-sufficient people. They don't ask for, nor do they want, government assistance. Their silent prayer is to be left alone! All they want is a chance to earn a decent living without having it all taken away by price inflation and taxes.**


## CHAPTER 20

## "SHRINKFLATION"

**Price Inflation is when prices, in dollar terms, increase on products and services. HOWEVER, something called "Shrinkflation" occurs when LESS of a product is put in a particular package . . . while its price remains "the same." For example the contents of a package might be reduced from 12 ounces to 10 ounces, while the packaging remains the same . . . or, at least, looks the same.**

**Sometimes the "quality" of a product, or service, is reduced! Ingredients may not be as pure, or as concentrated. For example, your bottle of dish washing soap may be less concentrated, having less soap and more water. It then takes *MORE* of this soap . . . to do the same job. This is a *stealth* type of price inflation. Merchants are reluctant to openly raise prices, so they raise prices in hidden ways--Shrinkflation!**

**Examples in recent years have been self-checkout at stores, or "checking in" on kiosks at airports, or kiosks for ordering at fast food restaurants. Today when you call "customer service" at companies, increasingly all you get is a computer response. If you want to speak to a "real person" it is nearly impossible, or may**

**take hours to actually reach someone. Not only is this frustrating, but government statisticians calculating our Nation's rate of price inflation may be "missing" most of this "decline in service quality!" As a result, Government statistics (crucial to determining increases in pensions, social security payments, etc.) could be greatly *understating* the actual rate of price inflation.**

**Skimpflation is indeed a form of Price Inflation. You may not be consciously aware of it. However, you are receiving LESS for the price you pay!**


## CHAPTER 21

## INFLATIONARY DISASTERS

**Since the birth of money, people have suffered through times of extreme price inflation or hyper-inflation. In some countries prices rose so rapidly that money lost its value almost before it could be spent! Workers would be paid every day, and then rush out to spend their money over lunch hours, or pass it to relatives through factory gates, before it became worthless. Conditions were so bad that large baskets and suitcases full of money had almost no buying power. This happened in Germany after World War I, and also in China, Greece, Hungary, and Brazil after World War II.**

**In Germany during the 1920-23 period, prices rose to more than a trillion times as high as they started. Lifetime savings were wiped out. Insurance policies became worthless. People tried to spend money as soon as they received it, realizing that almost anything *tangible* was a better store of value than money. Price inflation became so severe that restaurant patrons "paid in advance," fearing the price of the meal could "double" if they paid after eating.**

**As inflation grew worse, production and distribution of goods and services**

**became chaotic, so people turned to barter . . . trading goods and services with each other without using money. Germany's social and political fabric broke under the strain, and this paved the way for the government collapse and Adolf Hitler's rise to power. Is it any wonder, then, that many years later Germans are still very cautious about price inflation. They have passed along vivid stories of the misery and chaos price inflation caused.**

**Such conditions can happen in *ANY* country which is careless in managing its money. The consequences are extremely painful, and people who do not take appropriate action to protect themselves risk losing everything.**

**Will this happen in America? No one can say for sure. As a nation we have become increasingly careless about managing our money. If this mismanagement continues, and grows worse, there is always the possibility of a hyper-inflationary disaster. Don't think that because America has had such a good past, this can't happen here. Germany was one of the greatest nations in the world when hyper-inflation struck.**

**Actions speak louder than words. So far our government has failed to take firm, decisive steps to reduce the underlying causes of price inflation. In the meantime, price inflation is slowly fluctuating its way toward higher and higher levels. At times the rate of inflation *seems* to improve during the recessionary part of business cycles, but price inflation increases again when business activity picks up. This worsening cycle will continue, and perhaps grow worse, until Washington gets serious about stopping price inflation.**

**Creeping inflation is a low enough rate that we hardly notice it. We suffer very little discomfort. People don't pay very much attention to price inflation or its effect on their lives. This rate is perhaps 4 percent annual inflation, or less. However, if not controlled, it can potentially grow into a much higher rate of inflation.**

**Galloping inflation might be characterized as 5 to 15 percent inflation. At**

**this level, inflation becomes a *SEVERE* problem. Distortions and considerable inefficiencies occur in the economy. People are severely hurt by this over time!**

**Once galloping inflation gains a foothold, it has the possibility of exploding into an economy-shattering hyper-inflation! At the hyper-inflation level, extreme distortions in the economy occur. Less is produced as everyone tries to get rid of money and buy anything tangible.**

**We might arbitrarily choose a 16 percent rate (and up) as the breaking point between galloping and hyper-inflation. The exact percentage rate is not critical. The important factor is a change which occurs in a nation's economy. Once price inflation crosses into the hyper level, it becomes *MORE* than just a severe problem. It now causes *EXTREME* changes and distortions in a nation's economy, causing people to take actions greatly different than they would otherwise take.**

**An ongoing rate of just 16 percent inflation creates havoc in an economy! At this rate, one-third of money's buying power disappears in just two years. At this borderline rate, the inflationary momentum is like a hot knife slicing through butter, destroying a nation's economy! With the root causes in place, 16 percent inflation can quickly pass into 20, 30, or even higher annual inflation.**

**An annual rate of four or five percent, price inflation is not particularly damaging to a nation's economy. During numerous periods after World War II, America's inflation rate has been below 5 percent annually, and this has not been particularly damaging. However, at other times it has moved higher, and this has been very corrosive to our economy.**

**If our government continues treating inflation carelessly, ignoring its danger signals, and persists in using "phony cures," a cyclical trend toward ever worse price inflation will continue. Great nations have crumbled under the strain of hyper-inflation, and the United States in not immune to such disaster.**


## CHAPTER 22

## YARDSTICKS OF INFLATION

**News Broadcaster: "The Consumer Price Index rose 0.9 percent in the month of April, while the Wholesale Price Index increased 1.2 percent for the same period."**

**This is the sort of announcement you might hear, or read, on the news. Mostly we "ignore" news like this. What does it mean? How does it affect you? Do these government figures give the *REAL* picture of inflation's bite on your budget? Why do some people think the actual rate of inflation is *higher* than government figures indicate?**

**The Federal Government provides several yardsticks of price inflation; these are called "price indexes." The indexes are useful because they give a general idea about the rate of price inflation. They help us understand whether our salaries and savings are keeping up with price inflation. Also, payment increases in wage contracts and retirement pensions are often tied to the rate of price inflation, as measured by one of these indexes.**

**Once you learn a monthly rate of price inflation in the news, simply multiply that figure by 12 to give a "rough" estimate of the annual rate of inflation. Experts use a more complicated formula showing monthly compounding, but the results are only slightly higher.**

**Price indexes were originally intended to help government formulate policy in taxing, spending, and creating money. The three most commonly used indexes are the Consumer Price Index (CPI – a measure of variations in prices paid by typical consumers), the Producer Price Index (PPI – a measure of changes in prices received by domestic producers), and the Gross Domestic Product Deflator (GDP Deflator – a measure of changes in prices of all new, domestically produced, final goods and services in our economy over a year). Unfortunately, Washington tends to ignore warnings provided by these indexes . . . and this is why we have a price inflation problem in our Country.**

**Each of these three different indexes measures a typical market basket of goods. It's like taking a yardstick and measuring prices in the economy in three different places. Price indexes give a heavier mathematical weighting to some items in the market basket than others. For example, price changes in housing are given more importance than price changes in haircuts because housing is more important in a typical family's budget.**

**The Consumer Price Index measures prices for things a typical family buys regularly. It reflects the general trend in retail prices. From time to time, new products are added to the index and others are removed as standard buying patterns change.**

**The Producer Price Index, formerly called the Wholesale Price Index, is a gauge of prices at the manufacturing level, before transportation and retail markups are added. This index is useful because it reflects the overall trend of wholesale prices. Wholesale prices "lead" changes in retail prices paid by consumers. So, if the Wholesale Price Index rises by x percent, it won't be long before the consumers face similar price hikes at the retail level.**

The Gross Domestic Product Deflator is a much broader yardstick than either the Consumer Price Index or the Producer Price Index. It measures the rate of price inflation for everything produced in the United States. Knowing this enables us to compare changes in the nation's real output of goods and services from one year to the next. This way we know how much more, or less, our country is producing in real terms from one year to the next.

These three indexes share a fault in common. Nobody is likely to buy *all* the things in a typical market basket, or buy them in exactly the same proportions, measured by one of these indexes. As a result, price indexes give only a very general idea of how inflation affects each of us as individuals.

These yardsticks can be deceptive. They can understate or overstate the true rate of price inflation. For example, the current Consumer Price Index is based on a market basket of goods from the past. However, people keep changing the proportion of various things they buy. Although the Consumer Price Index is periodically "adjusted" trying to take account of this, sometimes it fails to do so accurately.

One reason why the Consumer Price index can be misleading is that prices of basic necessities—things none of us can do without—sometimes rise faster than the government's index, which includes luxuries as well as necessities. The National Center for Economic Alternatives has stated that prices for basic necessities, such as energy, housing, food, and medical care, have been climbing at a much faster rate than the prices of other items in the government's Consumer price Index. These four categories make up 60 to 70 percent of expenditures in four out of five American households. Thus, the average family is being hit harder by price inflation than the Consumer Price Index indicates. The poor and elderly who spend almost all their income on these basic necessities are hurt even more.

