

What's Ahead – Protecting Yourself During the *Aftershock*

There will be three types of people in the *Aftershock*:

1. Those who thrive by investing properly to make money from the opportunities the *Aftershock* creates
2. Those who survive by investing properly to protect their assets from the many ways people will lose money in the *Aftershock*
3. Those who do neither and watch their assets go to Money Heaven *I guess that's better than the alternative...*

This chapter is written, not to scare anyone, but to ensure that you are aware of what may come when the *Aftershock* hits and that you are prepared to take the necessary steps so that you don't become one of the many people who will choose to be "Person number 3." This chapter will describe what we feel are the likely consequences of the economic situation we described in the rest of the *Aftershock*.

We have already told you how these conditions were created, but we added this final chapter to tell you the full long term consequences of the current economic situation. Some people think it will be Armageddon. Some people think it will be our children's problem. And, even some people think it won't be a big problem. Hence, we wanted to spell out in this chapter exactly what we see will be the consequences of our current actions.

They are ignoring the obvious —

We also want to help you be prepared. So we have included advice on personal financial preparations, including an *Aftershock* Preparedness Checklist. Of course, much of the rest of *Aftershock* is devoted to giving you advice on how to prepare financially, so you should review that again as you better understand what we are describing in *Aftershock* and as you see the *Aftershock* unfold before you in your everyday life.

The Most Striking Change in a Post-Dollar-Bubble World: Uncle Sam's Credit Is Declined

When the dollar bubble collapses, the huge government debt bubble will fall, too. That means the falling value of the dollar will have caused enough foreign investors to become concerned enough about the value of their dollar-denominated investments that they will no longer be willing to buy U.S. government bonds at a reasonable price. This means the government will not be able to refinance its debt (just like a company that loses the faith of its creditors) and instead the government will have to resort to inflation, tax increases, and budget cuts to deal with the situation (see Chapter 3).

Good! Maybe you get to this later - but that is actually good for the long run!

Like a family without their credit cards, the U.S. government will be forced to live within the constraints of its actual income, which at this point will be a rapidly declining tax base, much like what California is now facing, but far worse because the U.S. government became very comfortable receiving so much income from deficit financing. Inflation would normally be an additional tool for the government to raise money, but inflation can only be raised so far without destroying a modern industrial economy, such as that in the United States. The amount of inflation the government can feasibly run was discussed in Chapter 3 (about 50 to 100 percent).

That means the government will not be able to create any big stimulus packages or tax cuts or anything of the sort. It will have to cut, cut, cut spending so it can live on its income. Some may see this as a refreshing change—a government that lives within its means. But it will not feel very refreshing. Many things we take for granted, like large pensions, will have to be curtailed. We have gotten very comfortable with a government that always has money and never has to worry about running out; a government that never has to raise taxes to fund wars or stimulus packages; a government with unlimited credit. That's over.

Even during the Great Depression the government's

finances were rock solid and it could certainly borrow money, if needed. But, in the post-dollar-bubble world, the government will be like the rest of us, only worse. It will have its credit cards cut off and a much lower income while still having a massive debt that it can't possibly make payments on or even pay interest on, and eventually it won't make principal or interest payments. So, it will have to live within its means.

With No Ability to Borrow, the United States Will Have to Make Massive Spending Cuts

When the U.S. government can no longer borrow and has a rapidly declining tax base, the first action will be to make up the difference by massively increasing the money supply and creating horrendous multi-hundred percent inflation. However, this will be a short-term solution as the devastating effects of that level of inflation on our economy will fairly quickly force the government to make massive cuts in spending, just like the rest of us. These will be very unpopular to say the least, but when the alternative is raising taxes on a populous that is reeling under the pressures of the falling economy, the government will be forced to make lots of unpopular cuts.

Key cuts will hit both the "guns and butter" of the government budget. Cuts in military spending will be much larger than contemplated today and will focus disproportionately on the Navy and Air Force.

On the "butter" side, the most important cut will be to make Social Security means tested, making Social Security essentially a welfare program. For those who have little or no income or assets, Social Security will definitely be there to help. However, for those who have income or assets, forget it.

