ARC Course on Money Creation Session Eight thinking notes

Title: "How To Defeat Financial Repression"

Subject: Saving and investing under financial repression
Theme: Saving and investing under financial repression requires a strategy different from what has worked for the last couple of decades.
Contrast: Most people believe saving and investing under financial repression will be similar to the recent historical pattern

We've come a long way (I hope) in the last eight weeks. We've seen how money creation, which occurs only in the commercial banks, can be used to promote economic progress. We have also seen how money creation is increasingly influenced by government actors like the central banks, regulators, law-makers, and heads of state. And we found that when money creation is directed or influenced by governments, they can run up unpayable debts, which are now causing great stress in government budgets and damaging economies.

Last session we made the case that in responding to these high debts, governments will, or in some cases already have, commenced a program of financial repression in an attempt to pay down or at least neutralize some of this debt. The key features of any such program are moderate to high inflation and repressed interest rates for a long period, perhaps a decade or more.

Today I want to discuss what to do about it, that is, to provide some general direction for personal saving and investing in an era in which interest rates are consistently below the rate of increase of consumer prices.

My thesis is that financial repression is altering the investment environment, requiring a saving and investing approach that is different from what has worked over the last 20 years. Today we want to contrast the old investment environment to the new emerging environment, which should enable us to form a strategy for the new environment. Put another way, today's task is to discuss what financial repression means to you in financial terms, and how you can respond to it.

We'll divide this discussion into two parts.

In part one, we'll discuss the overall investment environment, including what it has been, what it seems to be evolving to, and why most investors haven't yet noticed the changes. This exercise will suggest some broad investment themes to avoid as well as some that might be worth a try.

Then, in part two, based on our understanding of the new environment, we'll narrow the field and discuss more specifically how to approach saving and investing. My message will be that despite the reality of moving from an old, easy environment to a new, difficult one, you can still save and prosper if you are willing to adapt.

HOW THE INVESTMENT LANDSCAPE LOOKS UNDER FINANCIAL REPRESSION

Changes in the investment environment are always gradual, almost glacial, and tough to notice if you are looking for signs of change day to day. Practically everyone takes today's prevailing conditions for granted and few question how these conditions arrived or how they are evolving.

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I heard a great story some years ago by the late David Foster Wallace. Two young fish are swimming along one day, and they happen to meet an old fish swimming the other way. The old fish nods at the two young fish and says, "Good morning, boys. How's the water today?" They all continue along their paths for a while, then one young fish looks over at the other and says, "Hey, what the hell is water?"

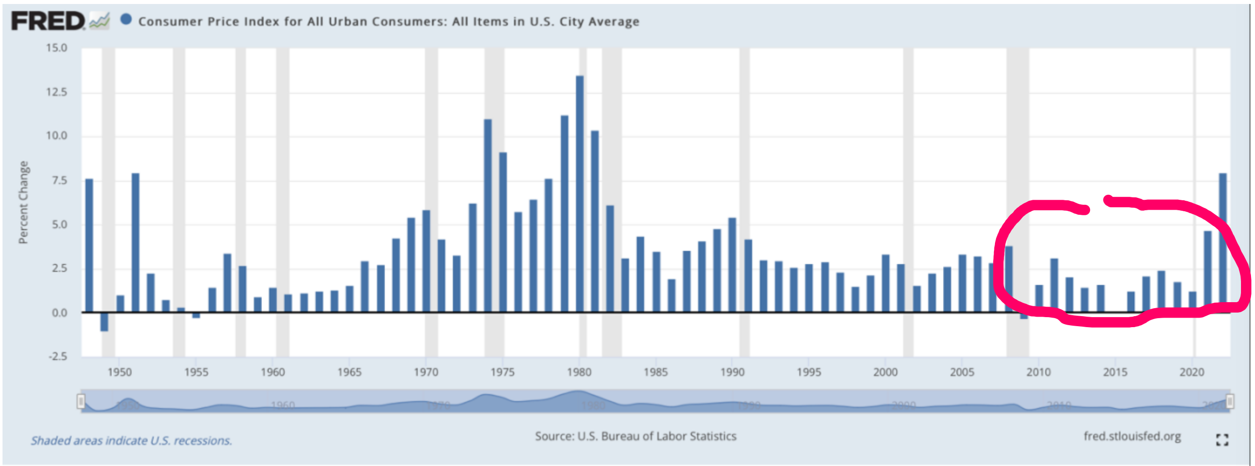
Just as the young fish don't notice the water they are swimming in, neither do most investors. Average investors may not appreciate that we have for many years been in a sea of declining interest rates, expanding money and credit, high and rising asset prices, and the speculative excesses that accompany such periods. Most of today's investors learned to swim in this water, and they didn't notice they were always swimming with a strong current pushing them along. They may not understand that these conditions were not normal. They may be expecting a favorable current when none will be there. And they may be slow to notice that the water they are swimming in is changing.

Let's describe the environment we have been swimming in for a couple of decades and contrast it to the one we are entering. What do we observe? I think we can see a changing environment along three dimensions.

1. Stable consumer prices shift to rising prices.
2. An end to easy money directed toward financial assets (stocks and bonds)

3. A period of relative peace giving way to increasing political turmoil

Let's look at these three changing dimensions in turn.



First, the old environment of stable prices is giving way to rising prices.

The graph shows the annual rate of consumer price inflation since 1948. From the late 1990s, and especially from 2000 to 2020, low annual cost of living increases were a major part of the investment landscape for most savers and investors. This was also a time of unprecedented asset price increases that made many people feel complacently rich.

In the new environment, the cost of living is rising faster than wages. This is because wage increases are typically sticky, not automatic, and often lag behind price increases. When inflation accelerates, the price-wage gap widens quickly. This means ordinary people will have to “run a little faster” – meaning they will have to work harder, longer, or at multiple jobs – to maintain a constant standard of living.

The toll on consumers of even moderate price inflation is high. If consumer prices rise by the Fed’s goal of 2% annually, the value of a dollar today is cut by 50% in about 35 years. But 2% CPI inflation is very rare historically. If CPI inflation settles down to a modest 4% (in line with its long-term average annual increase) it takes only about 25 years to cut the purchasing power of a dollar in half. Over fifty years, 4% inflation would cut the value of a dollar by about 80%. Saving by simply stacking up dollars is a losing proposition.

Prior to the Pandemic stimulus programs, why was CPI inflation so low, even during periods of excessive government monetary stimulus? There were two reasons for this. First, for many years the Fed’s massive QE program put Trillions of new money into the hands of professional investors, who then bought more investments, driving up the price of financial assets. Very little of this new money got into the hands of those who spend most of their wages on consumer goods, so consumer prices did not inflate nearly to the extent that asset prices did.

Second, consumer price increases were subdued because the cost of making them was held down by the increasing efficiency in global trade. In other words, the increasing division of labor from international trade improved productivity; or to put it concretely, cheap labor from China benefited us all.

‘Friend-shoring’ set to lift prices, warns ECB

Growing number of European multinationals move production to politically friendly countries

Many countries polled by the European Central Bank are concerned about their reliance on China for sourcing critical materials © Krisztian Bocsi/Bloomberg https://www.ft.com/content/c7fa3fdb-195f-449f-b7b4-461c1e93b5d1?desktop=true&segmentId=7c8f09b9-9b61-4fbb-9430-9208a9e233c8#myft:notification:daily-email:content

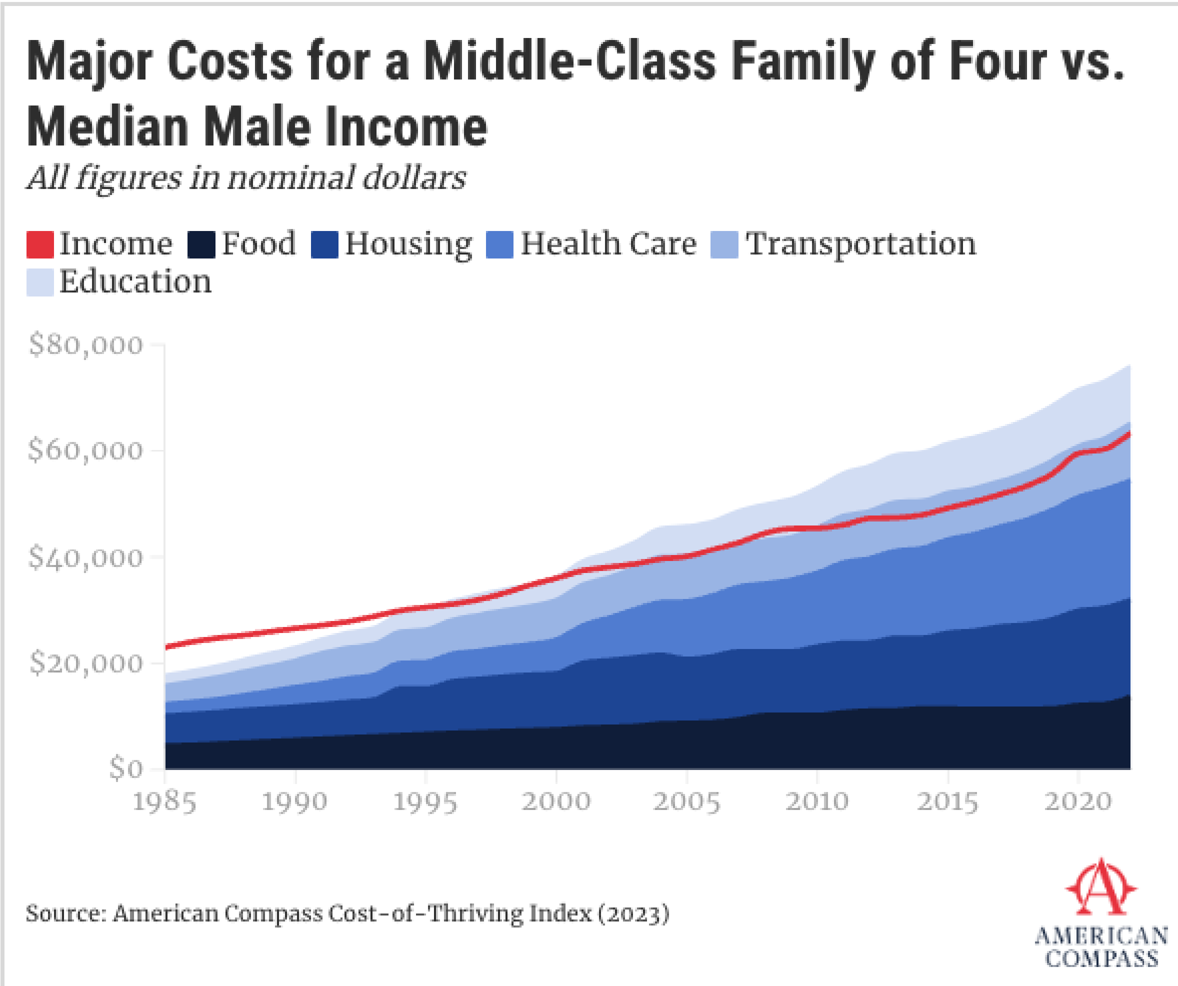
But the off-shoring trend is now stalling and even reversing as international tensions heat up. As manufacturing centers move back to the USA ('reshoring") or to a friendlier venue ("friend-shoring") the cost of both labor and materials goes up. As supply networks relocate and are rebuilt, we should expect annual consumer price increases to be higher than they were in the old era.