Most of us have come to rely on the Consumer Price Index as a guide to price inflation. However, don't be mislead by government figures. What really matters

**is what price inflation is doing to *YOU*. The best yardstick of price inflation is your own personal market basket of things you typically buy.**


**CHAPTER 23**

**HOW WE ARE AFFECTED—WINNERS AND LOSERS**

**Let's look at some individuals and families, facing price inflation. All these people are concerned about rising prices, but some fall more nearly at the mercy of price increases than others. Perhaps you will see similarities with your own situation.**

**Individual One is a young man 28 years old. He is unmarried and has a job he doesn't like. Moreover his job doesn't have much of a future . . . no medical plan and no pension. He lives hand-to-mouth, spending almost all his money on food and an apartment he shares with a roommate. Little-to-nothing is left over for savings and investing. In frustration, he spends everything on food, housing, and credit card payments. Credit card bills have piled up for frivolous purchases he made . . . because he didn't see a clear future forward for himself.**

**Individual Two is a young lady 22 years old who just finished college. Her university degree is not very marketable, and she has a considerable college debt to pay off. Right now she is working *TWO* jobs, one waitressing in a restaurant, and the other as a part-time sales clerk. She lives "at home" and is not only**

**covering payments on her college debt . . . but she is also looking to find "investments" which will do well in the "future."**

**Family A is upset over rising prices because more, and more of their income is paying higher prices for basic necessities. However, this family's assets are well-protected from the dollar's constant loss of value. Their house is worth more dollars every year, and they also own some investment real estate. Over the years, this family has developed a hobby of collecting antiques, and they have furnished their home with an antique collection. A side benefit of their careful selection has been that the dollar value of their antique collection has outperformed the general rate of price inflation.**

**Although they have been willing to go into debt to buy real estate and antiques, Mr. and Mrs. A are careful about spending on things which have no lasting value. Mr. A is concerned that price inflation is making his salary inadequate to help send his children to college. Mrs. A has taken a part-time job, working out of their home, to help earn extra money. The A's live modestly and are willing to do without non-essentials. If necessary, the family can borrow money against its real estate and antiques to meet emergencies and special needs.**

**In Family B, of necessity, both the husband and wife work. They live comfortably, but price inflation is a constant worry. With each passing month, their income is more pinched. Mr and Mrs. B have invested in the stock market over the past 10 years, but the mutual fund and stocks they own have just matched price inflation. Stock trading and mutual fund management commissions have taken a "hit" on these investments. Some of this family's money is in a bank account, which pays only a very low rate of interest. After taxes, their "investments" have NOT performed well relative the rate of price inflation.**

**Mr. B owns and operates a small business, but costly government regulations are pressing him to the wall. Over the past year he has spent a large amount of money trying to meet newly passed government codes and regulations for his business. His customers have traditionally come to him because of his low prices.**

**Yet, the government-imposed expenses and regulations are forcing him to raise prices. Also, he faces increasing competition from local big box stores like Walmart and Costco, and from people buying on the internet. This is causing him to lose customers.**

**A military veteran, Mr. B as always considered himself a loyal American. His patriotism is waning as his business is being harassed by one arrogant government agency after another. "They're regulating me out of business," complains Mr. B. He plans to close shop before he is forced into bankruptcy. His seven employees will lose their jobs, and Mr. B himself will have to start looking for work at the age of 55.**

**Family B has three children. Ironically, the oldest son—was recently denied a college scholarship because, on paper, the family's income was too high. Also, the son's SAT scores weren't high enough to get into some of the universities he tried for, because he is not considered a member of a sufficiently "disadvantaged" group! The son opted to go to a "trade school" and become an electrician. Chances are he will do better as an electrician than he would have going to college.**

**Mr. and Mrs. C are a retired couple living on a fixed pension and social security. During their working years, they conscientiously saved as much money as they could and put this money into "secure" corporate and U.S. Government bonds. Unfortunately, price inflation has eaten away the value of these bonds until very little buying power remains. Mr. C's small pension is *not* indexed to increase sufficiently with price inflation. After 10 years of retirement, and a number of medical expenses, their savings are nearly gone. To cut corners, they are looking for a cheaper apartment. Although, Mr. and Mrs. C are in their 70's, they hope to find part-time jobs, at minimum wage, to help cover their living expenses.**

**Family D is a young couple, recently married. Both Mr. and Mrs. D have good jobs, and they recently committed themselves to a heavy house mortgage. The payments are more than they can easily afford, but they wanted to buy a house**

**before price inflation drove home ownership out of reach. Mrs. D is unexpectedly pregnant. Mr. D's salary alone will not be enough to cover expenses, and Mrs. D will be unable to work for a while. Inflation forced Mr. and Mrs. D into home ownership before they could really afford it, and now the D's are worried about making ends meet.**

**Price inflation affects these and other people differently. Factors such as age, sources of income, family situation, types of investments, spending patterns, and where they live determine how much people gain or lose from price inflation.**

**For example some workers have been lucky enough to receive salary increases which keep up with price inflation. *Most people have not*. Soaring energy costs have a greater impact on people with large houses to heat and cool than those living in small apartments. Car owners who drive a lot, and those with long commutes to work, feel the impact of higher fuel costs much more than those without cars, or those who drive very little.**

**Americans with money in savings accounts and bonds helplessly watch their money being eaten away by price inflation and taxes. Those who put their money into carefully selected tangible things such as real estate, antiques, precious metals, rare stamps and coins stand a better chance of keeping up with price inflation. *Warning! All investments, including tangibles, stocks, and cryptocurrencies can be subject to wide price fluctuations! There is NO SURE THING when it comes to investing.***

**How well an individual copes with price inflation depends to a large extent on actions taken which affect lifestyle, job, geographic location, personal possessions, and investments. None of us have control over all aspects of our lives, but there are steps all of us can take to protect ourselves from the ravages of price inflation.**

**The following is a partial list of winners and losers from price inflation. Where do *YOU* fall on this list?**


**Borrowers gain from inflation because they are able to repay their debts with cheaper dollars, which buy less, than the dollars they borrowed. In addition, their interest payments are sometimes a deductible expense from income tax. On the other hand, savers find their dollars are worth less every year. Worse yet, they pay taxes on the "interest income" they receive—even if their interest income fails to keep up with the rate of price inflation.**

**Homeowners see their houses rise in dollar value, *while their mortgage payments remain the same*. Renters pay higher and higher rent. An additional advantage to home ownership, and investment real estate, consists of tax deductions and credits their buyers are entitled to. These are not available to renters.**

**Collectors, hoarders, and speculators in tangible things such as antiques, gold (coins and jewelry), rare coins, and stamps have in many cases seen their**

**assets keep up with, or possibly beat the general rate of price inflation. Investors in government and corporate bonds, however, are whipped by the double lash of inflation and taxes. As a result, there is a big incentive to take money out of productive, job-creating assets such as savings accounts and bonds, and transfer this this money into tangibles which produce nothing . . . *but which do tend to keep up with general price inflation.***

***Keep in mind that tangibles have a substantial "transactional" cost . . . the difference between purchase and retail prices.* In lower-inflation times, with price inflation at 4 percent or less, it might not be desirable to invest in tangibles. However, if higher inflation is *expected* . . . preserving at least "some" of your purchasing power is better than losing almost all of it!**

**The *stock market* an interesting category. It takes great personal skill, research, and expertise to select stocks wisely. Otherwise, considerable financial losses can occur. It is important to *do careful research, buy conservatively*, and *"hold."* It is essential *NOT* to do much "trading," with its resulting costly commissions. Most successful investors focus on picking *LONG-TERM* investments that can be purchased at a good value.**

**As an alternative, having others "manage' your money in the stock market involves and paying them significant management fees. This consumes some of your potential gains. Also, there is the danger that their interests may conflict with yours. They might want to generate extra transaction "commissions" for themselves . . . rather than work in *your* best interest. There is a saying regarding investing in the stock market, "One way to end up with a 'small fortune' in the stock market . . . is to 'start out with a large fortune!'"**

**People in some lines of work are lucky enough to have salary and pension increases which equal, or exceed, the rate of price inflation . . . even after taxes are taken out. This is rare and most people are not so fortunate. Once a person has trained for a particular job, and become experienced in this work, it is often very difficult to switch to a better-paying field. Job-hopping from profession to**

**profession isn't the easiest way to beat inflation.**

**Big businesses have easy access to low interest rate money and often receive "special" government bailouts due to their "essential" nature. Small businesses, on the other hand, have trouble borrowing money and must rely on higher interest rate lending, such as finance companies and credit cards. In addition, small businesses must contend with lobbyists working against "average Americans" on behalf of large special interests. Recent history is filled with examples of the "little guy" getting !@#$ed while great wealth is transferred to a "Vulture Class" who manage the largest corporations in the world . . . and often operate under a *DIFFERENT* set of rules.**

**"Special interests" receive various benefits, such as loans which are often "forgiven." More and more money is put into these programs . . . the growth of which often *EXCEEDS* the rate of price inflation! In contrast, recipients of Social Security and Welfare Payments receive "price indexed" increases which fall *BELOW* the *REAL* rate of price inflation.**