In addition, Medicare (medical care for older people) reimbursements to doctors and hospitals will be reduced. Since huge numbers of unemployed people and retirees with no more retirement money will qualify for Medicaid (medical care for poor people). Medicaid will explode in size so reimbursements to doctors

*Bob... This is alarming!
A lot of Americans
are depending on social
security to supplement
their income...
or worse, use it as
their primary source
of income*

and hospitals will have to be cut from their already abysmally low levels, and there will be tougher rules on what gets reimbursed. A large percentage of doctors today won't even accept Medicaid payments because the reimbursements are too low. But Medicaid will grow to be so important that doctors won't have any choice but to accept its payments. Essentially, in a post-dollar-bubble world, Medicaid will become our national health care program.

High inflation will do much of the dirty work in cutting budgets. Remember, when inflation is high, budget cuts are accomplished simply by not raising budgets to match inflation. So, inflation will be blamed for much of the government budget cutting.

The cuts to the military, Social Security, Medicare and Medicaid will produce a large share of the cuts needed to make the U.S. government budget match its greatly lowered income and inability to borrow. But the biggest cut will be the elimination of interest payments. Like the automakers' restructuring, a key part of the government's restructuring of its cost structure will be the elimination of debt payments. Other cuts will be made to programs such as Agriculture and Commerce. User fees will increasingly fund programs in these and similar areas in government. Whatever can't be funded by user fees will likely be cut. Any subsidy programs in the government will be gone almost completely.

Again, all these cuts will be highly unpopular, but with no ability to borrow money anymore and a rapidly shrinking tax base, the government will simply have no choice but to cut spending—a situation many states are already facing now in the Phase I .

Big Spending Cuts Will Need to Be Coupled With Big Tax Increases

Probably the only thing more unpopular than big spending cuts will be big tax increases. Many people will be out of work and those who are working will see their incomes lowered by their employers and their

*Adding
fuel to
the fire.*

standard of living squeezed down dramatically by the collapse of real estate and stock market values. So they will not be happy about tax increases.

But, the same problems that make increasing taxes so unpopular also make it very necessary. With a massively declining tax base, the government cannot fund even its drastically reduced spending program. And inflation alone will not be enough. The amount of inflation needed to erase the need to raise taxes would destroy our modern economy and would be counterproductive.

Total tax rates on an average working individual could rise as high as 50 percent. Better enforcement of tax collections will also be key to the government increasing its revenues to live within its means. Withholding will become increasingly common on all types of income, including interest, dividends, capital gains and 1099 income. There will also be more requirements for electronic reporting of withholding and relevant bank account information, making quick, cheap and effective electronic auditing much easier.

Wealthier taxpayers will be a target since middle class taxpayers will be taxed hard and will likely not be too interested in creating a better tax system for wealthier taxpayers. Hence, progressive taxes are likely to remain and perhaps get even more progressive, despite what is likely to be strong political support among wealthier taxpayers for a flat tax. Long term, taxes will be reformed to encourage investment, but shorter term, middle class anger at high taxes will make wealthier taxpayers a likely target.

Of course, many wealthier taxpayers will avoid an enormous amount of taxes by losing many, or most, of their income producing assets, such as real estate stocks and bonds. Many will also see incomes from their business decline substantially or stop altogether. Obviously, this will only affect those wealthy Americans who don't invest to protect their assets or to profit from opportunities in the **Aftershock**.

→ The uberwealthy will find ways to avoid paying taxes. They always do! Some may even expatriate... I know several that are already planning to leave.

Audits!

So should we avoid filing electronically to reduce risk of an audit?

The Difficult Economy Will Create Social Unrest, But Not Social Chaos

There won't be mass violence in the streets but there will be increased stresses on individuals due to the immense economic pressures. Divorces will increase and domestic violence will increase. Expect more killings of family and friends by distraught people who have lost so much economically. Also, expect more killings of small business people and lower level executives who have to lay off so many people. There will be a lot of anger all the way around and no doubt, people who lay off other people will be a focus of some of that anger.

ok - so
I can see
why this was
labeled
"controversial"

However, senior government officials and senior business executives will likely not see a significant increase in violence because they can afford to have bodyguards and other security protections. So, don't expect to see a lot of violence against Congressmen or corporate executives or even failed Wall Street Titans. They can and will protect themselves and will be increasingly careful about public appearances.

