

# The Need for Financial Diversification

## The Investment Triangle

The principle of financial diversification is wise counsel and dates back to King Solomon. "Divide your portion to seven, even eight, for you do not know what misfortune may occur on the earth" (Eccl. 11:2). In today's global economy, the potential for financial misfortune is very great, and this means that we must be careful in our own decisions and personal risk analysis.

It should go without saying that the greatest risk posed to investors today is the imminent collapse of the U.S. dollar and bond complex and a move towards a new reserve currency for international trade settlement. We are, of course, talking about the need to hedge against the U.S. economy and U.S. dollar-denominated assets. Since 1970, the U.S. started importing crude oil and running up deficits in the billions. Today our nation is faced with trillions of dollars of debt and unfunded liabilities, and our nation's politicians and bankers are literally pushing us over the edge.

In March 2006, the U.S. Treasury sent an emergency letter to members of Congress urging an immediate increase in our debt ceiling from \$8.2 trillion to \$8.96 trillion in order to prevent our government from defaulting on our U.S. security obligations for the first time in U.S. history. On March 15, 2006 the U.S. Senate approved this appropriations bill. In that same month, the Federal Reserve announced that it would suspend its monthly M-3 (broad money) reports. It must be remembered that a majority of our U.S. currency (70%) is held by foreigners, and our printing presses are out of control.

What does this mean? It means that we are now flying blind into a financial storm and government authorities do not want economists and the American people to know how bad the situation really is. The last M-3 currency figures for calendar year 2005 indicate that there was \$10.340 trillion in circulation, which represents a 7.8% increase. The figures from 2006 to 2009 are even higher today. These are the actual rates of inflation instead of the CPI and core rate figures released by our government. This kind of reckless spending, deception, and monetary inflation makes it nearly impossible for investors to keep pace, and eventually this will lead to hyperinflation and a financial catastrophe.

In his latest book *Empire of Debt: The Rise of an Epic Financial Crisis*, Bill Bonner writes, "A great empire is to the world of geopolitics what a great bubble is to the world of economics. It's attractive at the outset but a catastrophe eventually." It was Russian economist Nikolai Kondratieff (1892-1938) who proposed that Western capitalist societies experience long-term cycles of boom followed by bust. These business cycles, or grand supercycles, generally run 50-60 years with the present cycle beginning in 1949. This Kondratieff wave appears to be

right on course as we approach the 2009-2010 period. A similar analysis has been made by Ralph Nelson Elliott in the 1920s, which measures investor psychology and probabilities ([www.elliottwave.com](http://www.elliottwave.com)). What investors need is a defensive strategy for capital preservation, liquidity, and growth, which is best illustrated in the following investment triangle.

At the foundation of this investment triangle is the precious metals complex that has stood the test of time along with tangible assets. It is also necessary to have cash and liquidity in addition to growth and income strategies which do not require extensive market timing. Although it can be profitable to chart market trends and follow hot tips, it requires a considerable amount of attention. "One must know precisely when to buy, when to sell, and at what price," notes financial analyst and author G. Edward Griffin. "To know all that, the investor must become expert on the nature of the industries involved and must monitor the daily shifts in market forces."

For this reason we recommend various sectors and asset classes that represent a good buy-and-hold position for diversification and safety. As King Solomon advised 3,000 years ago, "Sow your seed in the morning, and do not be idle in the evening, for you do not know whether morning or evening sowing will succeed, or whether both of them alike will be good" (Eccl. 11:6). This is still good advice today. Due to the extreme dangers that exist in capital markets, equity funds, and fixed income assets we strongly recommend that investors consider moving 30% to 50% of their liquid assets into precious metals for safekeeping.