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Investors

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The Collapse of the U.S. Bubble Economy and What It Means for Investors

Peter Schiff

Thanks everybody for having me here. I'm going to talk during the next 40 minutes or so about the U.S. economy and where we are, where we're headed and, probably more importantly for the people in this room, the implications for the investments that we're making for our clients and what we need, as advisors, to do with the information that I'm going to give you.

First of all, I started appearing on a lot of the cable news finance shows, CNBC, Bloomberg Fox, I think back in late 2004, really talking about an economic collapse that I thought we were headed for. Back in 2005, CNBC started calling me "Dr. Doom." A lot of people used to laugh at the things that I would say because they seemed so far-fetched. In fact, if you want to see an example of this, somebody put up a compilation video of some of my appearances on CNBC and Fox and they labeled it: "Peter Schiff was right." I think about 1.5 million people have seen that on YouTube. It's out there if you want to take a look at it.

I felt so strongly that a collapse was coming that I decided to write a book about it and I started writing it probably in late 2005. I finished it by mid-2006. It came out in February 2007. It's called "Crash Proof, How to Profit from the Coming Economic Collapse." If you haven't read it, there's a new version that came out a few weeks ago, "Crash Proof 2.0, How to Profit from the Economic Collapse."

A lot of people will credit me, and that book, for forecasting the collapse as if it's now in the past. A lot of people, Wall Street, the government, they want us to believe that the problems have been solved. They haven't been solved. They've actually been exacerbated. We're in worse shape today than we were before the government began intervening in 2008. Certainly, had the government acted responsibly and done the right thing in response to what happened in 2008, we would certainly have gone through a lot more pain as a nation than what we've experienced thus far. We would have seen the bankruptcy probably of all the Wall Street investment banks, without government bailouts. We probably would have seen a number of commercial banks fail as well.

Housing prices would be considerably lower than they are right now. Stock prices would be lower. We would have gone through a deeper recession. But, that would have been preferable to what awaits the United States today as a result of what the government has done. Just remember the stimulus is not the cure, the stimulus is the reason the economy is sick. The government stimulus is toxic and the problem is, right now, the economy is in danger of overdosing on that government stimulus.

All the things we're experiencing now with the credit crunch, with the falling real estate prices, bankruptcies, that is not the problem. All of this is the consequence of the problem and an unfortunate, but necessary, part of the solution to the problem. But, our politicians never want to allow problems to be solved if it means there's some short-term pain. For politicians, that short-term pain could end up meaning they don't get reelected. So, they constantly look for ways to

postpone the consequences of their own bad monetary and fiscal policy. Which, of course, is why we're in this mess.

It's popular now among the people who thought everything was great as late as early 2008 to claim that what happened is somehow a failure of capitalism, a lack of government regulation, that, if only had more regulation and more government, we wouldn't have had all these problems. That's actually the opposite of the truth. Had we had less government, we wouldn't have had these problems. Had we had market forces operating and keeping risk in check and keeping asset prices in check, none of this would have happened. Everything that we're suffering now and everything that we are going to suffer in the next several years is a direct result of government intervention in the market.

Let me go back to the most recent cause, although a lot of the imbalances in our economy have been building for a number of years. But, if you really want to look at the immediate cause of the predicament that we're in, you go back to the 1990s. During that period of time, Alan Greenspan was in charge of the Federal Reserve and Alan Greenspan kept interest rates too low. He kept them lower than the market would have set them on their own. After all, we have a lot of people borrowing money in America and not that many people saving money. So, normally market forces would set higher interest rates that would encourage more people to save and discourage people from borrowing. We would have had a more efficient market with a higher savings rate. But Greenspan didn't want that to happen. He wanted to artificially juice the economy to help his buddy Bill Clinton win reelection. So they kept the interest rates artificially low.

The result of that was a bubble in the stock market, particularly in technology and specifically in internet stocks. That bubble never would have been able to inflate, had it not been for the air that the Federal Reserve blew into it in the form of cheap credit. During that mania, a lot of mistakes were made. A lot of mal-investments were made. We did foolish things because we had all this cheap money. A lot of companies were formed during the 1990s that had no chance of ever making a profit, but they were formed anyway because they had credit.