There could be attacks on lower level municipal and state politicians and judges who won't be able to easily afford increased security. However, security will likely be increased to some extent at the workplaces of many state and municipal politicians and judges.

However, that doesn't mean that there won't be angry demonstrations against all levels of government. Demonstrations such as the ones we saw recently in Wisconsin will likely be commonplace. Even angrier demonstrations, such as the ones in Greece, could take place in some cities.

However, there will be a limit to forceful demonstrations, such as student strikes and employee strikes. Unlike in the past when a university might work hard to stay open, despite a student strike, and bargain with students to call off the strike, in the future, an easier alternative will simply be to shut the school down for the semester. Money is very tight at universities anyway and that will be an easy way to

save money. The same would be true for factory strikes. The factory or factories can simply be shut down since there is little demand for the products anyway. It will be an easy cost saving measure.

Unlike Greece, which can demonstrate against provisions in a bailout package they don't like and hope to win better terms, there will be no bailout for the U.S. There will be no country or countries that can bail out the U.S. - its governments or its corporations. Hence, there will be little hope of getting "better terms" from a strike. The money simply isn't there, as opposed to Greece, where there is a massive amount of money poised and ready to bail out Greece all during its crisis.

Remember the **Aftershock** hasn't hit yet, so there is plenty of money sloshing around the world, whether it be real, printed or borrowed, to use in bailouts as needed in the U.S., Europe, China or Japan. All of these countries can print, borrow and even use some real money to bail out themselves and even other countries. And, when the bailout needs are relatively small, such as with Greece, they can be fairly effective short term.

But, when the U.S. goes, it's a big problem. That will be much bigger than any country can handle. Plus, when the US goes, other countries' short term bailouts will fail. For the U.S., as well as many other countries, there will be no easy money printing, no more borrowing and precious little real money.

The U.S. is the driver of world economic stability. Until it goes, the world will have some level of economic stability. But, once it goes, no one in the world will have economic stability.

Because there is no good way out of many situations, whether they be government worker strikes, student strikes, taxpayer strikes, etc., government officials will likely react by becoming more reclusive and less interactive with their constituents. No matter what they do, people won't like it. And people won't like their elected officials either, who will be voted in

and out of office fairly quickly. It will be a very uncomfortable time for elected officials.

Such enormous anger at government will even break down some partisan barriers. For a while, there won't be a partisan direction so much as just enormous anger at government and government officials.

Eventually, a new political direction will evolve that will be quite partisan, just like past changes in the United States, such as the Revolutionary War or the Civil War, only that this one certainly will not require a war. The focus of this change will be rather mild, relative to the violent wars of our past. This time, the focus will be on improving economic productivity, which we will discuss more at the end of this chapter.

Longer Term Impacts of the Dollar Bubble Collapse – Economy Gets a Bit Chaotic For a While

A lot of people are already opting to walk away

The high unemployment and high bankruptcy rates of the post-dollar-bubble economy, combined with a greatly pared down government will, for a while, create an unusual set of economic conditions. For example, in such a chaotic economic situation, there will be little incentive for people to pay their mortgages or other debts. Many of their creditors will be insolvent and there will be no significant market for selling the properties. Much of the management of these debts will be handed over to an overwhelmed government with little interest in foreclosure. Even if it did foreclose, who would it possibly sell the properties to? And there will be no serious financing available for buyers at that point, anyway. Certainly, the government won't be able to provide financing.

A good decision for many people will be to simply stop paying their debts. Even rent may not be worth paying as evictions could become increasingly politically difficult for elected sheriffs to carry out. Plus, it will be difficult for landlords to find good tenants to replace the bad ones. Debt repayment

will become a bit lawless during this period.