Incidentally, these on-shoring and friend-shoring trends will also have major implications for investment opportunities as supply networks shift to new locations.

Today I am going to avoid a deep dive into CPI, core CPI, PCE and various labor statistics, because they are an invention of economists that cannot capture the experience of financial repression on real peoplle.

The average person does not care about CPI data. She cares about putting good food on the table, paying for a decent home, driving a decent car, and getting good healthcare. These costs are rising, but official CPI numbers might tell us they are going down because of the way they are calculated. For example, CPI numbers over time will tell you that because of technological progress, the quality of health care you get today or the quality of the car you drive today is oh-so-much better than what you would have gotten in 1985. They then adjust the "cost" for quality, claiming that you are now getting more for your money today than in the past, and therefore they calculate a "real" cost that is lower than the actual money you paid.

As I have previously mentioned, the government's periodic adjustments of these calculatons are always designed to make the inflation numbers look better than they were before the adjustment. *Grants Interest Rate Observer* recently reported that the Bureau of Labor Statistics has adjusted its official calculation methods for inflation no less than 25 times over its history of calculating price indexes. Guess how many of those adjustments resulted in an upward adjustment to the cost of living? Zero. They always make inflation look more benign than it is. (Maybe I'll spend some time in the future explaining these complex price adjustments to illustrate to you how deceptive they are.)



https://americancompass.org/2023-cost-of-thriving-index/

In my view there is a better cost of living measure, one calculated by a non-profit organization called American Compass, that looks through these biased BLS data by computing what they call a Cost of Thriving Index, or COTI. First, they identify a typical collection of goods and services that a typical household requires:

1. A standard basket of good food as established by the US Department of Agriculture;
2. Monthly rent for a just-below-average three-bedroom house in a moderately priced housing market;
3. A family health insurance plan of the type provided by an employer;
4. Driving a car 15,000 miles per year;
5. Saving enough to fund enrolment in a public college for two children.

These are not highly aspirational living standards for people in the United States of America. You need to buy these things based on what they cost in the dollars you earn, not at the BLS-calculated index price. You don't have the choice to buy a 1985 car, or a 1985 healthcare plan, or a 1985 college degree. You can only buy what is offered in the economic environment you are swimming in.

This kind of measure, the COTI, is especially relevant to our present discussion because it identifies costs that fall squarely on the middle class, the same group that bears the brunt of financial repression. Remember, the middle class is where the wealth is, so that is where the government has to look for the wealth to pay down public debt.

Based on the COTI, starting from 1985, here is what the predicaent of the middle class looks like. This is what financial repression looks like in graphic form.

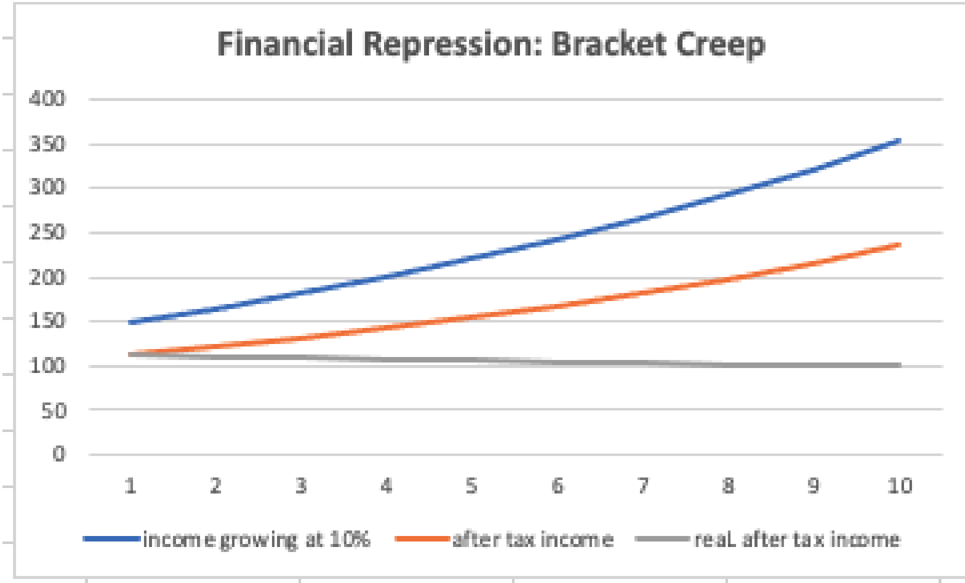
The red line is the average income for this cohort. What I like about this analysis is that it quantifies something that virtually everyone already knows: that the middle class is, at best, already swimming harder to keep up with the opposing current. Back in 1985, a middle-class family could afford the basics of food, housing, healthcare, transportation, and education and still had a little money left over, meaning saving was possible if you wanted to save. That started to change in the mid-1990s, and the gap between expenses and income kept widening.

Cost of thriving index

The actual Cost of Thriving Index is calculated by dividing the middle-class lifestyle's cost by the middle class's average weekly earnings. The result is the number of weeks in a year it takes to earn that lifestyle. In California, one of the highest-cost states, that number is 73 weeks. I don't have to remind you that there are 52 weeks in a year. Put another way, the average middle-class family in California would have to earn 40% more income each year to purchase this basic lifestyle. (Of course, California has a huge population, so the number of people affected is also huge.) This gives you a big clue as to why so many thousands of middle-class people are migrating to Florida and Texas. The problem is less acute in those states, but it is still a problem nationwide

This problem will not go away and will likely worsen under increased financial repression. You may have to increase your savings rate, "save a little harder," and work harder, to accumulate cash for investment. In pelagic terms, the middle class will increasingly be swimming upstream.

There are other ways to characterize the financial effect of financial repression on average people. I will offer just one more, something called "bracket creep." Recall that a key feature of financial repression is that the government takes more in taxes by inflating nominal GDP, thus giving the government more nominal income dollars to tax. But the higher taxes don't just take away a higher number of inflated dollars. Progressive income taxes also take more real wealth from you through this phenomenon called "bracket creep," which I now want to illustrate.



Let's imagine a household earning $150,000 per year and assume a progressive tax schedule like what exists but simplified a bit to make the calculations obvious. The idea behind "progressive" taxation is that as you earn more, you give up more of your incremental earnings in taxes.

So, assume the first 50k of household earnings is taxed at 15%, the next 50k is taxed at 25%, the third 50k is taxed at 35%, and any income above 150k is taxed at 40%. That's a progressive tax schedule reasonably close to today's true tax schedule.

Next, let's add inflation to the mix and assume household income grows at 10% per year for ten years, and along with that, the cost of goods and services also grows at 10%. So if there were no taxes, we assume a rosy scenario in which your top-line income, your gross income, would keep up with the increasing cost of living. But as we'll see, bracket creep enables the Treasury to take more of your real wealth in taxes.

In this hypothetical example, your gross income (blue line) grows from 150k in year one to 354k in year 10, giving you an illusion of prosperity. But because of tax bracket creep – meaning that as you earn more dollars, more dollars are taxed at higher rates – your rising nominal income is pushed into a higher tax bracket**. Over ten years, your after-tax income goes from 113k to about 233k. Over this period, the total tax you pay as a percentage of your gross income goes from 25% to 33%.** Put another way, your take-home pay, what you get to keep as a percentage of gross income, goes from 75% to 66% of earned income. That's why after-tax income (orange line) rises slower than gross income (blue line).

Finally, and most importantly, your real income – your take-home pay adjusted for annual price inflation (grey line) –declines from 113k in year one to about 100k (inflation-adjusted dollars) in year ten.

This is the treadmill of financial repression. You work harder, as the government takes more of your time and talent to pay for its open-ended obligations. It does this through a combination of price inflation and progressive taxes.

Please note, this is *exactly how it is supposed to work* from financial repression's point of view. Over ten years, the government progressed from taking 37.5k to 117k annually. They needed this growing tax to pay back their entitlement promises in depreciating dollars. At the same time, they also took more of your *real* income, reducing your inflation-adjusted income from 113 to 100k.

This gradual destruction of your standard of living is very hard for the average earner to spot, especially when it occurs gradually over many years. The proverbial boiled frog syndrome.