What happened was, eventually, as interest rates rose, the problems with those investments became evident as these companies started to report losses and their share prices started to drop, and that whole bubble burst. When it did, it ushered in the beginning of a recession. That recession was certainly going to be exacerbated by the terrorist attacks on September 11, but we were going to have a severe recession even without that incident because of the enormity of the boom. And the way business cycles work, generally, the bust is proportionate to the boom. What most people don't understand about the business cycle is that the bust is actually the good thing. The bust is the solution. The bust is the cure. The problem is the boom. The boom is phony. The boom is where the mistakes are made. The bust is where the market cleans up those mistakes.

Now the politicians love the boom, because everybody is happy and they get votes. They don't like the bust because voters are upset when things turn south. So, there's always political pressure to try to short circuit the recession. We call it "stimulate the economy." The government has to fight off the recession. That's what the politics is.

The economics are the government should do nothing to interfere with the recession. The recession has to run its course or the problems will never be solved and we'll never have a meaningful recovery. We simply postpone the problems to a later date. But when we postpone them, we exacerbate them. Now we end up with an even bigger recession.

So what happened when George Bush the second came in to office? He was confronted with this recession. What did he do? He decided to stimulate the economy. And Alan Greenspan was more than happy to accommodate, just like he did under Clinton. So Alan Greenspan slashed interest rates down to 1 percent. Bush and Congress decided to enact some tax breaks and some spending to run up the deficits, so the stimulus was deficit spending and slashing interest rates. The result of that stimulus was that we inflated a housing bubble. We never really had a recession, because consumers had all this cheap credit.

The conventional wisdom today is that the housing bubble is because of a lack of regulation. No it wasn't. The housing bubble was because of two things, the Fed and Congress. The Fed's slashed interest rates to 1 percent. That made it very easy for Americans to buy houses, because most Americans take out mortgages to buy houses. And lower interest rates make houses more affordable because your payments are lower. So people had more buying power to bid up home prices. Also, that 1 percent short rate gave birth to teaser rates, option ARMs, pick-a-payment where for the first several years you had a very, very low payment that was only available because the Fed had interest rates at 1 percent. That allowed people to buy homes that they never could have afforded had there been a realistic rate of interest.

But even more importantly, probably, than the low interest rates was the effect of the government and government guarantees on mortgages. The government took all the risks out of mortgage lending that the market would have kept there. Fannie Mae and Freddie Mac were guaranteeing the majority of mortgages in the United States. Now, what that meant is that if you were lending money, and it had a Freddie and Fannie guaranteed, you couldn't care less whether or not the person buying that house and taking out that mortgage paid you back, because the government was going to pay you back. So, the lenders let down their guard. They didn't care and that set up a situation that was ripe for corruption in the whole process of mortgage originations and appraisals and securitizations.

If you want to see a presentation that I made about this to a group similar to yours, only much larger in size, in Las Vegas in 2006, it's on YouTube. Type in "Peter Schiff mortgage bankers" and, if you have an hour and 15 minutes, watch it. Because I gave this presentation beforehand, not after the fact, and described exactly what the problem was and how the mortgage market was going to unravel and I gave advice to mortgage brokers as to how they should go about changing their careers in light of the information that I was giving them. Of course they also laughed. They're not really laughing now.

Freddie and Fannie were guaranteeing these mortgages. Of course now they went bankrupt because they guaranteed mortgages more than they had capital. But, there were some mortgages that Freddie and Fannie did not guarantee. Wall Street took care of that by securitizing the subprime market and issuing debt against it where you had agencies like Moody's and Standard & Poor's that were slapping investment grade ratings on these pools of junk mortgages. But the

only reason that these mortgages were able to be securitized in the first place was because of the cheap credit being funneled to Wall Street by the Federal Reserve. Also there was a tremendous demand for higher yielding assets, because we were flooding the world with our money.

The problem was as the housing bubble inflated, American citizens tapped into their home equity. It really didn't exist, but they were able to tap into it anyway. So we borrowed trillions and trillions of dollars from the rest of the world and we used it to buy stuff. We bought stuff that we didn't make, that we couldn't afford. The whole time we did that, our GDP of course was expanding because we were counting our spending as economic growth when it wasn't. It was just reckless consumption. And, of course, we ignored all the debts that were piling up because we thought that debt didn't matter since we had this huge asset on the other side of the balance sheet, meaning home equity. Well, that was only a question of time before that evaporated, because the home equity wasn't really there.

