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Email Update

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We Interrupt This Story With Some Facts...

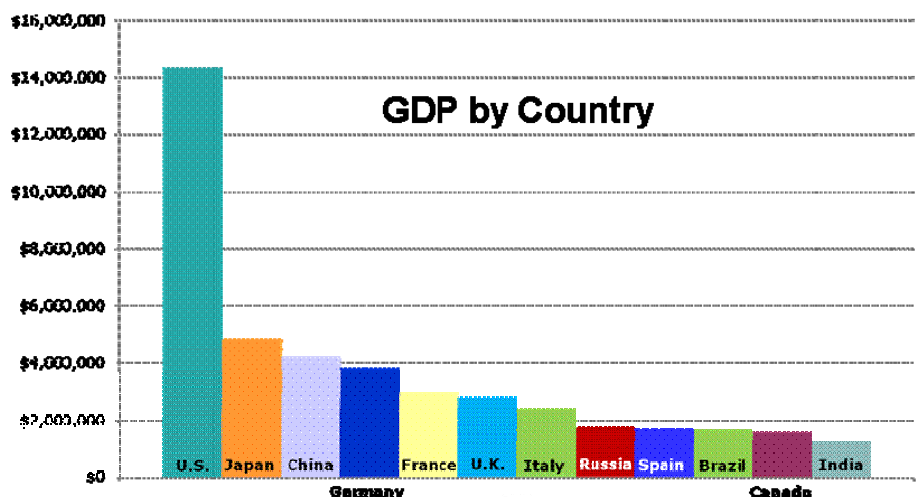
Today's story of looming disaster from *Media Groupthink Central* is that the administration's policies will surely devalue our currency and the dollar is going to lose its status as the world's reserve currency as a result. This is, of course, reported as uniformly bad news.

The story continues that our budget deficit and all of the bailouts/stimulus programs are certain to fuel substantial inflation – perhaps hyperinflation – and this too is reported as completely negative. According to *Media Groupthink Central*, the only viable solution is to buy gold.

The Dollar as the World's Reserve Currency

To the economically uninitiated, which includes all of the media, our economy seems to always be teetering on the edge of collapse, and the economic trends are always bad. Please allow me to interrupt their story with some reality.

The idea of the dollar being replaced as the world's reserve currency would be laughable if it wasn't repeated so often. As we've stated before, our economy remains the largest, most diverse, most resilient, and most transparent economy in the history of the world. As you can see by the chart below, the US economy is larger than the next four – combined!



The two candidates in the mind of the media for replacing the dollar as the world's reserve are the Yen and the Euro. While it's true the dollar has

recently declined relative to those currencies, it is neither an accident nor something we cannot control. In all things economic, nothing is ever uniformly bad.

First, it is important to realize that the dollar is currently not even as low as it was a couple of years ago. Next, the relative decline has been a boon to our exporters since goods priced in dollars are getting more attractive to those overseas. Only a couple of years ago the media were rending their garments over our trade deficit, which was so large it was sure to spell doom. Isn't it interesting that though our trade deficit has *shrunk in half* this year as compared to last year, you haven't heard one mention of it?

The Euro zone is hardly in better economic shape than the US, and all signs now appear to show a much stronger economic recovery in store for our country, and a very real possibility that at least some of the Euro zone countries will slip back into recession. The Yen is even more amusing of a candidate to replace the dollar. Japan has three times the level of debt to GDP as the US! Moreover, their economy faces far greater demographic challenges in the coming years than we do with our baby boomers. This theory is simply not going to become reality.

Many of you have heard that China is pushing this issue and that they have lost their appetite for our debt. While this makes for a compelling story, the facts don't bear it out. As an aside, if the dollar were to devalue substantially, this would certainly be bad news for the Chinese, since they do indeed own a lot of our debt and getting repaid in devalued dollars would be worse – *for them*. It would be a small positive for us. Nonetheless, while *Media Groupthink Central* has been reporting that the Chinese are not buying our debt, a report released just last week shows that the Chinese have actually increased their holdings of US Treasuries by nearly 40% in the past year!

Gold as the Answer to Hyperinflation

Although it may seem to be a foregone conclusion at *Media Groupthink Central* that we are set for hyperinflation in the near future, suffice to say that it is far from clear that is going to happen. So far, the large amounts of government stimulus injected into our economy have been offset by the dramatic consumer and corporate deleveraging. Whether or not the government decides to keep its policies accommodative “too long” and thereby stimulates some inflation remains to be seen. My guess is that they will. However, to conclude that it will lead to hyperinflation is not only believing in the worst outcome, it's actually expecting something to happen that rarely if ever does.

I often ask people who are worried about these issues what their definition is of hyperinflation. Would it be the 15% rate we saw for part of 1980? That was the fastest increase in our CPI in history. If so, what happened when we experienced that rate of inflation? More to the point, how did gold – that much touted “hedge against inflation” – perform in the midst of 15%

inflation?

On January 21, 1980, gold hit \$850 an ounce, the highest price in history at that time. Where did the S&P 500 index close that day? 111. No, that's not a typo. One hundred eleven. Today, with gold having reached some \$200 an ounce higher, it is once again being touted as a great place to invest. It would seem to me one would have to suspend his knowledge of the history to think gold is a better place to be in times of inflation than the stock market. Gold has increased less than 25% since January 21, 1980. The stock market has increased nearly 10 fold in the same time. And we all know it's been higher recently. And don't get me started that this doesn't even count dividends.

Conclusion

Our plans for our clients have been created with their individual needs in mind. At times of stress and volatility like we've experienced recently, it's quite natural to seek out information to make us feel better. Indeed, the past year has been stressful to the point of feeling painful to many, and who wouldn't want to make the pain stop?

The problem, in our view, is that little can be gained from the media or the various pundits, many of whom are being paid to tout gold or other equally faulty "solutions". Our challenge is to keep our clients on path to reach their goals. Changing your plan just for the sake of change won't help. It's much more likely to cause more pain.