There may be other tax increases in the form of fees. Estate taxes may go up. And don't expect government services to get any better for the money you pay in tax. You may have to learn to circumvent government agencies to live well. For example, government healthcare is getting more expensive, and options within government programs are pretty narrow. In the USA, this year, we now have over 100 million people on Medicaid. As your costs grow and choices for medical services narrow, you will need to be nimble in seeking your own supplementary private healthcare program to stay healthy. That's another example of financial repression in stealth form.

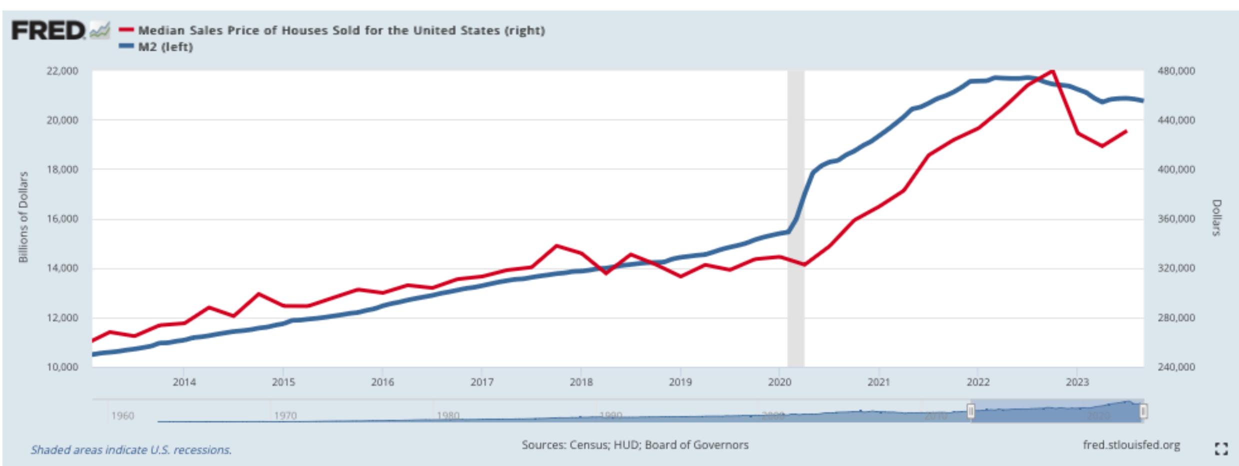
I hope you see, through these examples, how this combination of inflation and low interest rates transfers the wealth you produce into higher tax revenue to allow the government to pay for its programs with depreciated money. You will literally be paying down government debt with your time and talent, not just your money.

You cannot entirely avoid this predicament. But you must at least recognize this repressive environment before you can fight back.

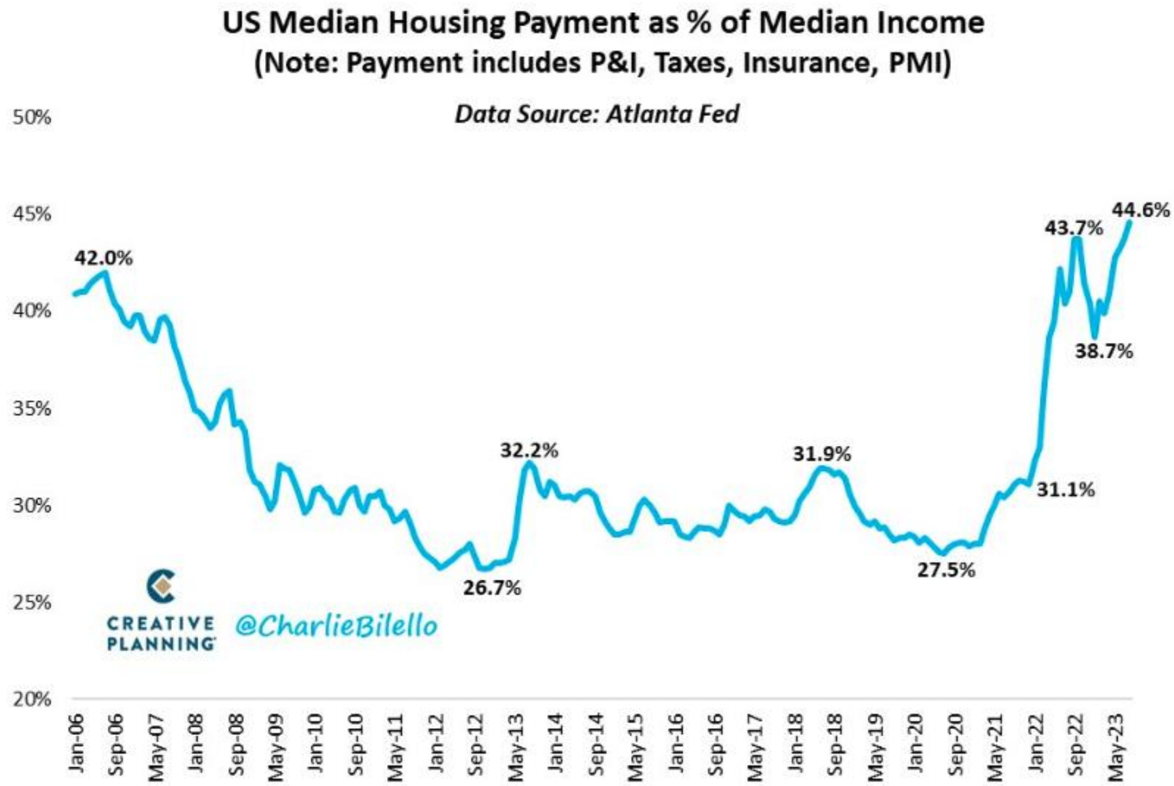
Let's now move on to the second dimension of change in the investment environment:
The era of easy money and rapid appreciation of financial assets is past, replaced by modest price appreciation in different assets. "No-brainer" investing programs are probably a thing of the past.

The environmental shift is best shown in graphic form.

Here is a review of what easy money did to stock prices (M2 in blue, right scale; SP500 in red, left scale). For stock prices to continue rising, new money needs to come into the market, which is difficult when the total money supply is shrinking and when new money creation is no longer going directly to stocks. So it's no coinicidence that as the money supply stops growing and shrinks even a small amount, stocks start to falter. This shrinking M2 will not last forever, but it's unlikely we'll see big spikes up as during the pandemic years, and it's unlikely central banks will direct new money to the investment markets in the quantities they did for the last 15 years or so.



Here is what easy money did to house prices (M2 in blue, median home price in red). House prices also need continual new money to keep rising in price.



And here is what the end of easy money has already done to the cost of owning a home. In 2020, when mortgage rates were at 3%, the median house payment cost 27% of household income. Today, with mortgage rates near 8%, the cost of a house takes up 45% of income. This is a higher percentage of income than at the height of the housing bubble in 2006.

In the old environment, injections of easy cheap money reliably raised asset prices. In the new environment, asset prices will be choppier, as they were before easy money.

In the old environment, you could buy the stock market and let the easy money do the work. That environment is gone.

In the old environment, you could buy a house and watch it go up in price. This made you feel richer. And you could afford that house because mortgage rates were 3%. Now mortgage rates are nearly 8% and look at the monthly cost of paying that mortgage off.

Today, the Fed is no longer dishing out easy money, but instead is letting the money supply shrink slowly, putting downward pressure on asset prices and investment returns.

So that is a snapshot of the old and new investment environments. The new environment is much harder, because not only do you have to contend with a rising cost of living, it's also harder to compensate for it with rising asset prices.

So that is the second dimension of the new environment: an end to easy money and the ballooning asset prices that result from it.

Now for the third dimension of the new environment: A heightened level of political tension, both domestic and international. For most of the old era, we had relative political calm at home. In the new era, we seem to have riots, demonstrations and rising crime. For example, these mass protests in France in January were a reaction to the modest proposal that France would raise its retirement age from 62 to 64. A great example of the fact that people are not going to accept austerity to pay down sovereign debts.

One result is political unrest

I believe we'll see continuing and possibly growing political division, protest, and unrest. This is similar to what we saw in the late 1960s until the early 1980s. Crime may be a growing problem that you'll have to deal with personally. You may see populist third-party candidates become more common.

Internationally we also have increasing tensions, compared to the old era of several decades of peaceful relations among the major economic powers. This is playing out as pressure to reduce the use of the dollar to settle international trade. If this movement continues, it will affect almost everyone, though indirectly and not so visibly. The US is using financial sanctions as an alternative to physical conflict, i.e., they are weaponizing the dollar, based on the questionable assumption that the dollar will always be king. A shift away from the dollar would likely be imperceptible to most people, as it would happen slowly. It will not be an abandonment of the dollar but a gradual and subtle shift toward alternative reserve currencies, or perhaps toward gold or a cryptocurrency.

Let's consider the effect of financial repression on the dollar's role in international trade. As the USA runs up its debt, we repay our bonds with interest rates that are not particularly attractive given the depreciating purchasing power of the dollar. If you are an oil exporter, like Saudi Arabia or Russia, you run export-surpluses, that is, you sell oil to the rest of the world for dollars, and you traditionally invest your surplus of dollars in US Treasurys. What If your Treasury bonds earn three or four percent while the price of oil rises at, say 8%? If you were Saudi Arabia, how long would you allow the value of your savings to decline like this? You would be better off leaving your oil in the ground, letting it appreciate in price. Or perhaps you want to hold your trade surplus in a currency that is not depreciating, perhaps even in gold. So this is an example of how repressed interest rates and currency debasement can affect international trade. It seems logical that countries like Russia, China, and Saudi Arabia, who have traditionally held their trade surpluses in US Treasuries, will continue to look for more attractive way to store their export surpluses.

Of course, this tendency is exacerbated by the fact that the USA just froze many Russian bank accounts, preventing them from cashing in their reserve holdings of US Treasuries to the tune of $650 billion. Weaponizing the dollar gives trading partners yet another reason to away from Treasury investments dollar-denominated investments, which means fewer buyers for Treasurys, which puts more upward pressure on interest rates, which our government must try to suppress.