**The Federal Government is the biggest "winner" of all from price inflation because it is the largest single borrower in the United States. Inflation annually wipes away many BILLIONS of dollars worth of buying power from government debt. In effect, Washington borrows dollars and then can pay back in confetti! The same holds true for state and local government borrowing, which amounts to additional billions of dollars. Loyal Americans are cheated; their interest income fails to keep up with the loss in buying power of the money loaned out. To add insult to injury, their bond interest is generally taxed. The effective rate of return, after adjusting for taxes and inflation, is often *negative*!**

**Government is a further winner from price inflation because rising incomes intended to meet general price increases throw taxpayers into higher percentage income tax brackets. It's a pity that tax brackets are not indexed to inflation. This would provide some relief for overburdened taxpayers. *Also, capital gains***

***"profits" are taxed, even if the capital gain is LOWER than the REAL rate of price inflation. This means you are paying taxes on assets that have actually lost REAL WORLD value.***

**Inflation has its winners and losers. Unfortunately, all of us are losers to the extent price inflation is sapping the strength and vitality of our country. Price inflation has a corrosive effect on productivity, and it restricts upward mobility of working class people. The things which made America great are being melted in the heat of price inflation.**


**CHAPTER 24**

**AMERICA—A LAND OF DECLINING OPPORTUNITY**

**Welcome to the land of milk and honey gone sour! Too much price inflation, too much taxation, and too much regulation have turned a once vital economy into a sickly giant. America is quickly becoming a land of declining opportunity . . . especially for its young people.**

**Normally, money *should* go into bank accounts and traditional investments like stocks and bonds . . . helping businesses expand. With business growth, new jobs are created, more goods and services are produced, and Americans enjoy a better standard of living.**

**Price inflation causes people who have money to act differently. Some people spend their money on frivolous, temporary things. Because of price inflation, other people are inclined to put their money into possessions like gold, antiques, stamps, and coin collections, *which produce nothing* . . . but whose value tends to keep pace with rising prices. With this money source diverted, there are fewer jobs, there is less output, and there is a lower standard of living than would otherwise be the case.**

**Putting your money into *tangible investments* is like leaving a large Ocean Liner and climbing into a Lifeboat! The little boat may bounce around in the ocean and not be a great choice, but it is better than sinking with the Ocean Liner. Of course, with skill, care, and great navigation . . . the lifeboat can get its passengers to "safety."**

**Price inflation rewards speculation and hoarding, while it penalizes thrift, hard work, and efficient use of resources. Our standard of living sinks as the economy becomes distorted, and higher taxes nibble away more and more of our income.**

**Pity the poor wage earner whose salary increases are devoured by taxes and higher prices. Wage gains intended to keep up with inflation merely throw workers into higher percentage tax brackets. What good is it if a person's before-tax salary keeps up with price inflation if the after-tax salary doesn't?**

**The original idea for "progressive income taxation" was that people at higher income levels could afford to pay a larger percent of their salaries in taxes. Price inflation, however, requires salary increases just to stay even. These increases put the average paycheck in a higher tax bracket originally intended for "rich people" who could more readily afford to pay a larger part of their income in taxes. The sad fact is that salary increases are eaten away by higher taxes as well as price inflation.**

**After paying federal, state, and (sometimes) city withholding taxes, there is an additional social security tax—all this *before* the worker *even sees* his or her paycheck! What is worse, the social security (FICA) tax is considered part of the worker's taxable gross salary . . . and is liable for federal, state, and (sometimes) city taxes. You may never get to *spend* your social security money in this life, or the next, but it is still yours and taxable. Then, from what is finally "left" of your paycheck you will still pay "sales taxes" on things you buy . . . and also "excise taxes" on your telephone and internet/cable TV bill.**

**As for the social security taxes Americans are now paying, the entire program is woefully underfunded. The wage earner may never benefit from the money contributed during working years. If the program continues to be underfunded—as now seems likely—workers in the future will probably balk at the heavier payments needed to keep social security afloat. Ultimately, Washington may take the easy way out and find it is unable to pay full benefits to anyone.**

**At one time the American Government, at least in theory, worked for the American people. Today, the American people work for the American Government. Uncle Sam now feels "entitled" to the proceeds of our labors . . . to do with as he pleases. Government "allows" us to keep part of what we produce.**

**Over the years, Government has taken an increasingly large part of this nation's output. In 1948, the federal, state, and local tax bite was about one-fourth of this nation's output. Today, it is more than half (even more, if inflation is included) of what is produced in this country. Through taxes of various types, government takes at least SIX months a year of the average American's labor. Worst of all, the government ALWAYS wants *more* of the fruits of your labor . . . because this can be used to "buy votes!"**

**There was a time when taxes were insignificant in this country. In fact, only in 1913, with the passage of the $16^{th}$ Amendment to the Constitution, was Congress given the Constitutional right to levy income taxes. Once the door was open, Washington gradually encroached on our economic rights . . . taking an ever larger part of what Americans produce. As economic freedoms are lost in America, one wonders if political freedoms will be far behind!**

**A myriad of government laws and regulations created over recent years have changed the entire nature of our society. Hard work and thrift are increasingly penalized. The unintended effect of much of the ostensibly "do-good" government legislation passed in recent years has been to reduce incentives and opportunities**

**in this country for most Americans. Like a sinking ship, our economy has become more and more sluggish and waterlogged with rampant inflation, oppressive taxation, and choking regulations.**

**Ambition has always been one of the cornerstones of economic growth and strength. Inflation causes us to question whether honesty and hard work will be rewarded.**

**In the past, America differed from other countries because it provided opportunity for a person to rise above his or her economic lot in life . . . and keep on rising. Today's opportunities are more limited. While trying to put a financial "floor" under Americans, below which they can't fall, Washington has put an increasingly lower "ceiling" on how high most Americans can rise. This attempted floor is maintained through an ever heavier burden of taxes, regulations, and price inflation on the rest of America. The "Robin Hood" syndrome has created an enormous and expensive government bureaucracy. Some would even argue that the poor are receiving very little help . . . that most of the money goes for supporting a costly government bureaucracy. In the meantime, the bulk of Americans suffer decreased opportunities, heavier taxes, and worse price inflation!**

**The myth of Americans wanting more government seems to originate in Government bureaucracies trying to expand their programs and empires. It's against the nature of many of us to be "dependent." Yet, government programs often only create generation after generation of dependency on government handouts. Government even destroys job opportunities for those it claims to be "helping."**

**Government throws people out of work by passing minimum wage laws, in response to labor pressure groups who don't want competition from low-cost workers. Government *then* subsidizes unemployed low-cost workers because they can't find jobs at what they are worth. Minorities, young adults, and the poor are among the first to lose their jobs. In addition to the misery of these people, the**

burden of their unemployment falls on the taxpayer. And, of course, the consumer ends up paying higher prices for products and services made with high-cost labor.

Take a good look around you. The tentacles of omnivorous government are everywhere. Our country is so structured now that it's almost a crime for anyone to make a profit. Prospering businesses and individuals built this nation of plenty, and yet Washington condemns individual and business prosperity as being un-American. Meanwhile, Washington and those attached to it (big business lobbyists and pressure groups) prosper and grow.

Through an overflow of well-intentioned but misguided laws, rules, and regulations Washington is creating an increasingly difficult environment in America for those who produce: workers, entrepreneurs (those who create businesses), small businessmen, small corporations, and small investors.

Americans owning a variety of traditional investments find recent tax laws and price inflation have made these increasingly unattractive. The government has said, if effect, "Heads I win, tails you lose!" For example, corporate dividends (earnings payouts) are taxed *twice* by Government—once from the corporation, and again from the stockholder.

Business accounting often fails to make full allowance for the harmful effects of price inflation. Thus, many corporations show, and are taxed on, profits which sometimes don't exist in reality. Price inflation makes it ever more costly to replace factories and equipment. Frequently, full depreciation is *not* subtracted from corporate profits. Corporate executives—who like their jobs and want to keep them—try to make their companies "look good" to stockholders. As a result, they often use accounting methods which overstate "profits," and these companies pay taxes on so-called profits. If the inflated replacement costs of factories and equipment were fully taken into account, many companies would show losses instead of profits, and their executives would be looking for new jobs.