So the bigger problem is during this era of the housing bubble between 2002, let's say, and 2007, people were buying things they couldn't afford. They were taking on obligations that they could never meet. And a lot of mistakes were made in an economy like that. We were spending beyond our means. There were jobs that were being created and industries that should not have existed. The whole service sector economy inflated to a degree that was unsustainable, financial services being one of them. But retail, the housing industry, we had people employed in sectors that they really shouldn't have been. They were only there because we were able to borrow so much money from China and Japan. We made the same mistakes during that housing bubble that we made during the stock market bubble, only these mistakes were bigger because it was a bigger bubble, there was more credit.

When people were buying internet stocks, the most you could get was maybe 15 percent margin. You could use a margin account and you could put up \$100 and control \$200 worth of some internet stock. But people were leveraging up housing, minimum they took 20 percent down so they were five-to-one leveraged. But a lot of them were all leverage. A lot of these houses were bought with nothing down, or practically nothing down. So there was tremendous leverage. The housing market, the bubble at the wealth effect of the housing market, the fact that Americans thought they were so wealthy, they didn't have to save. Our savings rate went negative. That had a much bigger impact on the economy. It distorted the economy even more than the NASDAQ bubble. Now in 2007, that begins to unwind, by 2008 that entire bubble bursts and now we're having the recession that we should have had in 2001 or 2002. Of course it's much worse now because of all of the government stimulus, which postponed the pain. Of course, from George Bush's perspective it worked. He got reelected. He served out two terms.

Now Barack Obama comes in with the identical circumstances as George Bush. He inherits a busted bubble economy and a recession. Of course it's worse than the one that Bush inherited. But the problem is he's doing the exact same thing. He is doing exactly what George Bush did. For all the talk about change, Barack Obama has changed nothing. He has appointed all the same people to give him all the same bad advice and now he's got Ben Bernanke as the Fed chairman who is doing exactly what Alan Greenspan did.

The only difference between the mistakes being made by Bernanke and Obama is that they're bigger than the ones made by Bush and Greenspan. The deficits under Bush were \$300 to 400 billion. The deficit in this fiscal year is estimated at \$1.8 trillion. That's just one year. We did all this damage with \$300 billion deficits. Imagine a deficit near \$2 trillion. In fact, the OMB just came out with their projection of \$1 trillion deficits for the next 10 years. \$1 trillion a year. How can they even, with a straight face, come out with that kind of projection?

You'd think that the guys at OMB when they crunch the numbers and they saw those deficits, they would say, "Hey, we've got to redo this here. It doesn't add up. We're spending too much money. We need to cut back."

It's like my son came to me and said, "Dad, I have a new study proposal for the next 10 years. I'm going to flunk every class." I wouldn't tell him, "Alright, that's a good idea. Let's go with that plan." We have to have a different plan. We can't have these deficits. We don't have the money. And the world is not going to loan us the money.

We got into a lot of trouble when Alan Greenspan put interest rates down to 1 percent. Now they're zero. It's free. The money is free. If we created all these problems with interest rates of 1 percent, imagine the problems we're creating when it's zero. Because there's no way that's the rate. How can that possibly be the real rate of interest? How can it be nothing? Obviously, it needs to be much higher than that, but the government is trying to keep rates too low.

Why are they doing that? Why are they artificially keeping rates low? Because they don't want to let the recession run its course. They don't want real estate prices to come down to where they need to be. They want to try to artificially prop them up. They don't want all these lending institutions that they just bailed out to fail. But they will fail if real estate prices go to where they need to be. So they're trying to keep them in business by keeping interest rates artificially low. Also the government is borrowing trillions of dollars. How could the government finance this debt if interest rates were higher? Think about it. What if interest rates were 10 percent? The national debt is \$12 to 13 trillion? It's all financed short term, just like an adjustable rate mortgage, like a teaser rate. We don't have the national debt with 30-year mortgages. It's all short term. So they have to keep rates down so the government can afford to make the payments. If rates go up, the government is going to be in the same situation as all the subprime mortgage borrowers. It can't make the payments. So the government has to keep interest rates artificially low.

What are the consequences of this? This is not just going to happen in a vacuum. Well the consequences are that the U.S. dollar, what we're all looking to accumulate for our clients, is going to collapse. The real crisis that is in front of us, that our politicians are now creating, the consequence of this bailout, these stimuli, is that the dollar will implode in value. There's no free lunch here. All of these bailouts and all of these stimuli have a cost. The government is not talking about raising trillions of dollars in taxes to pay for the bailouts and the stimuli. Where is the money coming from? Well, the hope is that we get it from China, that we get it from Saudi Arabia, that we get it from Japan.