So to summarize some of the main features of the new investment waters.

1. Moderate to high consumer price inflation
2. Slow or stagnant growth in real wages
3. Low real interest rates
4. Social unrest and political turmoil
5. De-globalization of trade along with re-shoring and friend-shoring
6. Incremental movement away from the dollar as the top currency

[pause for questions and comments]

INVESTING UNDER FINANCIAL REPRESSION: NARROWING THE FIELD

So now, having described how the new waters differ from the old waters, let's try to narrow the field. First, I want to suggest you avoid two investment strategies that worked in the old environment but are not going to work as well in the new environment.

Then I want to offer five broad positive suggestions for the new environment.

You don't want to fish in muddy waters, so where are the waters we should avoid? To save time and mental space, let's first think of where we do NOT want to spend much time searching for places to put our savings.

First, avoid or de-emphasize long-term bonds.

FT: END OF THE NEW NORMAL: https://www.ft.com/content/255623ed-ef7e-4874-820c-02763d2c055e?desktop=true&segmentId=7c8f09b9-9b61-4fbb-9430-9208a9e233c8#myft:notification:daily-email:content

Opinion **Markets Insight** + Add to myFT

Bond yields signal the end of the new normal

We are entering an era of higher and more volatile inflation, leading to broad changes in the investing landscape

JASON CUMMINS + Add to myFT

Given the nature of the bond market and the nature of financial repression, you should avoid long-term bonds unless you are an expert in the bond market. Long term in my view is a maturity of over five years.

Unless you are a professional bond analyst, only buy a long-term bond if you are convinced it would have good value if you bought it and held it to maturity. Do not “rent” long-term bonds unless you want to be a trader.

Here is an excellent chart from Bianco Research showing the yield on the 10-year US treasury, or its equivalent, back to 1787. It's no accident that as the money supply stops growing and shrinks even a small amount, stocks start to falter. The first thing you notice is that yields move up and down in long multi-decade waves. Why they do that is a puzzle, but the fact that interest rates do move in long trends is historically unmistakable. The latest wave, a big downward move, was 40 years long. I believe the direction changed from downward to upward in March 2020 when we reached the *lowest yields in 5000 years of recorded history* (not a typo). Remember, as yields declined, existing bond prices went way up, making a fortune for those who had bought bonds when yields were higher. Several generations of investors grew up in this environment and likely have this bias built into their investment habits.

I believe the 40-year bond bull market ended in August 2020 when the 10-year Treasury bond traded at a yield of 50 basis points, which is one-half of one percent. That yield is now just a little less than 5%, shown on the chart. As interest rates have risen, bond prices have declined at a record pace for three years in a row, so we are in the fourth year of a vicious bear market in bonds. Is that trend over, and do you want to risk that? You can see from the chart that 10-year bond yields at 5% are only now getting closer to a long-term average. You always have price rallies in a bear market, but it's unlikely they will plunge back to 2%. Sticky consumer price inflation doesn't have to be more than 3 or 4% to keep bond yields higher than they were in the 2010 to 202o era. We are not seeing lots of new investment money coming into the bond market. All things considered, I expect bond yields to remain high and possibly go higher.

Buying long-term bonds was a no-brainer mainstay investment over the last 40 years. But I believe those days of continually falling interest rates are over for a long time. The trend of yields will now be upward, and that is one good reason to be very careful about owning long-term bonds, in my view.

Whether I am right about that or not, there are other, perhaps better reasons, to avoid long bonds. The main one is that in an era of financial repression*, interest rates may rise but will not be allowed to rise above the annual rate of price increases*. So even if you buy and hold for the long term, rates won't be high enough to beat price inflation.

You should also consider avoiding other investments that mimic, or depend on, the return on long-term government bonds. For example, you should avoid equity investments in life insurance companies. That's because life companies estimate their future payouts based on current interest rates and buy long-term bonds to match assets with expected payouts. As rates rise, their liabilities also rise, but the value of their long-term investments decline, and they can quickly become insolvent. (Note, I'm suggesting avoiding life insurance companies, not necessarily property and casualty insurers, which are a different animal and may do just fine under financial repression). The point here would be: if you are considering any financial investment, ask yourself whether it is sensitive to long-term interest rates.

A possible exception to this bond caveat: TIPS, or Treasury Investment Protection Securities, might work in an inflationary environment. If you want to buy long-term bonds, this would be a good option. You'll probably do OK.

The way that TIPS work is that their principal and interest adjust with CPI. So, you get a lower yield, but then unlike a normal bond, as the CPI goes up, the bond value goes up, and the interest you receive is adjusted higher based on that increase in value. TIPS are sold in 5-year, 10-year, and 30-year durations, and there are various ETFs that make owning them easy.

My main concern about TIPS is that the CPI does not adequately measure inflation, so TIPS might not realistically keep up with inflation. Another concern is that the Fed has been known to manipulate their price. At one time during QE, the Fed owned about 25% of all TIPs.

https://www.lynalden.com/premium-2023-10-15/

No doubt, some people will make positive returns investing in long-term bonds, but these will be expert bond traders, buying and selling bonds to the fish at the poker table. Don't be the fish. So, go for it if you want to become an expert in trading bonds, but it will likely have to be a full-time occupation!

That's enough about long-term bonds.

Second, avoid the formula of the old order, passive investing: become more selective in your investment strategy

Another area I would avoid is the passive kind of broad index investing that has become so popular over the past 20 years. This has been an excellent investment strategy, and it's been hard to beat the indexes by active investing, or picking individual stocks. But going forward it may not be so easy. Going forward that may change, so let's discuss why.

For the last 25 years, one of the best options for your savings has been to buy an "index fund" that mimics a broad index of stocks, and just keep adding to it. Despite some scary setbacks like the dot-com crash of 2002, the great financial crisis of 2008, and the lockdown panic of 2020, it always paid to stay invested in the index, to keep adding to your fund, because at every stock market downturn, central banks responded with more QE and lower interest rates that later led to a new high. Investors were trained to buy the dop because asset prices only go up in the long run.

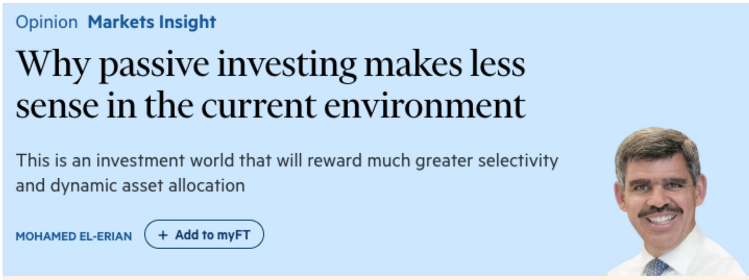
Due to the era of easy money, companies that would have normally failed were kept alive by easy credit. This meant that the extreme differences between sound companies and zombie companies was not fully reflected in their stock prices. Easy credit conditions and declining interest rates undermined the normal creative destruction of capitalism.

As investors flocked to index funds, fund managers bought all the stocks in the index, not just specific stocks. Stock prices became more correlated with each other, meaning all stocks tended to move up and down together more than they had in the past. In this way, easy money and passive investment undermined the normal reward and punishment system of the stock market. Traditional value investing – which says you should purchase historically cheap companies, or companies with a conservative balance sheet that can weather an economic downturn – became less effective and therefore unpopular.

Other factors added to this tendency toward a more homogeneous valuation of all stocks. Some central banks, like the Japanese Central Bank and the Swiss National Bank, actively purchased large pools of stocks or stock funds (with newly created money, by the way), adding to the upward pressure on the broad indexes. In addition, low interest rates reduced the return on new investments in bonds, pushing some of the more traditional bond investors into stock index funds. (I wrote about this in 2015 in *The Objective Standard* as well as on LinkedIn).

So index investing worked for a long time. Under easy money conditions, passive investing became a no-brainer, an effective and popular one-way ticket to becoming rich. Slogans like "TINA" (there is no alternative) to stocks became popular. Get in the market, stay in the market, buy stocks for the long run, buy the dip – these are all popular expressions of a popular investment strategy that grew in an era of easy money.

I suggest we are starting to see a shift away from this automatic pilot mode of index investing. It will not go away entirely, but we are entering an era where passive index investing may not be the world-beater it was in the past.



[Investing differently under financial repression]

A recent Financial Times article by a very influential investor, Mohammed El-Erian, sums this up succinctly. I will quote in part.

> "Passive investing is particularly attractive in a world where investment outcomes are heavily influenced by a common global factor. This was the case for more than a decade as the combination of artificially floored interest rates and massive injections of central bank liquidity boosted all assets. Even zombie companies and fragile sovereigns [debt of insolvent governments] could refinance without much difficulty…."

El Erian explains that the common global factors of low CPI inflation and low interest rates are now shaken, requiring central banks to raise interest rates and restrict money creation. In addition, globalization is declining due to rising political tensions. And with this comes shifts in how and where goods are manufactured and transported, raising costs. These changing conditions create new investment opportunities while closing off old ones. And I agree with this assessment wholeheartedly.

> "In short, this is an investment world in which greater selectivity, smart structuring, and dynamic asset allocation ["dynamic" means changing course in anticipation of new information] trump more often the lower fees on passive vehicles. It's a world that warrants a partial return to a' la carte selection after many years of fixed menus."

Total returns with dividends reinvested, January 1966 to July 1982 - U.S. assets		
		Real Return
Consumer Price Index	196%	-196%
Small company stocks	619%	423%
Large company stocks	126%	-70%
Large cap growth stocks	139%	-57%
Large cap value stocks	250%	54%
Mid-cap growth stocks	118%	-78%
Mid-cap value stocks	352%	156%
Long-term corporate bonds	67%	-129%
Long-term government bonds	61%	-135%
source: Ibbotson and Russell Napier, *Solid Ground* Aug 2 2022		

History might give us a clue about how different classes of assets will perform under higher inflation and higher interest rates. The period 1964 to 1982 seems similar to today – an 18-year period of rising consumer price inflation, rising interest rates, international political tensions, and domestic political turmoil. What worked during this period?