Businesses will follow a similar path as individuals. They will stop paying mortgages and other debts and even limit the rent they pay to what is needed to fund basic utilities and maintenance. They won't be making much money and if they have to pay rent above basic costs, in many cases, they will go under—something the landlord doesn't want to see either since there are no good tenants to replace them.

As a result of all this, squatters will be increasingly common for business, and even more common for individuals since it will be politically difficult, and of little economic advantage, to throw tenants out. Local governments will have very tight budgets and won't have the resources to spend on throwing people (and voters) out of their homes so that the landlord can have a vacant property with no prospects of rental. This situation will not last forever, but in the meantime, people will take advantage of it.

► The Hidden Bubble IN Our Safest Of Retirement Savings

This really is a hidden bubble. Some people might say it is hidden in plain sight, but many people have little concern over their safest retirement savings. If people are concerned about their savings, the focus is more on the assets that have made them money in the past--stocks and real estate. There is certainly some concern over bonds, but many people feel that bonds, U.S. or municipal, are fairly safe.

However, when it comes to the more fundamental retirement savings of pensions, whole life insurance and FDIC insured savings accounts, many people are not very concerned. Living in the Washington, DC area, the authors can confirm that very, very few federal employees, civilian and military, are worried about their pensions.

So much for
"Planned
Benefits"

Yes, some state and municipal employees are getting more worried. But, the fear is more over a reduction in the amount of government contributions than an

outright failure of the pension itself. The recent demonstrations in Wisconsin were an obvious example of this. The general feeling among employees is that if government pension investments don't perform, government will simply have to budget more money for their pension payments, as they are often required to by law. Hence, in a peculiar way, people expecting pensions are less worried about losses in the stock and bond markets than they are in their own brokerage accounts.

Also, when pensions lose money on their investments, they still pay out the same amount of money to current retirees, so there is little current pain. The problem for pension plans that lose money occurs down the road when an increasing number of aging Americans will be retiring. The Post Office is already showing this type of problem--it has about 550,000 working employees and about 450,000 employees on pensions. General Motors also faced a similar problem, which was part of the reason it went bankrupt.

Great Example!

But for now, all is well in Pension World. In the **Aftershock**, that will change--dramatically. Pension fund investments in stocks, bonds and real estate will plunge in value. Government contributions to pension funds will also plunge along with falling tax receipts. Government unions may protest, but the reality will be a lack of tax revenue and there will be little ability or interest in raising taxes to fund payments to employees who aren't working while governments have to massively cut the number of employees who are working.

Yes, there may be lots of legal challenges, but in the end, the bottom line will be the bottom line. Also, since inflation will be high, the easy way to cut pensions will simply be to raise them less than inflation. If pensions are not inflation adjusted, they are easy to eliminate. If they are inflation adjusted, expect the laws to be changed so that they are no longer inflation adjusted. Yes, there will be court fights, but the money simply won't be there anymore. Even federal pensions will go the way of state

will also be able to support banks in making asset-based loans on items such as inventory and receivables. However, the government won't be able to support banks to make mortgage loans, non-asset based business loans, commercial real estate loans, loans to buy businesses, credit card loans, etc.

In a very real sense, these "safe savings" we just described will be part of what is used to pay off the federal debt. Inflation will ultimately reduce much of the value of the federal debt, but at the same time will also destroy much of the value of the pensions, life insurance and savings accounts that people view as safe assets.

This is a reality most people are not prepared for. Punished for saving.

► No New "New Deal"

While some people now say they are worried about drifting toward socialism or "sharing the wealth," in fact there won't be much wealth to share. Instead of the rich funding the poor, the middle class will shoulder most of that burden by paying very high taxes to fund nearly all of the enormous number of people on welfare. Instead of shared wealth we will have "shared poverty."

With the government essentially in default on its loans, it will have no way to raise money for its welfare programs, other than through taxes. And since there will be so few wealthy people left to tax, that leaves only the middle class and the much smaller upper-middle class to carry the load. Still, working and paying very high taxes, perhaps as high as 50 percent, will be better than not working at all.