**A further Government-imposed penalty on American investors is the capital gains tax. According to this tax, any time an asset is sold for more dollars than was originally paid, the "gain" in dollar value is taxed. No allowance is made for dollar gains due to price inflation. In fact, taxes are imposed even though no real increase in value may have occurred.**

**As a result, many investors are driven away from stocks and bonds . . . productive investments which build new factories and ultimately create more jobs, greater output, and a higher standard of living for all of us. The purchase and sale of stocks and bonds can be easily traced by government, and inflation-caused "capital gains" (increases dollar value) can be readily taxed.**

**To avoid unfair taxation due to inflation-induced capital gains, many individuals are driven to put their money into concealable tangibles such as gold, jewelry, coin and stamp collections, cryptocurrencies, and other assets which can be hidden from the tax collector. These people are breaking the law because *all* dollar gains in assets, when they are sold, are taxable according to current government laws. Nonetheless, many people believe that what they have is rightfully theirs, and should not be taxed away just because of dollar gains caused by price inflation.**

**Since government taxation, regulation, and inflation no longer make investing in many things profitable, we as a nation are denied the additional output, higher standard of living, and lower prices which would occur if money could *freely flow* into productive investments.**

**A continuous stream of innovations and newly-founded businesses are vital to the economic health of this country. Often new businesses discover cheaper and better ways of producing things. Yet, even to consider starting a new business today takes expensive accountants, attorneys, and tax experts to cope with the overflow of government laws, rules, regulations, tax codes, and other forms of harassment. Without doubt, these government restraints have a stifling effect on new business formation and growth. Government strangulation by**

**overregulation limits new business formation, innovation, and growth. The ultimate burden of higher prices is borne by consumers.**

**Even though the profit motive built this country, it is now thought by government to be evil. So, government tries to tax it to death. This reduces output and raises costs to consumers.**

**In many cases, if our nation's enemies had tried enacting programs destructive to our country's economic health, one wonders whether they could have done a better job than our own Congress has succeeded in doing.**

**We as a nation have blindly been accepting Washington's legislation and regulations in good faith. And, we've been let down! Nobody trusts Washington anymore . . . and with good reason.**

**Government has placed an increasing number of obstacles in the path of Americans who want to improve their economic lot in life. For most Americans, opportunities are more and more limited. To rise above a certain standard of living is becoming increasingly difficult. In fact, many Americans above this level are sliding backward down the ladder of success as America continues building its road to stagnation.**


## CHAPTER 25

## THE *TRUE* CAUSE OF INFLATION

**Like a profligate wastrel, government spends more than it takes in.**
**Not to worry . . . its servant, the Fed, supplies the money.**
**Now more abundant, our dollars buy less.**

**<u>Inflation</u> <u>Quiz</u>: Which of the following *causes* price inflation?**

**A. Union Wage Increases**

**B. Big Business Price Increases**

**C. Oil Price Increases**

**D. Rising Food Prices**

**E. Greedy Profiteers**

**Wrong, *none* of the above cause price inflation. These are all *symptoms* of**

**price inflation, rather than causes. Wage and price increases are the *result* of the real problem . . . too much money. *Specifically, when our money supply increases FASTER than the growth in productivity . . . price inflation is the inevitable result!***

**There is only one cause of price inflation—our Federal Government. It causes price inflation by issuing TOO MUCH MONEY . . . in order to fund its wasteful overspending!**

**Like anything else, money drops in value when there is too much of it. For example, a very large harvest of apples, oranges, or wheat causes their prices to drop. The same holds true for money. The more money there is, the cheaper it becomes . . . the less of other things it will buy. If there were *less* money, then each dollar would buy *more*.**

**At any given time, there is a certain amount of money and a certain amount of things available to be bought. Price inflation is simply a matter of more money *relative* to the amount of things available for purchase.**

**Our Federal Government causes price inflation in two ways: 1) *Issuing too much money*, and 2) *Reducing the nation's output* of goods and services *through excessive government taxation and over-regulation*.**

**Either more money, or less things available to buy, or a combination of both, will cause prices to rise. The effect is the same . . . too much money relative to things which can be bought. There can be only one result—higher prices.**

**This is what has been happening in our economy. The amount of money has been increasing faster than our nation's output of goods and services. Also, there has been an enormous growth of economy-stifling Government taxation and over-regulation.**

**Government causes inflation by spending money it doesn't have from taxes. It then issues extra money to cover this overspending . . . diluting the value of**

**dollars already in circulation. This causes prices to rise.**

**At the same time, Washington over-regulates and interferes too much in the economy. This *reduces* the nation's output of goods and services from what would normally be the case . . . also putting upward pressure on prices.**

**In effect, Washington is playing a game of "double jeopardy" in our economy. With one hand it issues too much money, while the other hand is choking America's output. *More money and less goods equal higher prices.***

**Washington then passes the buck and blames wage and price increases for "causing" inflation. These increases are merely the result of workers and businesses trying to protect themselves from the overflow of money.**

**Prices and wages are a form of economic "free speech" necessary for the efficient functioning of an economy. Prices that are free to go where the market forces take them . . . do an excellent job matching up supply and demand.**

**After all, free and unfettered prices and wages provide "economic information" in an efficient economy. Higher prices encourage producers to supply more . . . while lower prices encourage consumers to buy more. Things balance out at a price where producers supply what consumers demand. There is no shortage, and there is no surplus at that price. The free market *always* finds this equilibrium price, while government bureaucrats *certainly* fail.**

**Shortages, long lines, and erratic production of important items only occur in controlled economies with artificial, government-imposed prices and restrictions, such as Soviet-era Communist Russia . . . and in the United States when the government involves itself too much in our economy.**

**The U. S. Government sometimes urges workers and businesses to "do without" wage and price increases in order to "help stop price inflation." For example, our government imposed "price freezes" during World War II, and**

**issued "rationing cards." When this occurs, prices and wages are too low to soak up the excess money. Since prices don't rise, the overflow of money buys up everything in sight. Shortages develop, and lines form. Under difficult circumstances, such as wartime, this may be necessary. Otherwise, price and wage controls are NOT good policy.**

**When this happens, a country becomes *authoritarian*, and economic and other freedoms are severely limited. Because of low wages, incentives develop for workers to provide their services "off the books" on their own time at higher, black market prices. Officially posted prices for goods are cheap, but there there is *nothing on the shelves at the artificially low prices*. To avoid long waiting lines to get a car or appliance serviced at an artificially low price, it is necessary to "bribe" a mechanic to fix it. For top quality medical care, it is necessary to pay a doctor something "on the side" beyond the artificially low official price. To obtain meat, butter, and other basic items require long, time-consuming waits in lines to buy these and other staples at artificially low prices.**

**As our Government expands its own role in the U. S. economy shortages, waits in lines, and inefficiencies are developing. Rent controlled apartments are cheap in New York City. There is only one problem—almost none are available. Building owners find artificially low rents make it more profitable to "sell" the individual apartments . . . and to let the remaining apartments "run down" and "deteriorate."**

**A Government bureaucracy has spread its tentacles through the American energy industry: electricity, oil, natural gas, and renewables. As government tampers with artificial pricing and "allocations," there are resulting ripples of shortages and supply interruptions. Thousands of government bureaucrats fumble in the dark, trying to artificially set regulations, guidelines, and limits. There is a great bureaucratic push to make *all* cars in the country electric . . . without considering how our electric grid can even deal with the increased power needed to charge all the cars.**

**Of course, Government proposes *more government* to solve the problems created by *too much government!***

**Washington causes price inflation by issuing too much money. Then, it tries to conceal the inflationary effects by artificially holding prices down. At any given time, efficient market forces will drive some prices upward while pushing other prices downward. Normally, these tend to cancel each other out. However, when too much money is issued into an economy, the prices of almost everything skyrocket! Then government "blames" those *prices that rise the most* for "causing inflation."**

**If America did a better job controlling its money supply, at any given time about as many prices would be going down as are going up. Price decreases would offset price increases. However, since most of the time the government issues too much money, *most* prices in America go up, and very few go down.**

**It is only possible to name a few things which have actually dropped in price over the past few years . . . mostly electronic products (because of huge technological advances and outsourcing to cheap foreign labor). Almost everything else has increased in price. If our Government had not pumped so much money into our economy, these price decreases would have been ENORMOUS rather than modest, and *many more goods* would have decreased in price.**

**Price inflation is *primarily* caused by issuing too much money (excessive taxation and over-regulation are other factors). Only our Federal Government has control over the Nation's money supply. Article 1, Section 8 of the U. S. Constitution states that, "The Congress shall have power . . . to coin money [and] regulate the value thereof . . . ."**

**Congress, in turn, created a central bank, the Federal Reserve Bank, whose job is to control the amount of money in our nation's economy. In theory, this central bank is supposed to be "independent within the government" and follow**

**whatever monetary policy it considers best for the nation. However, in actual practice, the Federal Reserve Bank is too timid to use its "independence." Those running the Federal Reserve Bank *know* the ability to "create" is also the ability to "destroy," and if the Federal Reserve Bank goes too far away from the wishes of politicians who created it . . . the bank would soon be "toast!"**

**Centralized banking did not originate with the present Federal Reserve Bank. Congress created two predecessor banks, the First Bank of the United States and the Second Bank of the United States. These previous Central Banks are no longer around. Congress *failed to renew* their charters.**

**The First Bank of the United States was created in 1791 by Congress. Its charter ran for 20 years and was allowed to expire in 1811. The Second Bank of the United States was founded in 1816. Its charter expired in 1836. The U. S. was without a central bank until the Financial Panic of 1907 prompted Congress to finally create our present Federal Reserve Bank in 1913.**

**Although the current Federal Reserve Bank has no time limit on its charter, its top officers are called before Congress from time to time to account for the bank's actions. If the bank should deviate too far from the wishes of Congress, the Federal Reserve Bank can always be altered or even abolished by legislative action. The Central Bank is really on a leash with Congress holding the other end. Should the Federal Reserve Bank get too far out of line, Congress can rattle its chain. After all, Congress has the power to create and the power to destroy.**

**When Washington spends more money than it takes in through taxes, there is a tremendous pressure on the Federal Reserve Bank to issue extra money to finance this government revenue deficit. In fact, the federal government runs a budget deficit almost every year. As the Federal Government consistently spends much more money than it takes in through taxes, the Federal Reserve Bank issues additional money into the economy. The result is higher prices!**