The chart shows the real return on various classes of stock market investment along with corporate and government bonds. Small company stocks, mid-cap value, and large-cap value stocks were the clear winners. Bonds were a disaster, barely beating cash, which lost nearly 200% of its real value. Returns under the current financial repression will be different from this because history rarely repeats; it just rhymes. I offer this data simply to illustrate that buying and holding an index, as many people have done successfully for years in their 401K plans, may not work as well as in the recent past.

Note from the historical data that the asset classes that gave you a return ahead of consumer price inflation were small-cap stocks, mid-cap value stocks, and large-cap value. Traditional savers who generally use bonds or savings funds based on bonds, got poorer. But value investing strategies worked then and I think they will work under today's financial repression. I believe active investing is back, and value investing is an excellent active strategy. And I'll elaborate on this in a moment.

Five suggestions for an investment strategy under financial repression

To wrap up today's chat, let's continue with Mohammed El Erian's theme that you should pick from an *a la carte* menu of investing ideas rather than the fixed price menu. Continuing that theme, I'd like to offer you now a partial menu of types of investments that should do OK under financial repression. This will not be comprehensive by any means, but a list of the types of dishes you can choose from.

The analogy is more like this: I recommend you eat more beef and less corn, but I will not tell you where to buy your beef or how to cook it. I will offer five focused recommendations I believe will work under financial repression.

Recommendation 1. Make your cash work as hard as you can without risking it
If you have extra money sitting in a bank deposit or a brokerage account, you are probably getting less than one percent annual interest on that money. You haven't had to care about this for years because consumer price inflation was less than 2%. But today it's at least 4%. So don't settle for 1% bank deposit y ields. Brokered 3-month CDs are now paying 5.0%. The 6-month Treasury note is over 5%. And there are ETFs, very easy to buy and sell, with this level of yie Both are very safe and very liquid.

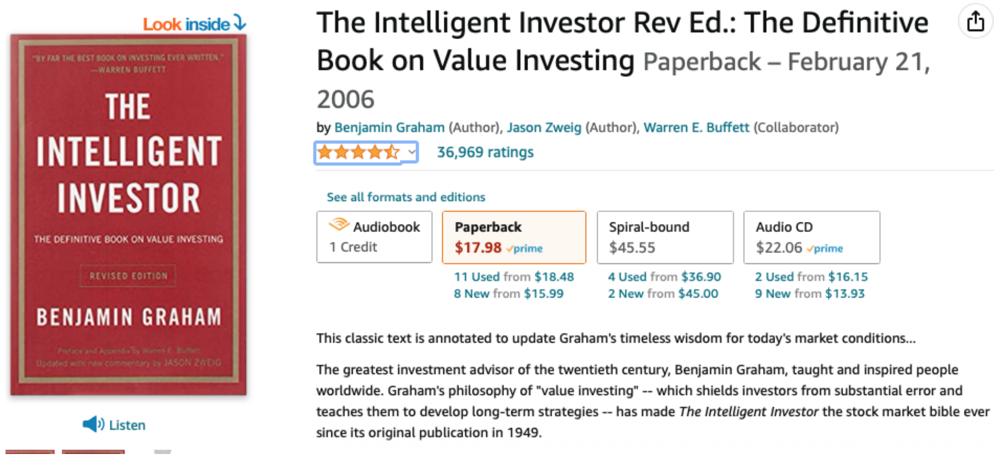
Your broker will probably not guide you here because he can't make any money doing it. You probably won't beat inflation with this low-risk strategy, but you'll limit its damage. So make your cash sweat.

Recommendation 2. Own your own home (but don't buy right now!)
Owning a home is often the best long-term investment most people ever make. In the USA, there are tax advantages, like the deductibility of mortgage interest that make it attractive. Be careful, don't just run out and buy something. Shop for the best areas, be patient, and use time as your diversifier. Be concerned with fair prices more than mortgage rates. You can't control mortgage rates. If they go up after you buy, you got a good deal, but if they go down you can always refinance to your advantage. The trend of people moving from the cities to the country or the suburbs works in your favor. Many people Take advantage of the chronic shortage of housing. Many people buy homes as rental real estate and do very well over the years. This requires work but if you like doing it, it can be very rewarding.

One important advantage of home ownership in the USA is that your home is a secure property right. Property rights are under assault today, but the family home is such an American icon and such a strong traditional value that I suspect your home will be the last place the government will come to pillage your wealth. Many states have special laws, "homestead laws, that allow you to keep your home in the event of bankruptcy.

But as we saw, the average home affordability is very poor right now. This will change over time because it has to: home prices will have to adjust to the ability of people to afford them. So you may want to wait for better affordability. On the other hand, all real estate is local and specific, so if you see a great deal that you want and you have the money, go ahead, but do so with an understanding of the prevailing industry conditions.

Recommendation 3. If you invest in stocks, consider a "value investing" approach.



What do I mean by "value investing"? I mean old-fashioned stock-picking, based on fundamental analysis of a company's business prospects and its financial health. You buy, say, the 12 best stocks for your portfolio. Value stocks are often temporarily out-of-favor resulting in an unduly depressed price that will eventually correct upwards. The price of a "value stock" sometimes reflects a temporary extreme negative reaction from the market that can be exploited.

[Optional example: of British Petroleum after the April 2010 explosion of its rig (Deepwater Horizon) in the Gulf of Mexico.]

For investments in the stock market, I have always used the investment practices laid out by the great Benjamin Graham and made famous by Warren Buffett.

Stocks are definitely not for everyone. There are good ways to save and invest without the stock market. But if you are going to get actively involved in the stock market to educate yourself, I would start with Graham's book *The Intelligent Investor*, then read Warren Buffett's annual letters to Berkshire Hathaway shareholders, which are readily available for free in e-book form. And if you don't find these or similar books and writings interesting, I would steer clear of the stock market. If you are not interested, don't force yourself into stocks for fear of missing out, it's not for you.

Value investing has been out of favor for many years, but to paraphrase Mark Twain, the death of value investing has been greatly exaggerated. Value investing never really died; it just hibernated for a decade or two.

I am not offering what I would call investment advice here, but if I could offer one little aphorism to sum up my whole attitude toward investing in stocks it would be this:

[slide]

"In the stock market, the opportunity of a lifetime comes along about every three months."

- Unknown author (but I wish I had said it)

This means patience, diligent work, study, and not speculation, shutting out tons of noise, resisting FOMO, and investing in real businesses and not "the stock market." And realizing you will make mistakes, but you don't have to be right all the time to do well.

To put some color on value investing, I want to give you an example of a specific application to show you how it can work. One conservative value approach is to look for stocks of companies that pay generous and growing cash dividends. "Dividends don't lie" is a common value investors' expression.

First, find a company with a good track record in increasing its dividends over time. It should be a solid company with a good competitive advantage in its industry an in its product line. Then simply buy the stock and collect the dividends. Don't worry too much about the stock price – choose the company based on its ability to grow its dividend stream. Here is an example of such a company, one I have personally owned for many years.

I looked up the last 20 years of the growth of the dividend stream in Altria, the US-based tobacco company. The company has a long-term record of being able to raise product prices and grow sales steadily, even though tobacco use is not growing much in most countries. Most professional managers do not like the stock, especially the ESG crowd, because it's fashionable to be anti-smoking, so Altria stock trades cheaply relative to its annual earnings and dividend distribution.

Suppose you bought the stock at $12.50 per share in 2002 when the annual dividend per share was 66 cents per share. At that time the dividend yield was 5.3% By 2022 the annual dividend per share was $3.68, a 450% increase. Since 2022, the yield on your original cost is now 30%, or

3.68 divided by your original cost of 12.50. It is set to increase again at the end of this year. And that is a safe 30% yield on your cost, not a flash in the pan. Finding these kinds of companies is a great way to build income for retirement. Yes, you might have made more money buying Tesla or maybe even indexing the S&P500 for a while. But this is a strategy for all seasons, and you can sleep at night.

There are some stocks I have owned for many years in which the annual dividend per share is greater than the price at which I bought the stock in the first place. This buy-and-hold-and-collect-the-money strategy is not one most investment advisors will advocate because it will not make them any money. It is boring, requires little expertise, and only a little bit of your attention. It is an example of an idea that should work in an era of normal or even poor stock market returns and moderate to high inflation.

There are many other considerations for investing in companies under inflation and financial repression. This is simply one example. Perhaps we can get into other strategies when I resume our Finance Friday schedule after this course is done.

Recommendation 4. Consider some other traditional inflation beaters

Farmland: Productive farmland usually keeps its value during inflationary periods because its value depends on the quantity and price of the crops it produces. Farmland is not very liquid; it may be hard to sell, but if you are patient, its value generally appreciates well, and it may provide standing ground in an era of increasing government intrusion. The same could be true of timberland.

A working farm is very expensive for a normal person, and most people don't want to do farm work, but you can invest directly in farmland through private partnerships or publicly traded REITS, but in the latter case, watch out for fees and don't pay significant premiums over the net asset value of the fund.

Commodities: Consider investing in various agricultural and physical commodities, but only via a managed fund and in modest size. Commodities investing can be expensive and volatile. It is a professional's market.

https://seekingalpha.com/news/4033043-we-are-in-the-early-stages-of-what-will-be-a-supercycle-in-commodities-vaneck?mailingid=33299835&messageid=2900&serial=33299835.28228&utm_campaign=rta-stock-news&utm_content=link-1&utm_medium=email&utm_source=seeking_alpha&utm_term=33299835.28228

Precious metals: To me, physical gold is the savings asset of choice under financial repression. There are at least two reasons.