A Big Change in the Post-Dollar- Bubble World: Not Enough Jobs

The most important difference in the post-dollar bubble world from the pre-dollar bubble world won't be lower stock or real estate prices, but interestingly, jobs. On a day-to-day level, the lack of jobs will be what affects people the most. Many people lucky enough to have jobs will move down the ladder, not up.

and local pensions. So, clearly there will be will be no federal government bailouts of state and local pensions.

The situation will resemble a bad version of Detroit. Federal, state and local governments will be faced with huge declines in their tax base, which will make high pension payments impossible. At that point, even many government employees will see that with so many suffering a loss of employment and reduction in inflation adjusted income, it will be hard to get any political support to pay big pensions to employees who aren't working.

Corporate pensions will go the same way as government pensions except that the government supported Pension Benefit Guarantee Corporation will try to save a few pensions before it runs out of money and the government stops funding it.

whole and term?

Life insurance is also considered sacred. Few people are concerned that their life insurance won't pay off. But, with so much of their assets invested in stocks, bonds and real estate, huge losses are inevitable for life insurance companies. Hence, they simply won't be able to make significant payouts on their policies. And, again, the federal government will no longer have the power to borrow and print enough money to bail out the life insurance companies.

FDIC insured savings accounts are a bit different. There will likely be some sort of needs based payment for small insured accounts. Clearly, there won't be full payment, but the government may be able to pay with inflated dollars some portion of FDIC insured savings when banks fail. Since so many banks will be failing, the government can't possibly pay accounts that are above the insured level, but it could pay some amount of money on accounts under the maximum level of insurance, currently \$250,000.

The government will also be able to maintain a payments mechanism so that there will be no problem conducting transactional banking business, such as writing checks or using debit cards. The government

For example, a former senior accountant at an accounting firm might have to take a job as a bookkeeper or very junior accountant at a business, and at much lower pay, rather than at an accounting firm. Employees will work longer hours for less pay and in less appealing conditions. Benefits will be gone or reduced and competition for jobs will be fierce. Just about everyone will know they could be easily replaced.

However, it won't be anything like the Great Depression of 1929 because of two important differences:

1. The nation will be much wealthier, so few will suffer like they did in the Great Depression.
2. Paradoxically, because we are much wealthier, unemployment will be much higher, likely in the 40- to 60-percent range, when counting the discouraged unemployed.

Unemployment can be much higher when the nation is wealthier because people don't have to have jobs. Unemployed people can live with parents, children, relatives, or friends. Plus, there will be a solid safety net of welfare from the government, although people who are used to today's prosperity will consider the net abysmally low.

In the Depression, if there were a job paying pennies for picking oranges (as in *The Grapes of Wrath*) you'd take it because you had to. In our much wealthier society, the people who do have jobs will be much better paid and will help support friends and relatives who are unemployed.

As is normal, high unemployment will hit disproportionately hard on new entrants into the work force and older workers. So unemployment will be very high for those under 30. However, in the post-dollar-bubble world, unemployment will also be exceptionally high for older workers, since they will have an especially difficult time finding a new job if they lose their current one. This will mean extremely high unemployment for those over 55. We are already seeing

That's worse than Detroit! Again, if it gets this bad... people need to know

some of these trends in Phase I.

With unemployment in the 40- to 60 percent range, GDP will also drop by a similar amount, but again, even with a 50 percent drop, that would still be a \$7 trillion economy in today's dollars. That's still pretty big bucks. However, it won't feel like big bucks. And that is another big difference between the post-dollar-bubble world and the Great Depression: The psychological pain will be much greater for us today.

The College Bubble—The Bubble Our Children Face

Another hidden bubble is college. Since 1980, college tuition and fees have increased over 400%. However, the Consumer Price Index (CPI) is only up about 100%. Yes, the CPI over that period of time is probably not an accurate measure of inflation—it's likely been higher—but there is no doubt that college fees and tuition have increased far faster than inflation and even faster than medical costs! That may be hard to believe, but medical costs are "only" up about 250%.

And college loans aren't forgivable in a bankruptcy

How is this possible? You probably know the answer by now—it's a bubble! The college bubble is a derivative bubble of the stock, housing, and private credit bubbles. When the stock market is up 1000%, it's a lot easier for many parents to "save up" for college because much of the savings effort is provided by a booming stock market. Also, when housing prices more than double, much of the college savings effort is performed by rising housing prices, whose value is easily extracted by home equity loans and cash-out re-financings.

