Welcome to 2006

-J. Kevin Meaders, J.D., CFP®, ChFC, CLU*

April, 2017 —No matter where you live in the country, if you look around it shouldn't take too long to see the tell-tale signs of growth. Look for building cranes, highway construction, new office buildings, grocery stores, retail outlets, new bridges, Starbucks locations, Wal-Mart supercenters. The list goes on.

Whenever you see these signs, I want you to immediately think this phrase: "monetary expansion." That's exactly what it is. Very few of these projects are paid for with money that already exists. Rather, our fractional reserve banking system is designed to "create" money when loans are advanced.

G. Edward Griffin coined the term "Mandrake Mechanism" to describe this funny-money effect. The curious free-thinker should Google this term for some great YouTube videos that more artfully explain the process.

For our purposes, however, it's enough to understand that all this growth occurs with brand new money that is essentially injected into our economy. This does a couple of things.

First, it makes available a whole lot of new money to do stuff—like all those things mentioned above. All these new projects put people to work and spread a lot of money around to businesses small and large. It also makes a lot of people at the top of the pyramid rich.

The other thing that all this new money does—and this occurs so slowly that it's almost imperceptible—is to dilute the value of the money that already does exist. The money that's in your pocket, that's in your savings accounts, your retirement plan, your investment accounts, and everywhere else you have it stashed, becomes worth less. This is the very definition of inflation, pure and simple.

You and I don't get to create new money, we have to work for it, save it, and risk it in investments to get it and keep it. I ask you if you think it's fair that we all have to work and toil for money when our quasi-governmental bodies get to just make up at will, without any kind of meaningful oversight or explanation. If you reflect on this too much it can become seriously depressing, especially because it dis-proportionally hurts the poor and those living on fixed incomes (like retirees).

Despite this intrinsic unfairness, the result of all this monetary expansion creates an initial appearance and sense of real growth and prosperity. After all, we all want new and better roads and bridges and nice shiny new buildings. But this illusion of prosperity is just that—illusory.

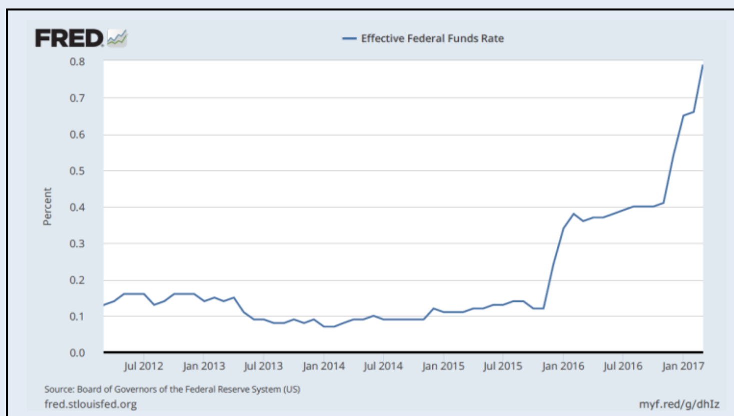
Eventually, inevitably, the "stimulus" of newly created money always collapses upon itself. You can call this "monetary contraction" and I liken it to a house of cards. If you slowly pull out cards one at a time there will come a point when the entire thing collapses. You never know exactly which card will be the coup de grâce, but you know it's just a matter of time.

And so, my friends, that is where we are today. Perhaps you remember 2006. Remember all the growth, the cranes, the new buildings, et cetera? Well, welcome back. Then, of course, surely you remember 2008 and the market crash that erased trillions of dollars of value and witnessed the stock and real estate markets plunge by 35% or more.

This is your wake up call. I'm sad to say, those days are coming again.

Who is the culprit in all this? The same culprit responsible for the Great Depression: The Federal Reserve Bank. They are the ones manipulating the money supply. It is they who created the real estate bubble; it is they who caused the crash in 2008. They are the ones who have created all this easy money with their zero interest rate policy—which they call "stimulus"—and they are the ones who are now reversing course, pulling the cards out one by one. You can bet it's just a matter of time.

If you look at the chart to the right you can see that the Fed has raised the Fed Funds Rate already from roughly .1% to .8%. The rate that was required to crash the market in 2008 was 5.25%. We think the rate to crash the current market bubble will be closer to 3%. You can see that we are almost one third of the way there.



It won't happen overnight, and no one will know exactly when it will occur, but rest assured, another crash is on the way. Ironically, some of the most substantial growth can occur in the run-up to a crash. Just look at the growth that occurred in 1998 and 1999, and again in 2006 and 2007. This is where we believe we are today.

Our expectation is that stocks and real estate will continue to run until… dramatically, and without warning, another 2000 or 2008-style crash occurs. If you have real estate or other investments that you feel have "peaked out," you may want to start thinking about divesting.

For our clients' accounts, we have a plan. It's the same plan we successfully deployed in 1999 and 2007. As indicators that we watch closely begin to show the typical ominous signs, we will begin reallocating into the only asset class that actually did well 2000 and 2008. Once the crash has occurred—we are expecting a 30% to 40% stock market decline—then we will reverse the allocation back into stocks and real estate.

Though geopolitical events may cause short term market turbulence, they are not the cause of major crashes. Syria, North Korea, Ukraine, Crimea, Brexit, Frexit, Russia, China—all of these are side issues. Only monetary contraction causes major crashes. And now, our dear friends at the Fed are embarking on monetary contraction in a big way. Now is the time to plan ahead.

As President Kennedy once remarked, "The best time to fix the roof is when the sun is shining."

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About J. Kevin Meaders

Kevin Meaders graduated from Oglethorpe University in Atlanta with a double B.A. in Philosophy and Political Science, and then obtained a law degree from Georgia State University College of Law, focusing on estate planning and trust law. He has earned the designations of Certified Financial Planner (CFP®), Chartered Financial Consultant (ChFC) and Chartered Life Underwriter (CLU). He holds a General Securities Principal and Registered Representative registration and Investment Advisor Representative registration through Voya Financial Advisors (member SIPC). **kevin@magellanplanning.com**

About Magellan Planning Group

www.magellanplanning.com

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- Estate planning with our in-house Attorney-at-Law to determine and prepare the documents needed to minimize family liability and maximize privacy. (www.magellanlegal.com)

- Tax planning through a relationship with our in-house CPA to manage tax obligations throughout the year and prepare a tax return that takes into account current tax laws. (www.magellantax.com)

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