First, under financial repression, real interest rates are negative. The interest rate on gold is zero, but the gold price moves with inflation; therefore, if bonds pay interest less than the rate of inflation, gold usually outperforms bonds. The gold price also tends to perform counter to the value of the dollar (dollar up, gold down and vice versa, at least in the short term).

The second reason gold is a good asset for financial repression: It is difficult (though not impossible) for the government to interfere with the property rights of owning gold. Central banks are buying huge amounts of it, especially the People's Bank of China. Pensions are buying it. State governments are passing legal tender laws and building gold depositories to promote confidence in safe-keeping. Gold is not a security (not a stock or a bond) so it will not be regulated by the SEC under current law. Gold is the only financial asset that is not someone else's liability. There are obvious risks to owning gold, but there is no counterparty risk. New supplies of gold increase by only 1 to 2% per year, so it can't be severely inflated – unlike fiat money, you can't print more of it. So gold should escape financial repression.

For a thorough presentation on why everyone should consider owning gold, see:
https://jim3c5.substack.com/p/why-everyone-should-own-gold

Recommendation 5. Find reliable financial advisors who make sense, but listen critically.

You'll have to pay for honesty and objectivity, but you shouldn't have to pay a ton of money. Here are a few of the sources I use.

Lyn Alden (cheap, great value)
Fred Hickey ***The High Tech Strategist*** (tech and gold, cheap, well researched, honest)
Grant Williams (moderate pricing, wide-ranging interviews)
Seeking Alpha (free or premium) – lots to choose from, almost too much
Zerohedge (free or premium, wide ranging, irreverent)
Bilello charts (free)
Wolf Street News (free)
Bloomberg, WSJ, Financial Times, The Economist (staple information)
Grants Interest Rate Observer (excellent and expensive)
Russell Napier (excellent and expensive)
Jim Bianco (very excellent and very expensive)
Myrmikan Capital (for deep thought)
"Sifting the World" on Seeking Alpha (not cheap but good specific stock recommendations)
As far as the TV networks are concerned:
CNBC is mostly crap, known as "bubble vision" among professionals. Avoid that fool Jim Cramer.
Fox Business News is biased hard right. A few good commenters but some are very poor.
Bloomberg News is biased left, but their straight financial journalism is the best.
I shuttle between Bloomberg and Fox Business News.

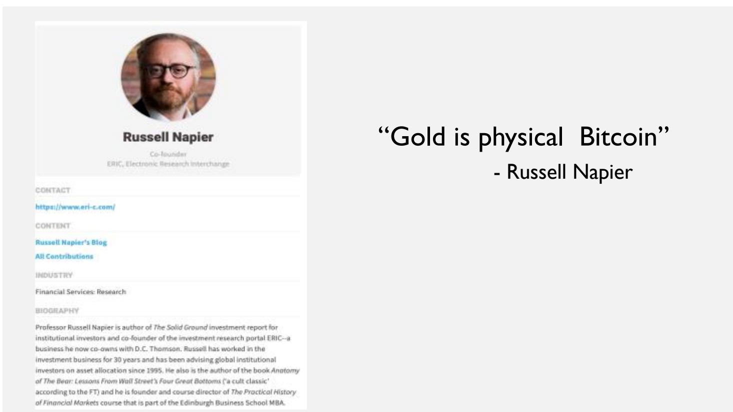
We are out of time, so let's draw a line there. Questions or comments?
END OF MANUSCRIPT

BONEPILE:
Feel free to pick up any useful scraps here

https://vblgoldfix.substack.com/p/jim-grant-gold-is-an-investment-in?utm_source=substack&utm_medium=email

https://vblgoldfix.substack.com/p/newsweek-china-is-hoarding-the-worlds?utm_source=post-email-title&publication_id=456345&post_id=138646065&utm_campaign=email-post-title&isFreemail=true&r=bfni4&utm_medium=email

https://vblgoldfix.substack.com/p/must-read-china-may-be-taking-gold?utm_source=substack&utm_medium=email



Some people like bitcoin as a digital alternative to fiat currency, but I like this expression from the Scottish monetary economist Russell Napier: Gold is ”physical bitcoin,” a play on the expression, “Bitcoin is digital gold.”

Nov 1 2023: Bianco: commodities outperform bonds (graphs)
https://www.biancoresearch.com/total-return-review-bonds-encore-performance-in-2023/

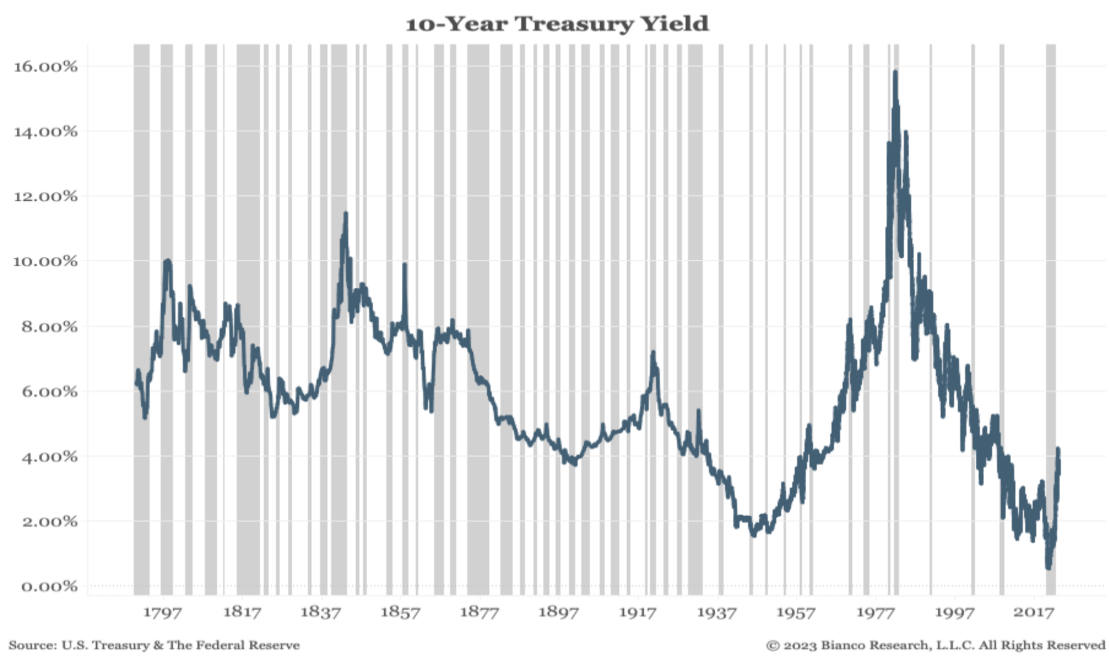
Luke Gromen on gold as an international reserve asset:
https://mail.google.com/mail/u/0/#inbox/FMfcgzGwHVQcVTcGSmtVPmxwXMNfwhxJ

You can also buy gold miners and gold royalty companies, which I’ll have more to say about in future podcasts.

https://www.ft.com/content/abc39431-1755-4906-b11e-ee9e53baadfe?desktop=true&segmentId=7c8f09b9-9b61-4fbb-9430-9208a9e233c8#myft:notification:daily-email:content

https://vblgoldfix.substack.com/p/jim-grant-gold-is-an-investment-in?utm_source=substack&utm_medium=email

Central banks buying gold: https://thegoldobserver.substack.com/p/pboc-in-a-hurry-to-buy-gold-covertly?utm_campaign=email-half-post&r=bfni4&utm_source=substack&utm_medium=email



From Stockman: stagflation is upon us: High federal spending and deficits crowd out private investment, resulting in slow real growth: https://www.davidstockmanscontracorner.com/americas-stagflationary-mess-the-bastard-son-of-maga-part-1/?mc_cid=8759a04adb&mc_eid=5ccd0316e7

Your passive 60/40 will not work. Because the government needs your wealth to pay for its mistakes.

https://www.wsj.com/finance/investing/your-set-it-and-forget-it-401-k-made-you-rich-no-more-c06552c

https://envmental.substack.com/p/the-master-abaters/comments

Carbon capture/abatement technology is a hammer searching for a nail that doesn't exist. Since CO2 poses zero threat to humans (and indeed, we need more of it!) I would caution people against investing in these technologies - unless you are an insider like Warren Buffett, who can time the regulatory wave perfectly.