**For centuries, when governments wanted to spend more money than they**

**received in taxes, they would issue additional money to cover the difference. The result would *always* be price inflation. In early days, precious metal coins were called in and melted down. These coins (and their value) were diluted by adding cheaper metals, and thus these coins could be reissued in greater numbers yet in their previous denominations.**

**Using a special occasion such as a royal coronation, wedding, birth, or military victory as an excuse, governments called in the old coins and issued new ones. The populace initially overlooked the reduced precious metal content of the newly issued coins because of their shiny new designs. By diluting the precious metals with cheaper metals, many more coins could be issued. The eventual result was *always* higher prices (less buying power for the coins).**

**Money receives its value from scarcity relative to its uses. Precious metal content is NOT needed. Tying money to precious metals, however, *limits* the amount of money a government can issue. This helps preserve the buying power of the money.**

**Today, our money consists of coins (almost worthless now), paper money, checking account money, "plastic money" like debit cards and credit cards, and "book entry" money in your bank account (which you can electronically access and spend). The process of issuing additional money is more complicated, but the result is the same. Too much money leads to higher prices. Because money no longer consists of precious metal coins, the process of debasing the value of our money is largely hidden from public view.**

**The problem of too much money can be partially improved if our nation's output increases. However, government over-regulation, harassment, and heavy taxation are strangling America's growth in output. Idealistic, but misguided Government actions are choking incentives to produce more in this country. Idealistic people are often unaware that any particular action has a multitude of results, some positive and some negative . . . not just the single positive result they are expecting!**

**At one time or another almost everyone has gone through the hassle of filling out Government forms. Some of these forms are so long and complicated that it is nearly impossible to fill them out correctly. Knowing the nuisance and frustration they present for the individual citizen, imagine the enormous burden unnecessary Government regulations and forms impose on an ordinary business firm. Time spent filling out forms and meeting Government regulations is time away from the production line. This disproportionately hurts small businesses . . . *which can't afford large bookkeeping departments*.**

**However, time is money. Workers who spend their days filling out Government forms (online or on paper) are *NOT* adding to the nation's output of goods and services. Additional people, *working for the Government* who deal with, often unnecessary, forms which have been submitted are *NOT* adding to the nation's output of goods and services either.**

**Government-required paperwork and regulations cost this nation billions of dollars annually (and this costs *each* American family thousands of dollars annually) in the form of reduced output and higher prices. Not only does the federal government impose these costs, but state and local regulations add to this also. This leads to a *LOWER STANDARD OF LIVING* for the Average American!**

**In many instances Government regulations are necessary for the protection of its citizens. However, our government is often impractical, or bends to "pressure groups," in the way its regulations are written and enforced. *Regulations are often written in such a way to disproportionately benefit large corporations and favored special interest groups over small businesses and Average Americans. Many harmful regulations, and special interest benefits, are buried inside multi-thousand page laws . . . that are too long for even the politicians to read before voting on them!***

**Furthermore, when Government changes its rules frequently, or makes them unnecessarily complicated and unclear, businesses and individuals find it *difficult***

*to plan for the future.* **As a result, businesses are reluctant to expand their factories or services in an uncertain regulatory environment. Our country is then denied additional jobs and the additional goods and services that such expansion would provide. Laws and regulations are written to be deliberately convoluted and vague, giving Government Bureaucrats opportunities pick "winners and losers" to the benefit of their "friends" . . .** ***Pro Tip: follow the money!***

**Little wonder it is difficult for businesses in America to make any kind of plans for future expansion. A blizzard of government rules that change whimsically, and with uncertainty, make long-term plans and commitments difficult, if not impossible. These inefficient government policies cause consumers higher pries, often without producing significant benefits. Then, ironically, the Government blames businesses for increasing prices.**

**Unelected bureaucrats frequently harass businesses with costly, mindless enforcement of petty rules. Thousands of unnecessary Government regulations exist, making it difficult for management to keep up with them. Experts must be hired. Lawyers and accountants spend much of their time on such matters, and firms must pay for their services. These extra salaries are then passed on to consumers in the form of higher prices.**

**Throughout all this, our Government tries to convince us it is blameless and has no part in causing price inflation. It blames the symptoms—wage and price increases!**

**Our Federal Government is the** ***real*** **cause of price inflation in America. It blames others, while continuing to flood the economy with money and restrict the nation's output. The only possible result is higher prices. And, inflation marches on!**


## CHAPTER 26

## SOLUTIONS TO PRICE INFLATION

**There is only one solution to our current price inflation. Washington must stop issuing extra money! The Government must keep the amount of money in our economy *equivalent* to the amount things available to be bought.**

**Instead, Uncle Sam has been polluting our economy with too much money, and as a result, prices have been climbing. Extra money should be added into our nation's economy *only* at a rate equal to growth in amount of things produced. Then, the ratio of money to the amount of things available to be bought will not change, and prices will be stable.**

**Changes in the velocity of money (how frequently transactions occur) have an effect on price inflation. However, this is beyond the scope of this book.**

**For example, if American industries produce four percent more goods and services one year, then four percent more money should be added to the nation's economy. If the next year our nation produces only three percent more, than *only* three percent extra money is needed in the economy. If there is no increase in the**

**production of goods and services, then Government *must not* issue any additional money. Basically, money must be matched to output in order for prices to be stable.**

**Over past years our Federal Government has consistently failed to properly control money supply. Washington has developed a habit of overspending, and the most convenient way to pay for this overspending is to issue extra money. Since inflationary effects aren't noticed until 6 to 12 months later (with a snowballing effect) Government can hoodwink the public. Money has been gushing into our economy at an alarming rate, while production of goods and services in America has only, at best, been increasing at a very gradual rate.**

**Washington has painted itself into a corner by over-promising what it will provide. Since taxes fall short of paying the bill, price inflation allows Congress to spend money it doesn't have. By creating extra money, government *seems* to be giving everyone a "free lunch." But, Americans pay the bill through higher prices . . . *price inflation!***

**In addition, Washington is afraid of economic recessions . . . times during which many people lose their jobs. After all, anyone out of work could be a vote lost.**

**The Federal Government mistakenly believes the solution to recessions is constantly issuing too much money. This inflationary sledgehammer approach, while temporarily reducing unemployment, knocks down everything that makes America prosperous and stable. Debasing a country's money is *not* a solution to anything. It only gives the illusion of curing things in the short-run, while causing enormous long-term problems.**

**Instead, the right way for Government to make economic recessions less severe is to use "Countercyclical Fiscal Policy." This simply means that Washington should overspend *ONLY* during economic recessions and underspend during business booms.**

**In other words, during economic recessions government should spend *more* than it collects in taxes . . . doing this to spur output and jobs. However, during business booms, Government should spend *less* than it collects in taxes . . . which will refill the treasury and also restrain price inflation. Throughout all phases of the business cycle, the Central Bank should carefully issue an amount of money which keeps prices stable, and let interest rates fall where they will. This way there will be no price inflation, and unemployment will be minimized. *The Federal Reserve Bank often keeps interest rates artificially low in order to keep Government interest payments low on borrowed money. This continues to enable Government over-spending, at the expense of additional price inflation.***

**During an economic recession, there is a shortage of demand—when people spend less than normal. For example, not all the cars, refrigerators, and TV sets produced are sold, causing factories to cut back output. Workers are laid off. The situation compounds, and more people lose their jobs. Government *overspending* during a business downturn adds much needed demand to the economy, helping sell cars, refrigerators, TV sets, and so on. Factories then operate at higher levels so that people keep their jobs.**

**Government *under-spending* during a business upturn helps *remove* excess demand from the economy. For example, near a business cycle peak factories are operating at full capacity .. . and cannot produce more goods. Any additional demand will only drive up prices. If timed properly, Government *under-spending* knocks the inflationary top off a business cycle, and production bottlenecks and shortages are avoided.**

**When correctly used, Countercyclical Fiscal Policy enables government to smooth off peaks and valleys in business cycles. Economic activity becomes more uniform, reducing unemployment and reducing economic hardships during downward parts of business cycles. Inflationary pressures are avoided during business upturns. Excess money collected by Government during economic upturns *balances out* shortages of money it receives during economic downturns.**

**Government then has what is called a "Cyclically Balanced Budget."**

**In effect, the Government budget is approximately "in balance" when averaged over a reasonable span of time. If the Federal Government's budget is *exactly* balanced every year, it would fail to provide flexibility for overspending and under-spending. These are needed to lessen the painful effects of business cycles . . . unemployment and price inflation.**

**Unfortunately, Washington is only willing to follow *half* the formula. Uncle Sam continually overspends his income, but because of "political considerations" he is never willing to under-spend his income. The resulting pressure causes the Federal Reserve Bank to issue too much money. Consequently, our nation is ravaged by ongoing price inflation.**

**Government holds the key to breaking the upward spiral of wages and prices. It can simply stop issuing too much money. However, curing price inflation has little appeal for Uncle Sam.**

**Since it takes six to twelve months before the full impact of too much money is felt in the economy, issuing extra money is a great cover-up for Uncle Sam's splurges and constant overspending. The nation as a whole receives immediate benefits at the expense of future spiraling prices. Politicians inject this inflation-producing narcotic in ever larger doses, addicting the nation to government "freebies."**

**Reducing this nation's excessive money supply growth is the first step toward stopping price inflation. Unfortunately, the country will suffer tremendous withdrawal symptoms before the benefits of reduced price inflation can be seen.**

**Interest rates *must* temporarily rise so they can be lower in the future. This will result from less money being issued into the economy. The country *must* go through a painful process of cutting back government spending.**

A lot of people will squeal! Labor unions, big businesses, borrowers, farmers, the poor, and the elderly will *temporarily* feel a jab of pain. However, the future results of a zero-inflation economy will be well worth it. The nation will overflow with an avalanche of increased output and incentives. Then *everyone* will prosper!