Do you have advice for those thinking about going to college right now?

Finally, and increasingly important, is the massive increase in student loan debt. In fact, total student loan debt in the US is now greater than total credit card debt! Even bigger than credit card debt? Yes, that private credit is providing lots of bubble fuel for the college bubble. Low interest rates make that credit much easier to take. Government guarantees help enormously as do lower loan default rates in good economic times. Change all of those factors and that

private credit vanishes. Add a falling stock market and falling housing prices and pop goes the college bubble.

Does that mean fewer kids will attend college? For a while, yes, but fairly quickly colleges can react by massively cutting tuition. How? By massively cutting their biggest cost—people—which are about 80% of their total costs.

There will be numerous administrative cuts, but the biggest cuts will be in professors. Professors will have to teach a full schedule of 2 to 3 classes a day, or more, every day. Any research will have to be funded heavily with outside grants from government, non-profit foundations or corporations. Of course, those sources will have far less money to give out, but there will still be some money available. Class sizes will also be increased and low paid teaching assistants will be used more frequently. It's not that hard to cut teaching costs, it's just horribly painful for college faculties, but they will do so because they will have few students otherwise.

The main problem facing colleges and college students is that there will be few jobs for students when they graduate, even from very good schools. That's another reason students won't want to pay a lot of money for tuition. But, they will likely want to spend more time in college. That's because there isn't much to do once students graduate. With very low tuition costs, college will be a very reasonable place for many young people to spend time.

The Loss of Businesses Will Be a Dramatic Change for the Business Community

With a 50-percent drop in GDP, at least half of the businesses in the United States would have to close their doors. Many of those that stay open will have gone through bankruptcy. Part of the reason for the high bankruptcy rate is that bankruptcy will become an important competitive tool for lowering business costs. Once many competitors do it, a firm may have no choice but to file for bankruptcy to remain competitive, too.

Seems Extreme.

We expect to see this kind of competitive bankruptcy to begin happening long before the dollar and government debt bubbles burst in Phase II.

Small businesses will be hit disproportionately hard and new small business opportunities will be quite limited. Entrepreneurship will be extremely difficult due to a lack of demand for goods and services, especially new goods and services. The lack of small businesses will greatly change the face of the local business community.

Of course, the financial industry, which will have been badly battered prior to the dollar bubble pop, will be hit hard by high interest rates, high inflation rates, and the lack of any government support or guarantees. Needless to say, if the government can't pay its own debts, it can hardly guarantee the debts of anyone else. Nearly all banks and insurance companies will be insolvent in such a situation.

This is another striking difference between the post-dollar-bubble world and the Great Depression. Although many banks failed during the depression, many banks survived as did major insurance companies and stock brokerage firms. Even in Phase I, we have already seen many financial institutions that survived the Depression unable to survive the first popping of the bubbles. When the biggest bubble pops—the dollar bubble—the survival rate will be exceptionally low.

Banks will still be able to process transactions, but their ability to make anything more than basic inventory loans (and similar asset-based loans) will be severely limited. Even inventory loans will be difficult to come by. Whole life insurance companies will be insolvent but term life insurance will be available as will property and casualty insurance for basic needs. Of course, the value of most real property will greatly decrease so not as much casualty insurance will be needed.

Clearly, a number of small business owners will decide to sell before the storm hits. This will be a very difficult decision for many owners to make. The

A common caricature of the Great Depression was a drawing of someone so poor they couldn't afford clothes, so they hung a wooden barrel around themselves instead. It became a symbol of poverty in the Depression. Well, in the post-dollar-bubble collapse we're gonna need some barrels, too, but they will have to be bigger barrels because, unlike the Great Depression, this time everyone will be very well fed. In fact, too well fed. After the dollar bubble pops, obesity will be a major problem. It already is now, and it's going to get a lot worse. There will be no lack of money for cheap, high calorie, food. And there will be no lack of stresses that will cause many people to overeat.