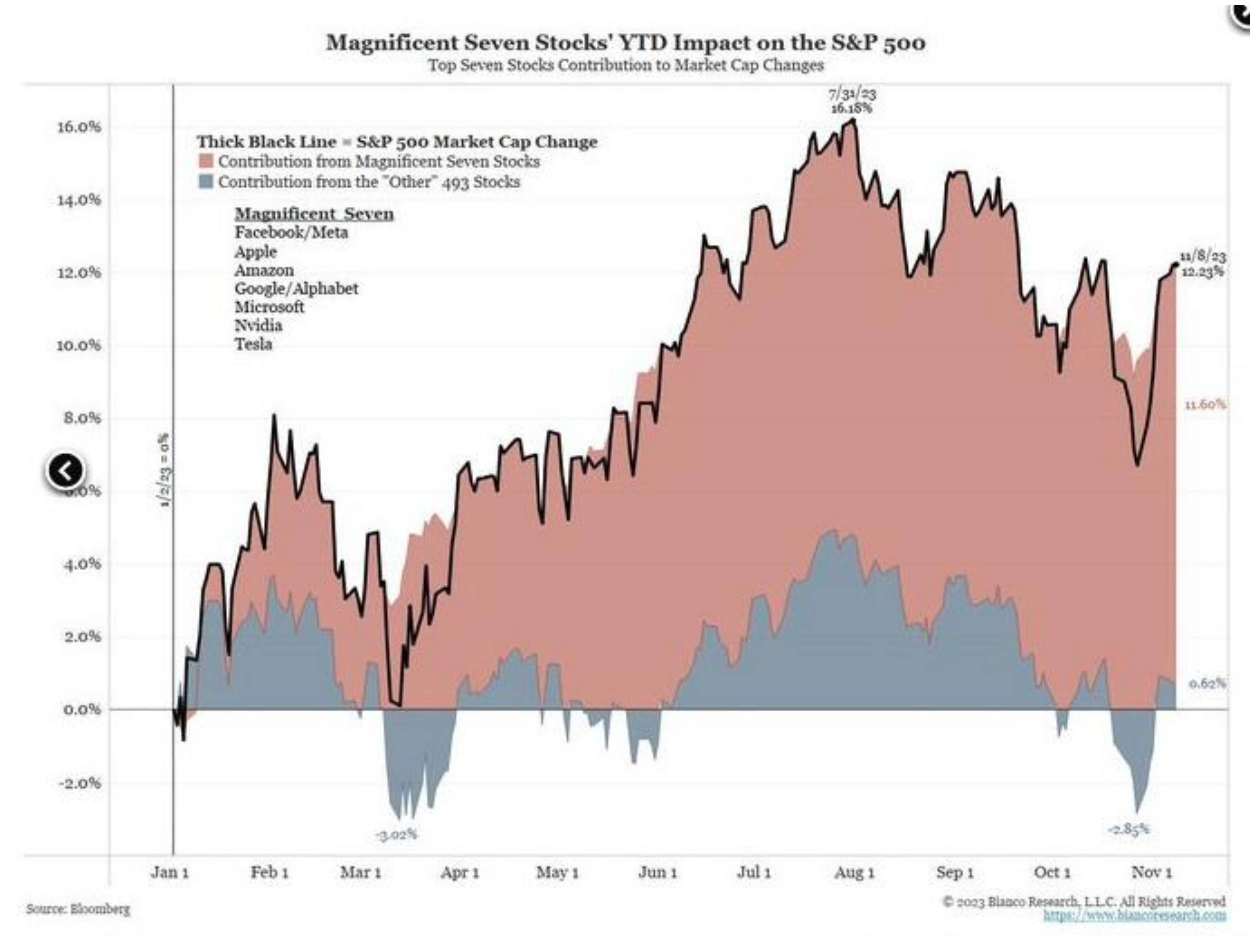
How similar are the government-caused disasters in energy production to the government-caused disasters in money creation? Both industrial energy and sound money were created by humans operating in markets, and government policies are now destroying both. Which is worse: counterfeit energy in the form of "renewables" or counterfeit money in the form of Quantitative Easing? Pick your poison; both are fundamentally destructive.

Stockman on the phony jobs numbers:

https://mail.google.com/mail/u/0/#inbox/FMfcgzGwHVVFFGbrLCCKzNkClRFfTgzj?compose=new

Few of us stop to notice the water we are swimming in. Another way to think of our investment environment is to think of it as an investment landscape.

By "investment sea" I mean all the financial ecosystem that affect investment outcomes. Some might call it an investment culture. These conditions include a complex mix of prevailing political and psychological attitudes that heavily influence the financial decisions of investors. The actions of these investors then have a reflexive effect back onto the economic conditions. For example, as we will discuss shortly, the investment waters are now slowly changing from favoring passive investing to more selective, active investing. I don't think most people are noticing it yet, or perhaps they are just starting to notice.



From Stockman: stagflation is upon us: High federal spending and deficits crowd out private investment, resulting in slow real growth: https://www.davidstockmanscontracorner.com/americas-stagflationary-mess-the-bastard-son-of-maga-part-1/?mc_cid=8759a04adb&mc_eid=5ccd0316e7

FAANGS driving the entire SP500: https://www.investors.com/research/how-to-find-the-best-stocks-to-buy/magnificent-seven-stocks-ignite-new-rally-buy-points-in-amazon-stock-nvidia-dkng-and-more/?utm_source=substack&utm_medium=email#:~:text=The%20Magnificent%20Seven%20stocks%20%E2%80%94%20Alphabet,drive%20the%20new%20market%20rally.

1. <u>Modern money is produced by pure credit creation in commercial banks</u>. Money creation occurs when a bank acquires an asset – either by purchasing a promissory note (that is, when the bank makes a loan) or by purchasing some other security, such as a government

bond. When they acquire assets, banks pay for them with a promise to pay out cash or standard money on demand. (In our modern system, cash is paper money. That promise to pay out cash on demand is called a bank deposit. About 90% of modern money in use today is these bank deposits. And as we learned in Lesson Three, even the paper money we carry around or hoard was born as a bank deposit. Thus as the economist Richard Werner has said, our monetary system is based on pure credit creation.

2. Money creation governed by free market principles is generally productive. The gold standard is unfortunately gone, but money creation can still be economically productive if it is done by a private, profit-seeking bank operating in a free, or mostly free, market. Money created under these conditions is not inflationary because the new money helps create new wealth; that is, you are not in a position of "too much money chasing too few goods," as Milton Friedman put it. By contrast, money created by the government, or due to government influence, is unproductive, excessive, and therefore inflationary. Over the last fifty to sixty years, but especially in the post-GFC economy, the government has played a growing role in money creation, resulting in lots of new money placed into the hands of unproductive spenders who generate little or no new real wealth.

   A leading example of unproductive money creation is the monetizing of Trillions of dollars in sovereign debt over the last 13 years under QE, which inflated asset prices, shifted wealth from the middle class to the wealthy, and distorted markets through artificially low interest rates.

3. Excessive money creation is the leading cause of the government's unpayable debt. Since 2009, central banks have monetized a large portion of new government debt, i.e., they have replaced government debt with newly issued money which they use to pay for the promises they have made. But these debts have now grown to an unpayable level. As we have detailed over the last two lessons, we're at a point where annual tax receipts no longer cover the government's mandatory spending requirements plus interest on existing debt. This is unsustainable.

4. The government's solution to this debt dilemma is financial repression, a combination of high price inflation and low real interest rates. Persistently high inflation will raise nominal tax revenues, while suppressed interest rates will reduce government interest costs. This combination will allow the Treasury to reduce its debt by paying in depreciated dollars.

How to spot opportunities by identifying trends

Value investing is generally bottom-up investing that looks mainly at a company's business fundamentals and financial performance as a good (but not only) indicator of the value the company will return to investors in the future. Value investing pays less attention to stock price momentum or other speculative factors and asks what a company is reasonably worth in terms of pricing its cash flows to the investor and attempting to buy that cash flow at a discount to its fair value. One way to think of a value stock is: If you were buying a company, one company, to feed your family after you are gone, what would that company be? And there are many such companies.

I consider myself a value investor and like to say I manage risk from the top down, but I invest from the bottom up. For example, looking from the top down, I will avoid investing in Chinese companies because geopolitical conditions make them risky even though they may look cheap from the bottom up. Another example: is trendy “green” stocks, like solar and wind-power companies. Are these purveying long-term value (in the form of growing profits and dividends) or do they work because of subsidies? So you can look top-down to narrow the field by eliminating large groups of stocks or identifying large groups. Then you look bottom-up at the best companies in that group to buy the best value for the money.

On the other hand, I will look hard at companies that fit a positive, top-down trend, like income-producing real estate benefiting from the migration from dense coastal urban areas to the suburbs and the country. However, from a bottom-up perspective, maybe I assess that the companies in that category are priced too high right now, so I will wait till they reach a fair price before investing. Again, selectivity, not auto-pilot index investing.

Investors Pressure European Banks To Stop Financing New Fossil Fuel Projects

BY TYLER DURDEN MONDAY, FEB 13, 2023 - 12:00 AM

Authored by Amy Gamm via The Epoch Times,

A group of investors representing over $1.5 trillion in assets under management sent demand letters on Feb. 7 to five of Europe's biggest banks, calling on them to stop financing fossil fuel firms by the end of 2023.

I want to give you a few examples of looking for important investment trends. This story in ZeroHedge highlights the pressure on European banks to stop lending to fossil fuel companies, a trend I’ve been aware of for some time. If these ESG-oriented asset managers have their way, new money creation will not go from banks to fossil fuel companies.

What does this trend tell me? That funding for fossil fuel companies is lagging, and the ideological bias against fossil fuels is one reason there has been under-investment in oil and gas for the past eight years or so. We know fossil fuel use is rising and is not keeping up with demand worldwide. So I will look to the fossil fuel industry for investment ideas, knowing the fundamental pricing pressure should be to the upside over time. These companies will get their investment capital from the capital markets – the stock and bond markets – rather than from the banks. That will be more expensive for the companies but possibly good for investors.