Unfortunately, the Washington pusher has allowed this inflationary addiction to grow . . . because the rake-off is too rewarding for the politicians and special interests. In addition, Pusher Sam is afraid of voter rebellion should he withdraw the inflationary narcotic. Many voters are short-term oriented in their own lives, seeking immediate gratification. Government policy reflects this view.

Washington is afraid of going “cold turkey.” Instead, Pusher Sam continues injecting ever larger doses of money into the economy, while proposing easy, phony solutions to price inflation.

Washington goes shopping for economists and other hired “experts” to add credence to its phony programs. This leads to the “expert’s dilemma.”

Economists and other Government experts have developed a general image of being inept and in wide disagreement with each other. This is because all too often those offering jobs look for “experts” who are willing to support their own views. These experts find their jobs are in jeopardy unless they provide supporting arguments in favor of what their employers *already* believe or want to do. As a result, solutions to inflation are proposed that are “politically expedient” and popular . . . rather than effective.

The “expert’s dilemma” is that once hired, he finds himself having to compromise between proven principles he *knows* are correct . . . and what his employer wants to do. He finds himself eased out immediately if his employer disagrees with what he advises. However, if, to keep his job, he supports policies he *knows* will not work, he becomes the scapegoat for the shambles that

**eventually will follow . . . and he still gets the axe. It's a "damned if you do and damned if you don't" situation.**

**The irony of the "expert's dilemma" is that most experts know *what* to advise . . . but are often penalized if they make their views known. This exists for experts in virtually all fields. The problem is particularly acute where public policy is concerned. It matters very little if a single firm goes bankrupt because of the "expert's dilemma." However, it matters a great deal if the fabric of our nation is destroyed.**

**It's a shame Washington goes to such a great effort to find "experts" who give the answers it wants to hear regardless of what is good, sound economic advice. These experts are "yes" men (or women), which accounts for Washington's unworkable anti-inflation programs.**

**Those in Government *want* to continue policies of Government overspending and issuing too much money. This has been the formula for political success in the past, and it will continue to be until the public catches on. Under the guise of fighting inflation, solutions are proposed which still enable Washington to continue its inflation-producing actions. The root cause of price inflation—too much money—is never seriously attacked by any of the phony, symbolic programs Uncle Sam uses to "cure" price inflation . . . *although big business and special interests always seem to benefit!***

**Although new versions are always being concocted, smoke screen Government anti-inflation programs usually contain one or more of the following elements:**

*** Wage and Price Freezes (or Guidelines)**

*** Asking for Business and Personal Sacrifices**

*** Tax Incentive and Penalty Programs**

***NONE* of these will work as long as government continues issuing *excess money* . . . and strangles the nation's output through *excessive taxation and controls*. If Government were to put a stop to these disastrous policies, prices would soon stop rising.**

**Nothing else will work. For Government to declare a wage and price freeze only attacks the *symptoms* of price inflation . . . not the root causes. With government wage and price controls, products are withheld from the marketplace and sold at higher prices on "black markets." Shortages and distortions develop in the economy. People must form lines or go onto various rationing schemes in order to buy even small amounts of government price-controlled commodities.**

**The eventual result is always the same. People become more and more frustrated living under controls, shortages, and the economic distortions these bring. Finally things become so unworkable that the controls are removed. Prices then quickly rise to where they would have been anyway. All the suffering, shortages, black markets, economic distortions, and pain people have been through have been for nothing.**

**Wage and price freezes are like putting a "lid" on a pot of boiling water to keep the steam from escaping. As long as the heat is turned high, the water will keep boiling in spite of the lid. Later, when the lid is removed, scalding steam will escape. Putting a lid on the pot only *postpones* the eventual release of hot steam.**

**Washington's experts talk about breaking the inflationary psychology of people by asking them *not* to buy in advance of expected price increases. Expecting people to make personal sacrifices is doomed to failure. Why should people cut back and tighten their belts when the Government is unwilling to do the same? People are aware from past experience that their personal cooperation and efforts alone will not stop price inflation. As a result, they are skeptical and cautious of "voluntary" programs the Government encourages them to follow.**

Tax incentive and penalty programs don't stop price inflation either. They fail to attack the root causes of the problem . . . excess money and over-regulation of the economy. If anything, these complicated tax laws only burden the economy further, and make it less productive. Large corporations and wealthy investors can afford skilled tax accountants and attorneys to take advantage of loopholes. These benefits are not shared by small businesses and small investors who cannot afford specialized experts. All the complex tax laws require more paperwork and contortions from businesses . . . decreasing output and increasing the cost of products. Also, our Government becomes bigger and more expensive with the need to *administer* these additional laws. *So, inflation grows even worse!*

Nothing works to stop price inflation except *matching money supply growth to our national output of goods and services*. It is interesting that from 1948 through 1965, consumer prices in America rose an average of only 1.7 percent a year. Keep in mind that the Korean War occurred during this period, with all its associated extra wartime demand on the nation's goods and services . . . and pressures on Uncle Sam to issue extra money. Even so, Uncle Sam was still able to maintain relatively stable prices during this period. *Taxes were low by today's standards, making this was one of the most productive, growth-oriented times in America's history!*

Today, however, the Federal Government and its financial arm, the Federal Reserve Bank, go to great lengths to explain how difficult it is for them to stop price inflation. They say it is difficult for them to match the nation's money supply with its output of goods and services. Furthermore, they say it is difficult to define, or even measure, the exact amount of money. Government economists come up with all kinds of excuses for the nation's mismanagement of its money. Unworkable programs are proposed which will never stop price inflation, yet still manage to benefit the special interests.

Washington tries to justify continuing the same policies it has been using. This is merely to cloud the fact that Uncle Sam wants to keep his unlimited power to produce as much extra money as he needs for his own uses.

**In spite of what the Government tells us, it *IS* possible to stop, or greatly limit, price inflation. Unfortunately, Washington has yet to decide that it is "politically wise" to do this.**


## CHAPTER 27

### WHY THE RIGHT POLICY WILL *NOT* BE USED

**Price inflation is a *political problem*, not an economic problem. The irony is that those in Washington *know* the correct solution . . . but are unwilling to use it! Washington has promised itself into a corner and is politically stuck.**

**Uncle Sam's no-win approach to price inflation over recent decades merely confirms his unwillingness to seriously attack the problem. A lack of knowledge and sophistication on the part of the American people permits Washington to continue programs which look good to voters but which won't stop price inflation.**

**Government is doing nothing to inform voters about inflation. Those in power have nothing to gain from doing so. In fact, the statements coming out of Washington tend to confuse voters even further.**

**As long as Americans remain uninformed, Uncle Sam will continue getting away with his phony measures against price inflation. These are easier to apply in the short-run, but they only make price inflation worse in the long-run.**

**Our elected representatives *should* be watching out for our best interests as a nation. However, in the case of price inflation, they aren't.**

**In spite of some shifts, political clout in America still rests with vocal, well-organized special interest groups. These groups expect continued Government spending and regulations for their pet projects. As long as Washington caters to them, rather than doing what is best for the nation as a whole, price inflation will continue.**

**Washington has *always* bent to special interest groups. But, early in our nation's history, Uncle Sam was funded almost entirely from a small amount of tariff revenues. There were even occasional times of budget surpluses.**

**Our current problem is that Government in America has never been as *LARGE* as it is today. Now that Government has grown from less than five percent of what this nation produces to more than half of its production, the possibility for mischief is much greater. Payoffs to special interest groups, and the resulting high taxes and price inflation needed to raise this money, are especially devastating to the nation's economy.**

**In recent years, as Government has grown larger, and its programs more costly, Americans have been unwilling to pay heavier taxes. The only way Government can pay for all these programs—spending more money than it takes in through taxes—is to issue additional money. This extra money reduces the value of existing money we hold, and the result is a hidden tax, *price inflation*.**

**It all started during the 1930's Great Depression when the federal government began creating programs to intervene in our nation's economy. These programs helped the needy and did many good things for society. Such programs seemed "free" to those people receiving them, and they clamored for more. Our elected representatives were pleased with the "good" they were doing for the country. Furthermore, a side benefit to the politicians was the growing empire of people and money they controlled to administer these programs.**

**The process of government growth has continued to the present day. Now, however, politicians justify continued expansion of their empires by saying that people want more government services. Certainly, people will take anything that is free . . . as long as someone else seems to be paying for it. In that sense, government services appear "free" to those receiving them. After all, special interest groups don't seem to pay any more taxes just because government passes legislation giving them things.**

**Nearly everyone is *opposed* to government giveaways and regulations *unless they happen to be on the receiving end*. Farmers want price supports for their crops. The poor want food and housing subsidies. Construction companies want government laws subsidizing building projects. The list goes on and includes most of us. The result is Government overspending, the major cause of price inflation.**