Hanging around the house with no job, eating chips, and playing stolen video games, and watching stolen movies is not a recipe for physical fitness. And the stresses from both finances and strained interpersonal relations caused by problematic finances will drive many people to the refrigerator. It doesn't take much stress to push someone to overeat with all the low-cost, high-calorie foods we now have available to us. In the post-dollar-bubble world, there will be high stress and high-calorie food in abundance, and a whopping obesity epidemic to match.

timing is tricky, because if you wait too long, the market for selling businesses will dry up due to lack of demand and lack of financing. But, selling too early is clearly a problem for many business owners because of the loss of income. Obviously, we suggest selling earlier rather than later since it is hard to time perfectly, but as life-long small business owners, we understand just how hard that decision can be.

Life Will Be Much Better Than in the Great Depression, But It Will Feel Much Worse

As mentioned earlier, the psychological pain will be much greater than the Great Depression, even though the physical conditions will be much better. This is because expectations were so very high prior to the **Aftershock**; much higher than before the Great Depression. Real estate had gone up phenomenally, stock values had gone up phenomenally, and money was easy, not only in the United States but overseas, as well. It seemed like a new billionaire was born every minute.

Long-term blue chip stocks, like Apple, could still rise 3,000 percent in a few years, even after the tech bubble bust. Life was good, very good and, except for a few bumps, it had been very good for decades, since

the dollar bubble began in 1982. As many people liked to crow, it was the longest boom in post World War II history. And people expected it to continue, even if not at quite the same levels as before. They wouldn't need to save for retirement, the booming stock market and the booming real estate market would take care of that. Most people felt they didn't really need to save at all. The economy would never go down much and certainly the job market would always remain relatively strong.

When all that comes to a screeching halt, Americans will be reeling with a tremendous feeling of shock and awe. In addition to the rise in divorces, family fights, killings, and so on, that we mentioned earlier, it will also lead to more clinical depression.

Yes, one of the biggest differences between the Great Depression and the post-dollar-bubble world will be depression! There will be much more of it after the **Aftershock**. Fortunately for those suffering from depression, the medicines to treat it are much better now and we will see a large increase in the use of anti-depressants. We will also see an increase in the use of that age-old remedy for depression: alcohol. However, many of the alcohol providers, especially the vintners, will also be depressed because the increase will be entirely in low-cost alcohol. High-cost alcohol in every form will see a dramatic decline, forcing many vintners and other high-end alcohol producers into bankruptcy, along with many other high-end goods makers (remember, the discretionary spending bubble will be fully popped at this point).

Former Wall Street titans will be depressed, too. A lot of these guys have no idea what it takes to build wealth without a rising bubble economy. To get a feel for what it was like to make big money prior to the bubble economy, we suggest readers take a look at *From Wall Street to Main Street* (Cambridge University Press, 1999) about how Charlie Merrill and other very impressive individuals created Merrill Lynch. It was quite difficult and risky and required a lot of very

good judgment. It was not a Master of the Universe story or Barbarians at the Gate, as during the rising bubble economy. It took tremendously hard work and it paid off very well. But it certainly was not easy money.

Protecting Yourself and Making Money in the *Aftershock*

Chapters 6 and 7 provide an excellent guide to protecting yourself and profiting from the opportunities in the coming ***Aftershock***. We don't want to repeat that advice again here, but we thought it would be useful to give you a "***Aftershock*** Preparedness Checklist" as an easy to use guide to the key actions you should be considering right now while the winds of the ***Aftershock*** are still mild. It's no longer the calm before the storm, but you still have time before the current light winds become a gale.

Aftershock Preparedness Checklist

This is great Bob.