Why would they lend it to us? We can't pay back the money we've already borrowed. And there is a lot of talk around the world. You hear the news item stories all day. There was an article that just came out last week in a British paper, the demise of the dollar, about some potentially secret meetings going on among the oil exporting nations to stop pricing oil in dollars. Why are they having these discussions? Because they can see that the dollar is going to collapse. Look at the value of the U.S. dollar today. Look at how it's been dropping.

Last week, we had new 52-week highs in the Japanese yen, the Australian dollar, the Canadian dollar. The Euro almost hit a 52-week high. The dollar is sinking. That undermines the nominal gains that we're seeing in the U.S. stock market, because, sure the stock market is going up, but the dollar is losing value which negates those advances.

The world is waking up to what is in effect, the biggest ponzi scheme every perpetrated which is our selling debt. We have Bernie Madoff who ran a ponzi scheme for about \$50 billion. We've got him in jail. He shouldn't be in jail. We should have made him Secretary of the Treasury. The world understands. The reason that ponzi schemes are illegal is because they don't work. They don't work because there are no investments. Everybody that invested with Bernie Madoff, they got their money back until they ran out of fools. And then it fell apart.

We do the same thing. Every week you read about this in the paper. There's an auction. We just had one last week, 30-year bonds. Every week the government is auctioning off the two-year, seven-year, 30-year bonds. There's an auction and we cross our fingers and hope that the people who hold our debt decide to roll it over and bid at those auctions. What if they don't? What if they don't show up? It's all over.

Murphy's Law is anything that can go wrong, will go wrong. The real estate bubble didn't last forever, the NASDAQ bubble didn't last forever. This U.S. Treasury borrowing binge bubble is not going to last forever. It's going to come to an end, very soon. We bought about five years with the Bush Greenspan stimulus, at best. What we're doing now will maybe buy us two years. We're not going to get as much time. And, of course, the pain is going to be much worse, because the problems are bigger and the stimulus is bigger, so the collapse is going to be bigger.

What we're going to be faced with is the Fed is going to be in this box. They're in the box right now and they're trying to finesse it. They're trying to pretend they have an exit strategy for when they are going to raise rates. There is no exit strategy, they can't exit. They never should have entered. It's like they're in the roach motel of monetary policy. You bring interest rates down to zero, you can't raise them. The country is much more dependent on low interest rates now than it ever was. You raise interest rates, you've pulled the rug out from under the real estate market, the stock market, the economy. The whole thing will collapse. So, they just have to pretend that they're going to raise rates. But, at some point, this dollar decline, this orderly decline is going to turn into a rout.

I always get a kick out of it when the politicians or people on television say, 'Well, the dollar is going down, but it's an orderly decline, so it's OK. If you're going to tell your clients you're going to lose all of your money, but don't worry it's going to be orderly. I don't think they're going to be happy about it. I don't want to lose my money at all. I don't care if it's orderly or if it

happens right away. I don't want it to happen. But at some point people around the world who hold dollars are going to say, you know what, if the dollar is going to keep declining, what am I doing with them? After all, I don't get any interest. Interest rates are nothing. Why am I holding it to earn nothing? I can hold any other currency and earn something. You can hold gold, look at gold. Gold is over \$1000 an ounce. It's going to keep rising.

The Fed at some point is going to have a decision. OK, we need to raise interest rates to stop this. People used to talk about the yen carry trade. That trade is over. It's the dollar carry trade that's on now. The dollar is funding everything. Everybody is borrowing dollars, because it costs nothing and the dollar is sinking, which makes the trade more profitable. You can buy any other currency. You can buy any other asset. In fact, what are the banks doing with all the money the Fed is creating? It's not being lent out in the U.S. economy. Entrepreneurs aren't getting that credit to start businesses. That's why there are no jobs. It's all going into assets. It's all speculation. There is no real recovery yet because, until we have a real recession, there is going to be no business expansion. No one is going to get a job. The unemployment rate is going to keep on rising, because all of this credit is going into speculation. It's going into government and it's going on Wall Street. It's not going on to Main Street.

At some point, the Fed is going to have to make a decision. Are we going to raise rates and put a stop to this? Are we going to cut off the flow of liquidity? Are we going to stop printing money?