***A lesser, although still important, cause of price inflation is government over-regulation.* This wins politicians the money and votes of very vocal "special interest groups" for their next election. Construction of new power plants is delayed (as a favor to environmental groups), cars are made more complicated and expensive (as a favor to safety and pollution lobbies), cheap labor is banned by "minimum wage laws" (as a favor to labor unions), cheap foreign imports are taxed by tariff duties (as a favor to U. S. manufacturers), and so on. The result is less output, at higher prices. Any single group pressing Congress for legislation on its behalf does not have much effect on price inflation. However, the total effect of all such groups is massive.**

**Our political representatives in Washington are dependent on meeting the many promises they have made in order to be elected. Since they want to be reelected, and know the average voter doesn't understand the causes of price inflation, government can get by with overspending and over-regulating the economy. The inflationary impact of these actions is delayed into the future, confusing voters as to the causes of price inflation.**

**Unfortunately, rapid price inflation is no longer on the far horizon. It is here now! The fruit of past, short-sighted, vote-buying actions by our politicians has fully ripened . . . and is beginning to emit a strong, unsavory odor. Furthermore, similar short-sighted actions are still being taken by Washington and will lead to even more price inflation. This problem will persist until Americans realize *inflation is the price we pay for the "free lunch" government provides!***

**Today, politicians wring their hands in mock desperation, promising they will *now* do something concrete to stop price inflation. This is very unlikely. It would mean cutting back on pet projects and personal empires. Politicians know that most voters are naive and short-sighted in their outlook. Voters usually fall for campaign promises, slogans, and slick political promotions.**

**As long as a majority of American voters are uninformed and uncaring enough to believe government manipulations are *not* responsible for price inflation . . . and while they can be led to believe easy cures are available . . . we are doomed to a continuation of our national self-destruction through price inflation.**

**Like an ongoing vaudeville show, Washington's attempts to cure price inflation will continue to be one silly act after another. America is overweight with money. And Ms. Liberty is unwilling to go on a diet!**


## CHAPTER 28

## ONCE PRICES GO UP, THEY DON'T COME DOWN

**During America's first 150 years, prices freely fluctuated upward and downward. Since the 1930's, this has *no longer* been the case. Since that time, prices in the United States have followed an upward trend that at times has plateaued, but never really stopped.**

**Starting with its "New Deal" programs in the 1930's, the Federal Government has intervened massively in our economy . . . almost continually spending more money than it has collected through taxes. When this was accompanied by issuing too much new money, prices in American jumped higher.**

**When the U.S. has been in economic recessions, and large numbers of people have been out of work, excess Government spending has been necessary and appropriate. At other times Washington's deficit spending has been totally uncalled-for, causing price inflation.**

**Before the 1930's, the Federal Government didn't intervene actively in the nation's economy in this way. There were wartime exceptions, such as during the**

**Civil War and World War I, when the Federal Government borrowed heavily and issued large amounts of additional money to help pay for the wars. Price inflation resulted during times like these.**

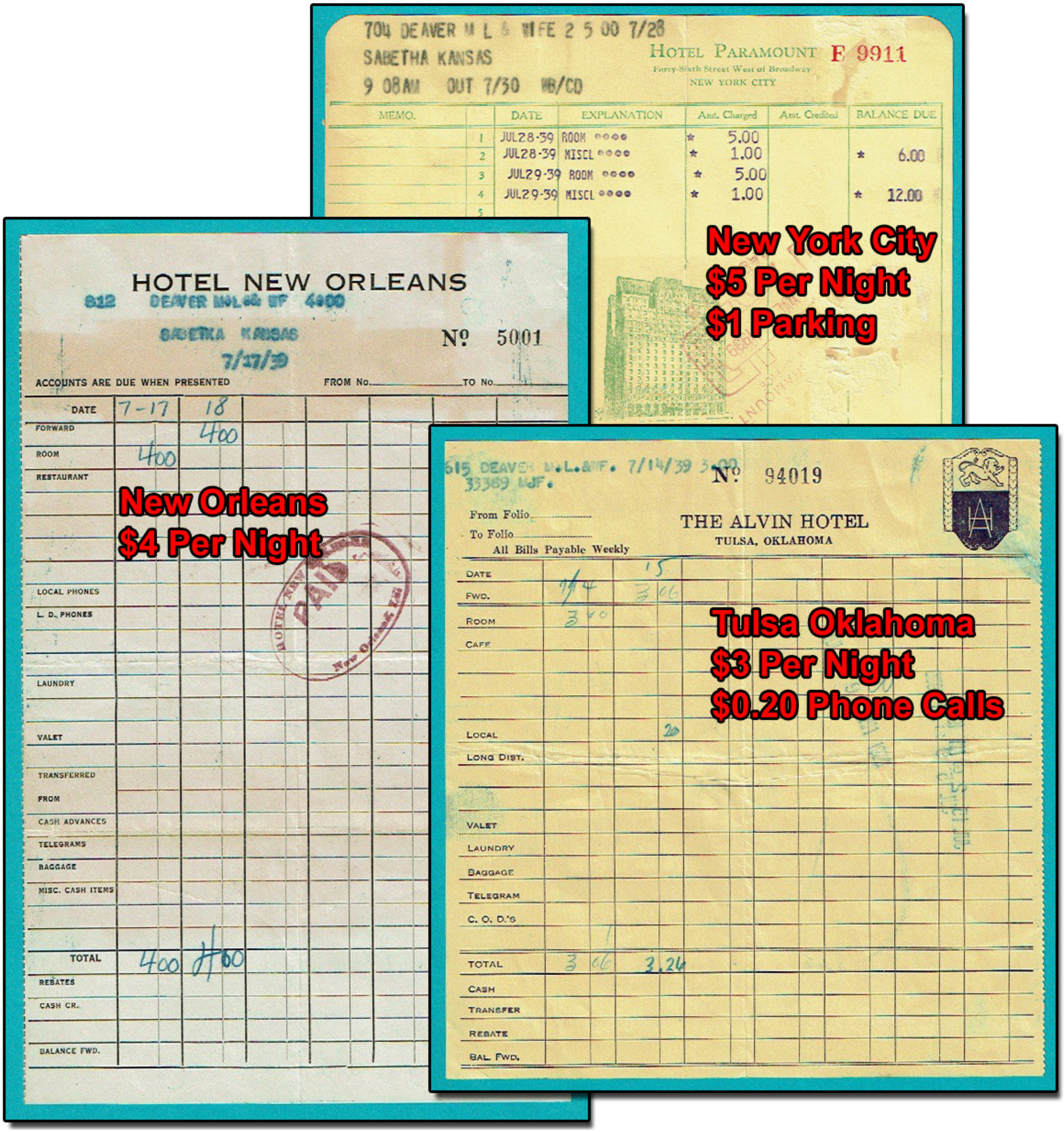
**Only during recent decades, though, has the Federal Government issued excess money in peacetime as well as in wartime. The Great Depression during the 1930's caused a major shift in our Government's role. To ease suffering and unemployment during that depression, the Federal Government financed a number of public works programs. Government money was spent constructing public buildings, dams, and highways. This created jobs and put money in the pockets of consumers. Washington found that its policy of spending in excess of tax revenues brought the country out of the economic depression and gave us prosperity.**

**Washington has continued this policy of spending more than its tax revenues up to the present time. When our country has been in economic recessions, and large numbers of people have been out of work, excess government spending has been necessary. At other times Washington's deficit spending has resulted in rapid price inflation.**

**Unfortunately, a dollar today will buy only a small fraction of what it would buy in 1939. My parents were married in 1939, and as they went on their honeymoon their hotel room in Tulsa cost $3, in New Orleans their hotel room was $4, and in New York City it cost $5. We will never see prices like that again!**

**It is interesting to note there is *NO SALES TAX* on all three of these hotel bills. Heavy *SALES TAXES* have become an oppressive feature of our modern economy . . . thus depressing economic activity.**

**In the 1939, a person could buy a magazine for 10 cents. A cup of coffee was 5 cents . . . a haircut 25 cents . . . a gallon of gasoline was 19 cents! Today, prices, in dollar terms, are *MUCH* higher!**




**Once prices go up in America, they don't come down. This is because Washington refuses to stop its policy of constant overspending, over-regulating, and issuing too much money. Since the 1960's our government has spent**

**increasing amounts of money on social welfare programs and foreign military involvements. In addition, from the mid-1960's onward government rules, regulations, and taxes have increased enormously, stifling our nation's output of goods and services. This has added further inflationary pressure to our economy.**

**Uncle Sam has no serious interest in fighting price inflation. Beginning in the 1930's Washington found that deficit spending is popular with American voters, and it has pursued this policy since that time. Until the election process stops this policy of continual government overspending, *the best we can do as individuals is try to protect our own personal financial interests*.**


## CHAPTER 29

## AFTER COMMENTS

**In looking through my notes for this book, here are some "extra" things that didn't make it into the main part of the book. However, these provide some useful insights:**

**"The most expensive purchase the average American makes in a lifetime is Government." (The Lawrence Journal-World, April 1980)**