1. If you have a variable rate mortgage, convert it to a fixed rate mortgage.
2. Sell investment homes or vacation homes unless they have a very strong sentimental value.
3. Move out of long term bonds (5 year and over) into shorter term bonds—especially important as we near 5% inflation.
4. Prepare to move out of stocks. Another round of money printing by the Fed, a QE3, will give you some breathing room, but the upside of staying in stocks is likely short term and limited.
5. If you own a business, consider selling it sooner rather than later. We know this can be a very difficult decision, but when things get really bad it will be hard to sell your business. You have some runway here, a year or perhaps somewhat more, to get a good price, but begin the planning process now.
6. Begin buying some gold. Even if it seems high priced, dip your toe in the water and begin to build a

longer term buy and hold position. You can also buy some silver, which has performed much better than gold recently, but it will get hit harder than gold when commodities slide as the global economy slows, particularly China.

7. Put together a balanced **Aftershock** portfolio for your current cash and the cash proceeds from your bond, stock and real estate sales. See the July 2011 issue of the Financial Intelligence Report for more information on how to build an **Aftershock** portfolio.
8. When inflation reaches 5% consider buying inverse ETFs that go up when long term bonds go down. Inflation is the fire that will melt bonds like butter. Stocks will also go down as interest rates rise. There are inverse ETFs on stocks as well. Beware of leveraged inverse ETFs until you have a strong downward trend. They can easily lose money if the trends are against you or only slightly in your favor.
9. DON'T pay off your fixed rate mortgage faster.
10. Pay off your credit cards if it is not a large amount relative to your assets. If it is large, DON'T pull out your savings to pay them off—you may need every bit of that rainy day savings.

11. *Read your articles in Financial Intelligence Report!*

The Good News: Increased Productivity Will Make the United States Far Wealthier than Before

The good news is that we can, and ultimately will, transform the economy by increasing real productivity. This massive potential increase in productivity can bring us out of the **Aftershock** as fast as we will make the changes to increase productivity. The faster and more fundamental the changes are, the faster the economy and our wealth will grow. But it will require some very basic changes that will take some time to become politically feasible.

The productivity changes we are talking about will have to focus on the service sector of our economy, not because it is the easiest part of our economy in

which to improve productivity, but because it is the largest part of our economy. People normally focus on manufacturing for productivity improvements and there are some productivity improvements to be made in manufacturing. But since it is only 10 percent of the economy, improvements there won't have the same transformative impact as improvements in the service economy. The primary focus of productivity improvements will have to be on the three sectors below, not because they are easiest part of the service economy to transform, but because they are the largest.

great
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1. Health care
2. Education
3. Government services

Also important will be other major service sectors, such as transportation services, retailing, financial services, food services, travel services, and utilities. The key to our future growth will be dramatic improvements in these key service areas of the economy. The faster we can make these improvements, the faster we can get out of the post-dollar-bubble mess. It's that simple.

Our future books will provide details on how to improve productivity in each of the key sectors of the economy. We are fully prepared to write such a book right now, but few people would be interested in reading it. Once the dollar and government debt bubbles pop, our audience will likely widen. We'd like these books to stimulate conversation on how to move productivity forward. We would expect these to be "fierce conversations" as Susan Scott put it in her excellent book of the same name. There will be lots of disagreement and resistance to any change but the net result of these national conversations, which could last many years due to their controversial nature, will be greatly improved economic productivity, leading to tremendous non-bubble economic growth.

So that's the silver lining to the post-dollar-bubble world. The collapse of the bubble economy will force us

Any time
frame

let me
know
when you
are ready

to confront our fundamental problems and make changes to our government and society to improve productivity. We would have to do this in any event to improve the economy even if we didn't have a bubble economy. The only difference is that we wouldn't have gone through all the suffering created by the bubble economy if we had focused instead on improving productivity and not focused on blowing economic bubbles.

On the other hand, those rising bubbles were sure fun while they lasted. However, people in the post-dollar-bubble world will quickly forget all the fun when faced with the grim realities of a post-bubble-economy America. It's important to remember that during this time, the entire world will suffer, more than we will here. They, too, will have to confront the realities of improving their productivity in a post-bubble-economy world. In fact, for many countries, like those in Africa, this will be far more urgent than in the United States. Once productivity improvements are made, life will be much better for everyone indeed.

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Bob,
Your reader - America -
will ~~want~~ need to read this
chapter. I'm calling you
tomorrow to see if there
is a way to get this
"unpublished" chapter into
the hands of our
readers!
Aaron