Barack Obama, in one of his speeches, said that credit is the lifeblood of the economy. It's the cancer. We don't want this credit. The credit contraction, as I said, is the cure. Consumers should not be borrowing money, not to spend. People shouldn't be borrowing money to buy appliances or to buy cars or to take vacations. People should be saving their money and, when they save up enough money, then they buy those things. And the reason we need people to save money is so there's money for businesses to borrow. Economies grow because of under consumption. Economies grow because of savings, which leads to capital investment, which leads to production.

The only way to get increased consumption is to get increased production. We found the way around that temporarily because we simply consume what everybody else produces and we pay for it with the money that we print. But, our ability to do that is coming to an end. So the Fed is going to have this choice: do we raise interest rates and crash the economy or do we keep interest rates low and crash the dollar? Either way, the implications for the economy, for our investments are overwhelming.

If they do the right thing, then we're going to have a tremendous recession. It'll be a bloodbath. I think we'll end up calling it a depression, but we'll survive. The economy will survive if they do the right thing. It's not going to be fun. We did the right thing in 1980 when Volker came in and Ronald Reagan and Paul Volker raised interest rates up to 20 percent. He didn't do that because he wanted to. He didn't just wake up one morning and say, "What would be a good rate of interest? How about 20 percent?" It was: "What do we need? What is it going to take?" The dollar lost two-thirds of its value in 1970. Gold went from \$35 an ounce to \$850. They had to do something.

That process is just starting out right now. I think gold is going to \$5,000 or higher. I think the dollar is going to lose three-quarters of its value, more potentially, before we do the right thing. But the problem is in 1980 we were still an industrial nation. We still were exporting. We had a trade surplus. We had a current account surplus. All those things are different now. We're in much worse shape. There was no adjustable rate national debt back in 1980. It was all 30-year treasuries. People didn't have adjustable rate mortgages, they didn't exist back then. We are much more vulnerable to rising interest rates, which is one of the reasons why they're going to be reluctant to raise them.

A lot of people think, "Well, the Chinese, the Japanese. What Peter Schiff is saying is never going to happen." They're saying, "They have to loan us money forever. That's the common wisdom. Just like real estate prices will go up forever. Stock prices will go up forever. The Chinese and the Japanese, they're going to lend us money forever. Doesn't matter if we can't pay it back because they have so much of our dollars that they can't afford to get out of the street. They're going to have to throw good money after bad indefinitely. Well, I don't think anybody is that stupid, especially when we are asking them to up the ante. If we're telling the Chinese that we're going to run \$1 trillion deficits a year, for the next 10 years ... (And chances are they're going to be bigger than that because the government always underestimates, right. They don't overestimate.) And, if China lends up 50 percent, China buys about 50 percent of the bonds that we sell abroad. That means China figures we got them penciled in for at least \$5 trillion over the next 10 years. Now maybe the prospects of buying another \$5 trillion of our worthless paper, maybe that is going to trump their worries about the \$1 trillion that they were foolish enough to already accumulate. They're obviously trying to get rid of it. They're trying to do what they can to get out of it. They're buying gold. They're increasing gold reserves. The Chinese government has a policy, they're telling their citizens to buy gold. There's a reason they're doing that and it's not because they think gold is going down.

They're increasing their percentage of Euros and yen and other currencies in their reserve. China just launched debt for the first time ever, government debt denominated in R&B. Now why are they doing that? They're in surplus. They're loaning us money. Why are they loaning us money and then borrowing it? The only reason they're doing that is to create a market for R&B-denominated debt because they know they're getting ready to move away from the dollar. This is not a question of if this is going to happen. It's all going to happen. It's a question of when. And I think it's going to happen very soon. And, contrary to what a lot of people think, I think this is going to be a boom for the global economy. Everybody thinks, "Oh no, if the world stops loaning us money and shipping us stuff, the whole economy is going to collapse." That's all a bunch of nonsense. People think that economies grow because of demand, that our demand is what's fueling everything. No. Demand is infinite. Everybody demands.

I have a seven-year-old son. He wants everything he sees. Nobody has to stimulate his demand. I want. I want stuff. I want an 800-foot yacht with a helicopter and a submarine. I don't have one, but it's not because I don't want one.

When the first plasma television set came out, I remember looking at it at one of these stores and thinking "I really want that.," But I didn't buy it. Why didn't I buy it? Because it was \$10,000. That's why I didn't buy it. But when the price came down, now I've got five or six of them in

my house. They're cheap. It was a falling price that enabled, because of increased production. It was production that turned my potential demand into actual demand.