**Because of Price Inflation you can "go broke" just hanging onto your money . . . .**

**With Price Inflation, a "luxury" becomes anything you can no longer afford! For many families, *food* is becoming a "luxury!"**

**"In Germany, at the end of 1923...the old mark currency was removed from circulation and a new currency issued in exchange in the ratio of one mark of the new for one trillion of the old." (Edwin W. Kemmerer, *Money*, The Macmillan Company, New York, 1938, pp. 271-317; Frank D. Graham, *Exchange, Prices and Production in Hyper-inflation: Germany, 1920-1923*, Princeton University Press,**

**Princeton, N.J. ,1930.) In Germany, at one point, it took 42 billion German marks to purchase one U.S. cent—and half a trillion marks to mail a letter!**

**Losers to Price Inflation: *All of us lose to price inflation in one way or another* . . . consumers, workers, taxpayers, savers, elderly, poor, and even society as a whole . . . *ALL* are hurt by price inflation.**

***The "cost" of Government Regulations often exceeds the benefits*. People who write regulations frequently ignore their secondary effects, or even benefit from them! (Some argue that the secondary effects, that always seem to benefit "Wealthy Special Interests," *are the whole point* of most Government regulations.)**

**Price Inflation is just another tax imposed by the Federal Government on ignorant (mostly poor and middle-class) voters . . . while benefiting the wealthy political donor class. It might as well be called "The Inflation Tax!"**

**What causes Price Inflation? Money is like any other commodity. When produced in excess, its value drops.**

**The reason we can't stop price inflation is . . . the people making policy decisions benefit, while the rest of us suffer! Some would call this "wealth transfer to the rich."**

**The longer something "lasts" that you buy . . . the better job you are doing at beating price inflation.**

**How to Calculate the "Real Rate" of Interest: Look at an Interest Rate in relation to Inflation. To find the "real" rate of interest, subtract the rate of price inflation from the rate of interest received (or charged).**

**You take a BIG loss on your money when you first buy a piece of gold jewelry. Usually it can only be sold for 20 to 40 percent of what you paid for it. However, once you have taken this loss, a carefully selected, classically styled piece of**

**jewelry is likely to hold its remaining value relative to the rate of price inflation.**

**Price volatility (wide price movements) will create an investment opportunity for the informed buyer . . . one who has done careful research and calculated the odds of success in his investment strategy.**

**In Selecting and Timing your Investments use:**
**1. Business Cycle Analysis (the "ups" and "downs" of the economic cycle)**
**2. Momentum Analysis (Technical Analysis) . . . *RATE* of upward and downward price movements.**
**3. Basic Analysis—Intrinsic Value**

**Prices in the U.S. economy were relatively stable up until World War II. Inflationary periods were followed by deflationary periods. Thus, in 1940 the general price level was about the same as in 1800. Until 1965, cautious Government financial policies kept price inflation largely in check. Between 1948 and 1965, the Consumer Price Index rose at an average annual rate of about 1.7 %. (Indirect quote from the April 24, 1980, Wall Street Journal)**

**With Price Inflation, you work hard for a better life that seems farther away each year. Your salary increases, but you haven't really gained any *REAL* income.**

**"Price Inflation introduces an element of *deceit* into most of our economic dealings. Everybody makes contracts knowing perfectly well that they will not be kept in terms of constant values." (Henry C. Wallach, member, Federal Reserve Board, in an address in New York to the graduating class of the Fordham Graduate School of Business)**

**"Inflation is the haunting pestilence of the middle classes; it is the hidden threat that disorganized government holds over those who try to plan, to save, to be prudent." (November 13, 1978, Wall Street Journal)**

**"Inflation...has been exacerbated by the almost universal existence of steeply**

**progressive tax systems around the non communist world." "Make taxes too high and *both* government revenues and economic activity will decline." ("An Antidote to Keynesianism" by M. S. Forbes, Jr., Forbes Magazine, June 26, 1978, p. 25)**

**The Future: The seeds of future price inflation have already been planted. Nurturing or destroying them is up to the will of our people as expressed through government.**

**"Traditional rules for incurring deficits only when the economy was weak have been ignored." (Dec. 28, 1978, New York Times)**

**"Home builders assert (that unnecessary) Governmental rules raise prices needlessly . . . Badly written, poorly administered laws and regulations—at all levels of government—cause delays and other problems that increase their costs and thereby (unnecessarily) add to the cost of housing." (July 10, 1978, Wall Street Journal)**

**Causes of higher prices -- "Restraints of trade" . . . anything which lowers the amount supplied: 1) trade unions (which limit the amount of labor available), 2) cartels (collaborations of companies to restrict competition and raise prices), 3) special regulations which must be met and barriers to entry for new businesses.**

**Reducing the rate of price inflation is like dismantling a bomb . . . without causing the whole pile of cards to collapse! (e.g. Reduce money supply growth, reduce government budget deficits, and increase productivity by getting rid of unnecessary regulations.)**

**"How long would it take to control (price) inflation in the U. S. . . . two to five years." (Economist, Milton Friedman, Newsweek, September 4, 1978)**

**"We built up the inflation problem over about a dozen years, so it's not surprising that it should take us five or six years to finally break it." (Chairman of the Federal Reserve Bank, G. William Miller, Washington Post, August 6, 1978)**

**"Inflation comes from the government spending more than the government takes in." (U. S. News & World Report, August 14, 1978)**

**"If we sow short-term pleasure, we will reap long-term pain. But if we sow short-term pain, we will reap long-term pleasure." (Jesse Jackson, Time Magazine, July 10, 1978)**

**The more meticulously kept a house appears, the better the chance of selling it quickly at a good price, particularly in a tough market." (This also applies to selling a used car or appliance like a stove or refrigerator.) (November 23, 1980, New York Times)**

**"Time spent filling out (Government) forms is nonproductive and jeopardizes the already thin profit margins of small firms." (U. S. News and World Report, April 28, 1980)**

**"Taxes are the fastest-rising part of the cost of living." "High tax rates burden the economy by discouraging work, inhibiting innovation, and encouraging tax-cheating." (Representative Member, Jack Kemp {mentioned in an article by M. S. Forbes, Jr.}, Forbes Magazine, November 12, 1979)**

**Price inflation is like a cancer. In its early stages, it isn't noticeable. However, if ignored, it becomes increasingly destructive!**

**"Taxes have grown twice as fast as paychecks over the past generation. In 1953, the average American family earned $5,000 and paid $590—or 11.8 percent of its income—in federal, state, and local taxes. By 1977, family earnings had risen to $16,000, but taxes had shot up to $3,600—or 22.6 percent of income. Taxes have doubled without a perceived improvement in government services." (Cities Service Today Magazine, Box 300, Tulsa, Oklahoma 74102) (Currently American families pay about *half* their annual income in taxes . . . Federal, state, and local . . . especially if you include sales taxes, excise taxes, property taxes, price**

**inflation, etc.  It is no surprise, then, why families are truly struggling!)**

**"Price Inflation is 'Time Theft' . . . theft of *YOUR* Time, from working to earn money and your time needed to commute back and forth to work!"**

**Price Inflation is Taxation *WITHOUT* Legislation!" - Milton Friedman -**

**Decentralized Cryptocurrencies resist confiscation by Governments.  This is why you see major efforts by authoritarian regimes to oppose anything that is resistive to their manipulation.**

**"You deserve a premium over the rate of inflation. . . . people will sell their excess houses and gold and conserve fuel and learn to save again when the Government signals it is serious about not expropriating the wealth of its citizenry." (Forbes Magazine, November 26, 1979)**


## CHAPTER 30

## BACKGROUND

## ABOUT THE AUTHOR

**Robert Deaver has earned B.A., M.A., and Ph.D. Degrees in Economics, taught at Universities in the United States and Overseas, worked as a researcher at a Wall Street Brokerage House, and worked as an economist at the Federal Reserve Bank of New York.**

**Born at the end of the Great Depression which proceeded World War II, Dr. Deaver has years of experience, and he has lived through all types of business cycles.  This book shares his substantial knowledge and experience.**

**BACKGROUND**
**(Comments by Dr. Deaver)**

**I originally wrote this book during my spare time in 1978. During this period I was an Economist at the Federal Reserve Bank of New York.**

**In 1979, I showed the initial draft to "Literary Agents" in order to have it published. They liked the content, said this was a great book, but that it was too "late." They said this book should have been available to people earlier in the Inflation Cycle. The information it contained was too "late" to help people prepare for surging price inflation!**

**Now the cycle is repeating itself; we are at the "start" of a new round of potentially destructive price inflation. A revised, and updated, edition of this book seems appropriate.**

**Keep in mind that by training, and much of my experience, I am an academic, theoretical Economist. My intention is *NOT* to give specific "investment advice." I am only discussing a framework of actions people typically take when coping with severe price inflation. (Before taking specific actions, you will want to do further careful research and consult with investment professionals.)**

**This book discusses classic "strategies" people historically use to deal with high rates of price inflation. The final part of the book goes into detail about the causes of price inflation (too much money & Government overregulation). This information will help you judge future trends in the rate of price inflation . . . whether it will trend higher, or lower!**

**In order to make this information widely available, I am "giving" out a PDF of this book "for free" . . . and also there will be periodic "updates" available on the website ( www.deaverinternational.com ). If you would like to make a small donation on this website to keep it going, please feel free to do so.**