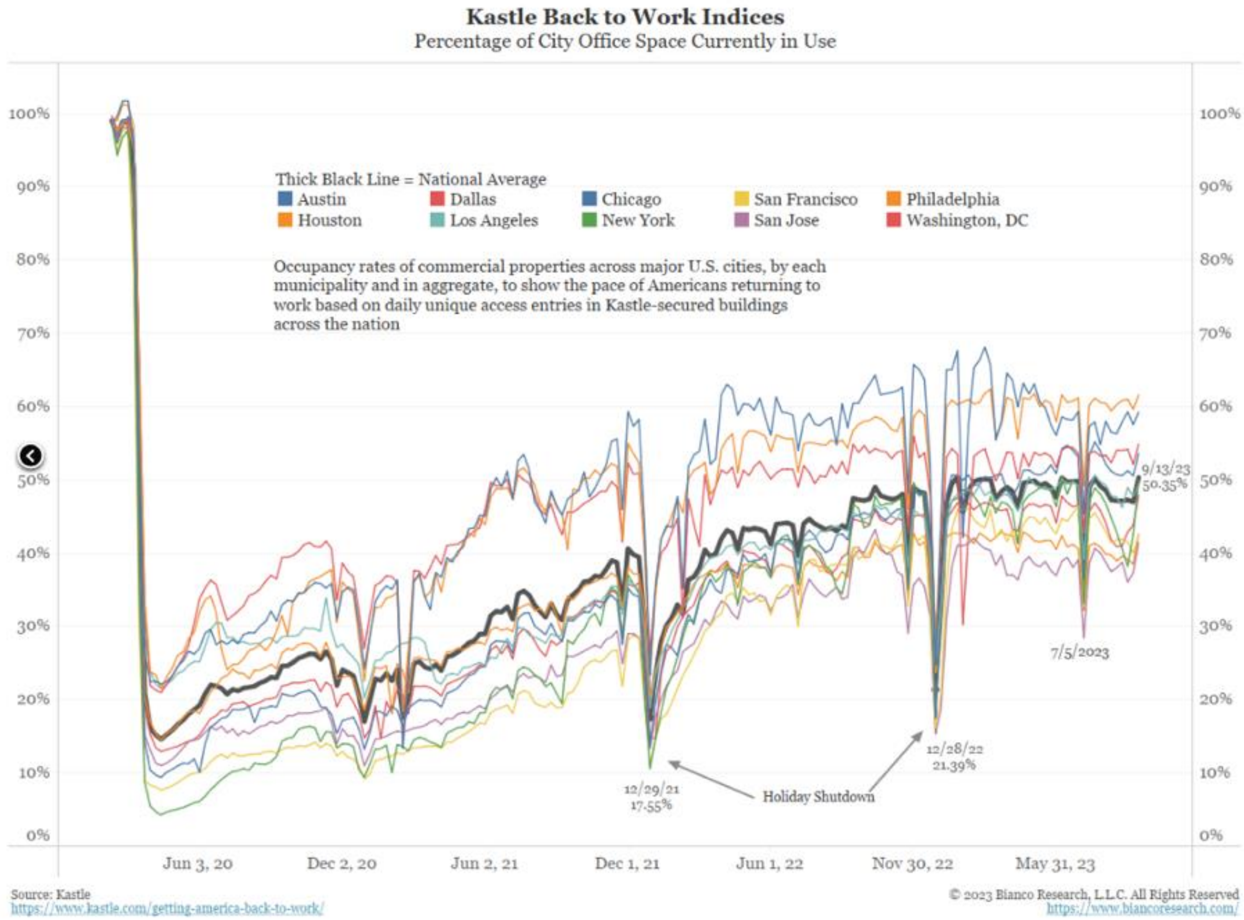
If it were the 12th Century, would you invest in religious relics because the Church says they have identified a magic shroud or a bone from the finger of a saint that will change the world? I would hope not. You might make some money, but it would be pure speculation on the increasing irrationality of the masses. Similarly, would you invest in an industry that claims that a trace gas (Carbon Dioxide) that occupies .04% of the atmosphere, is the critical control of the average temperature of the atmosphere, that this temperature is rising fast enough to threaten mankind, and that therefore the organizing principle of all humanity should be to eliminate the carbon dioxide emitted by human beings, even though the human portion equates to only about 3% of the .04%? You don't have to be a scientist to be skeptical of that claim. So for me, I don't want to invest in carbon capture schemes or electric car companies that are profitable solely because of federal subsidies. There is an example of using your common sense to avoid a potentially bad idea.

[insert other examples of banks lending to green companies]

Think of the implications of that policy and ask where it leads. To me, it does **not** lead to investing in carbon capture, carbon pricing, windmills, solar panels or anything related to these forms of energy which I know are mostly uneconomic and unreliable. The true economic demand for these energy sources is limited, inflated by unsustainable subsidies, and hyped by politics and global warming hysteria. So I believe the big returns from investing in so-called renewables has come and gone and is, ironically, "not sustainable" anymore.

On the other hand, I know fossil fuel industries and nuclear technology must grow because they will absolutely be necessary to propel civilization as far as my eyes can see. And I know investment in replacing these sources of energy has been well below average for almost a decade, even longer in the case of nukes. So this prompts me to ask: What does that mean for the trend of prices in oil and gas, if we need more fossil fuels tha we are producing? Where will the investment in oil and gas come from? What has to happen to unleash investment in nuclear power? Who benefits from this anti-fossil fuel bias, and who loses?

In my case, seeing this trend unfold has led me to invest in oil, gas, and coal-related stocks, which were depressed for years, and which also fit all my bottom-up value investing criteria. So I offer this, not necessarily as an example of what you should necessarily do today, but of how looking at the facts of a trend can spawn an investment idea.



https://www.bloomberg.com/news/articles/2022-10-13/will-remote-works-ever-return-to-office-this-company-is-trying-to-find-out

Here's another example of a trend that could generate investment ideas, a phenomenon that came out of the pandemic. What's the future of office real estate in USA metropolitan areas? The creator of this chart, Kastle Systems, is a maker of office security products. They monitor keycard swipes among their customers so they know the usage and occupancy of office buildings. This data is publicly available to anyone. The chart assumes an index of 100% occupancy at the beginning of the Pandemic. Three years later, we are only back to less than 50% occupancy of city office space. Everyone left the office and is working from home. Philadelphia and San Francisco are at 40% occupancy, and the best areas (Houston and Austin) are only back to 60% occupancy. Are we ever going back to 100%? I would say not in any reasonable investment horizon. This was a gradual trend already underway before the pandemic, and the pandemic accelerated it.

What can you glean from this unusual data? Many things, I believe. First, are we ever going back to the office in the pre-Covid numbers? I doubt it. What does this mean for the value of urban commercial real estate, just in general. Where have these people gone? Where are they moving from and to? They are working from home half the time. So what has this done to demand patterns in the economy? What are the implications for supply networs, and for the cost of building and maintaining those supply networks? What mix of products will these people buy, now that they are at home more? Will they drive more or less? Will they vacation more or less? Will they build a home office?

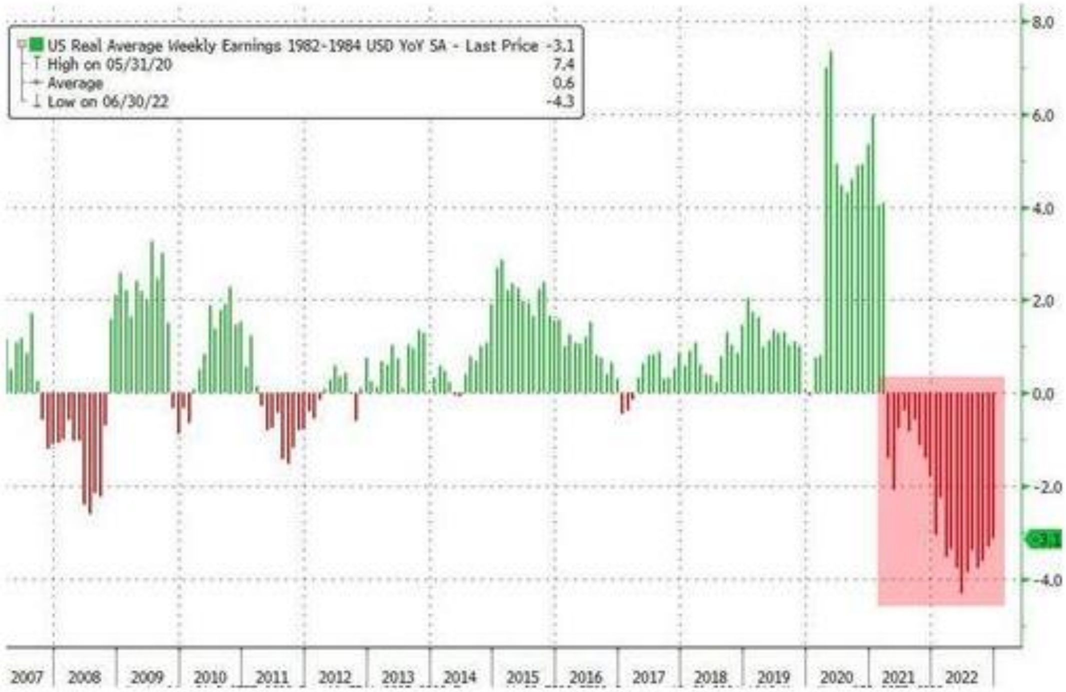
Here's another trend that might produce an opportunity: Reshoring. It seems clear we will be relying less on imports from China in the future. So there will have to be an investment in bringing manufacturing industries “home” or at least moving them to places more reliable or friendlier than China, like India or Vietnam. And if I am right about banks getting nudged by the government in a specific direction, these industries might get some cheap credit as the reshoring progresses.

So I am looking for increased investment in industrial assets in the USA. For years, since about 2000, there was not much investment in tangible assets because that industrial capacity was built in China (and other markets but mainly China), so we didn’t have to invest here at home because China invested cheaper than we could and sold its products to us cheaply. But if we are now going to buy less from the Chinese, we’ll have to invest in mines, intermediate assembly plants, chemical plants, refineries, etc. So there will be these “reshoring” or “friend-shoring” opportunities in the USA. And there will related opportunities, like industrial real estate in the right places. Maybe Ohio and the rest of the rustbelt will see a resurgence of economic activity. What benefits from the new flow of credit? I am on the lookout for such developments.

How about another trend? The global population is aging, so on average, this means slower growth of consumer goods. However, countries like India, Bangladesh, Pakistan, and Ethiopia have very youthful demographics, and some countries like India are experiencing rapid economic growth. So the demand for goods in these countries will grow. These countries represent the best investment opportunities from a demographic point of view, but they also come with issues that must be tackled first, such as infrastructure. Opportunities are coming there if you can root them out.

These are just a few examples designed not to tell you where to look for investment ideas, but how to start looking. You can narrow the field by using your knowledge or imagination to think of how some trend will uncover an investment opportunity

Real average weekly earnings continue to decline - this is the 21st month in a row



Source: Bloomberg