The same thing is going to happen in China and all around the world. The Chinese want stuff. They're just like us. They want all sorts of things. They don't just want to work. They want to eat the fruits of their labor too. It's not like you got a bunch of Chinese people in factories and you've got, let's say, one factory producing washing machines for clothes. And the Chinese are making it and they're thinking, "Gee, I'm glad I don't have one of these. I want to wash my clothes in a stream in the backyard with a rock."

The reason the Chinese aren't buying this stuff is because they can't afford it. Why can't they afford it? After all, they can produce it. Because their government won't let them. The government is suppressing the exchange rate of the R&B so that they can prop up the exchange rate of the dollar. So that all those products get shipped to America and we get to enjoy them and the Chinese get a little piece of paper, that's all they get out of the arrangement. They're getting the short end of the stick.

When the dollar collapses because they pull out of the market, all of a sudden the R&B is going to go through the roof. And so are a lot of currencies in a lot of other emerging markets. And then all of a sudden the people who are making the stuff are going to have the purchasing power to buy the stuff. And it's Americans who are going to be out of luck, because all we're going to have is depreciated currency because we don't have the industrial capacity anymore. We don't have the productivity to live the standard of living that we're now living. We're going to be forced to live within our means, which unfortunately have been dramatically diminished. The rest of the world is finally going to be able to enjoy their productivity because those gains had been temporarily transferred to us. So rather than America being the locomotive of the global economy, it's actually the caboose. And I think the world economy will improve when it no longer has to subsidize 300 million Americans who are consuming and borrowing.

In the short run, there will be some disruptions. We saw a lot of those disruptions in 2008 because a lot of the people who had been lending us money had a lot of problems when we fessed up and said we couldn't pay. So, there was a financial crisis that kind of went global. But if you look around the world, the global economy is recovering. The U.S. economy is not. The only thing we're doing is spending more borrowed money and we're pretending that that's an economic recovery, but that's exactly what we did in 2003 and 2004. It's not a recovery. But there is genuine economic growth going on outside the United States, particularly in a lot of the emerging markets, particularly in China. The world is starting to realize that they don't need to loan us money and to buy our debt. So we're going to be forced with these decisions.

What you need to do is understand, you're talking about a life insurance policy with some kind of future benefit. If that's a fixed benefit in U.S. dollars, it's worthless. Who knows what the U.S. dollar is going to be worth in 10 years or 20 years. I don't know what it's going to be worth next year. What kind of purchasing power will \$1 million have? It might sound like a lot of money today, it might be bus fair in 10 years. Who knows?

Twenty-five years ago if you had one million Zimbabwe dollars, you had \$1 million U.S. Today if you have one trillion Zimbabwe dollars, you still don't have enough to buy a pack of chewing gum. It's paper money, so you don't know, so you cannot make an investment for your client. You can't get an annuity that's fixed in dollar payment. You can't have something with a cash value in an insurance policy. Talking about life insurance, how much is my family going to need? You're not going to be able to know in U.S. dollars, because, as I said, the cost of all these bailouts and stimulus is going to be paid for by depreciating the currency, by a decline in the value of the dollar. So what you need to do is think about well, if I'm going to buy insurance what can I denominate it, maybe the Swiss franc, maybe the Norwegian krona, maybe the Japanese yen, another currency, putting more real assets, putting more precious metals in a portfolio, putting more gold, putting silver.

If you're doing annuities make sure that they're probably a variable annuity where you can tie it to performance of other assets. You definitely want to look at global assets. You don't want to be in U.S. stocks. U.S. stocks are better than U.S. bonds, but U.S. stocks will not outperform inflation. They will not outperform the declining value of the dollar, because the U.S. economy is going to be a disaster. So our assets are going to lose a lot of value.

And, of course, the other problem is the direction of the government. The government is layering on more central government planning instead of the market allocating resources. It's politicians in Washington. We are moving away from a market-based economy to a centrally planned economy. And the problem is .the more the government interferes in the free market and distorts the market, the worse the economy gets. Now the excuse is: "Well, now we need more government to save it." It's like there's this raging fire and the only thing the government knows to do is pour gasoline to put it out. And the bigger the fire gets, all they can think of is we need more gas, and they keep pouring it on. And, of course, they like it because anything that makes government powerful, they want to do. So they're going to run the economy into the ground.

So you've got to invest in the countries where their economies are going to start to grow. You've got to look at the increase in global consumption that's going to result from strengthening foreign currencies. I particularly like the Asian market, so much so that I recently launched a mutual fund on the Euro Pacific halter China fund that basically invests in domestic demand-type companies in the Chinese market that also pay high dividends, which is one of the things that I always want to look at. I would encourage you, when you look at the equity markets, whether they're here or around the world, don't forget that dividends are the most important component of the return. Just like interest is the important part of a bond and rent is the important part of real estate, you need to get good dividends. You can't get them in the United States, but most of the stocks that we look at, the dividend yields are very high around the world. The reason they're high is because the PEs are very low. You get a lot of value for your money and you get a lot of growth. You've got to look outside of the United States to try to put your clients in the same position as the rest of the world. So, as the U.S. dollar is losing its purchasing power, their portfolios are maintaining their purchasing power. That's the name of the game. It's not preservation of dollars, that's going to mean nothing. It's preservation of purchasing power. What can I afford to buy with my savings and my investments? Not how many dollars do I have, because I think that's going to be meaningless.

The government has already said nobody is going to lose money. If your bank fails, don't worry the money is going to be there. Why is it going to be there? Because they're going to print it. Everybody that fails is going to get a bailout. Where's the money coming from? They're rolling it off the printing presses. So that means everybody loses. And I think that's worse. I think it's worse if you go to the bank and you take your money out and you can't buy anything with it. That's going to affect everybody.

Anyway, I'm out of time. I've got some handouts. I have a managed account program as well. You can try to work on these solutions on your own. If you want me to help you do it, we manage funds at Euro Pacific Capital for outside brokers in the global markets. We buy stocks all around the world, Asia, Europe, other countries. We look for dividends. But the main key is to get out of the dollar, to have income streams that are in Euros, in Singapore dollars, in Norwegian krona, in Australian dollars and Canadian dollars. So, as the dollar declines, the principle of the portfolios rise, the incomes that they produce rise. If the dollar loses half its value, the income streams double. The dollar loses 90 percent of its value, the income streams would go up tenfold.

And that extra income in dollars is what enables you to continue to maintain your quality of living, because you're able to afford the accelerating cost of living. Ultimately, that's what happens when the dollar collapses. The price of everything goes up, because everything is simply priced. It's a function of the value of the dollar. You're going to see it first in internationally traded goods. So the first products you're going to see affected by the weak dollar will be oil, grains like soybeans and wheat and corn, which will affect dairy products and bread. But ultimately it's going to be clothing, consumer electronics, all the products that we buy are going to get much more expensive in the years ahead as a result of the inflation that the government is creating to prevent the market from fully flushing out all these imbalances. Ultimately, it's going to happen, despite what the government is doing. The economy is ultimately going to have to rebalance. We are going to have to save again. We are going to have to produce again. But the longer we wait, the longer the government is successful at postponing the day of reckoning, the more painful it's going to be for everybody.

And thank you. Oh, one more quick thing. One more thing I want to mention. John Downs is in the back. He's got these handouts on my managed account program if you want to try to grab one. And also, to try and make sure that the worse case does not pan out, I am now a candidate for the United States Senate in Connecticut. I'm running as a Republican and, if I get the nomination, I run against Chris Dodd. If you want to help me try to get the nomination, it's not going to be cheap and I need a lot of help. My Web site is schifforsenate.com. You can donate money. You can sign up to volunteer. I need volunteers even if you don't live in Connecticut. I am building a database right now on the internet where supporters all around the country will be able to make phone calls to Connecticut voters on a daily basis and help me win over that state. Anyway, thanks everybody.

Peter Schiff, president of Euro Pacific Capital, is one of the few unbiased investment advisors to have correctly called the current bear market before it began, positioning his clients accordingly. As a result of his accurate forecasts on the U.S. stock market, economy, real estate, the mortgage meltdown, credit crunch, subprime debacle, commodities, gold and the dollar, he is becoming

increasingly more renowned. He has been quoted in many of the nation's leading newspapers, including the *Wall Street Journal*, *Barron's*, *Investor's Business Daily*, *Financial Times* and the *New York Times*. Schiff appears regularly on CNBC, CNN, Fox News, Fox Business Network and Bloomberg TV. He is author of the bestselling book, "Crash Proof: How to Profit from the Coming Economic Collapse."

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