



FINANCIAL PREPAREDNESS

"One of life's most painful moments comes when we must admit that we didn't do our homework, that we are not prepared." ~ Merlin Olsen

Issue #43
December 3, 2021

If you did not receive a previous issue, [let me know](#) I will resend it to you.

Investing in Troubled Times

After the Great Financial Crisis of 2008, I realized that we were now entering the End Game phase, and that investing would never be the same again. I just finished reading [An Unconventional Guide to Investing in Troubled Times](#) by Charles Hugh Smith, whose blog [Of Two Minds](#) I've read sporadically for years. It's the best investment book I've ever read.

First Smith describes how radically the participants and structure of the stock market have changed in recent decades: "...70% of all shares traded in the U.S. stock market are exchanged in opaque 'dark pools' operated by Wall Street and 'too big to fail' banks, and high-frequency trading executed by 'black box' algorithms account for the majority of the remaining 30% of publicly traded shares. This means that some 90% of stock market activity is hidden from non-insider investors. The idea that we can rely on opaque markets for our financial security will increasingly be discredited. As heavy-handed interventions fail to restore stability, public faith in these institutions will decline. This delegitimization will further destabilize...markets, and those who accepted the implicit guarantees of stability, transparency and liquidity may find instead that their financial security has vanished in a cloud of 'impossible' disruptions and dislocations."

Smith predicts that the future will be increasingly volatile, unstable and desperate (which I completely agree with): “Every era of stability will be less enduring than the last....Every intervention will be larger, more desperate and more intrusive than the last, and much less effective....Don't trust Wall Street's false promises; invest with an unblinking eye on systemic risk. Invest in your own life and in the lives of others.”

Smith then explains why the Status Quo is unsustainable:

- “Increasing dependence on credit/debt, leverage and financialization, leaving the financial 'ecosystem' a centralized monoculture increasingly vulnerable to collapse (i.e., a catastrophic loss of diversity).
- The partnership of corporate cartel Power Elites and the Central State's fiefdoms.
- Demographics.
- Dependence on systemic financial fraud and opaque State interventions; loss of transparency.
- Reliance on propaganda, manipulated statistics, phony reforms and simulacra fixes.
- Institutional loss of legitimacy, discredited political leadership.”

Smith's mentor Harun Ibrahim sums up the problem: “Our problems began in 1913 when the Federal Reserve and therefore de facto centralized planning was established. Every generation that ignored the fact that counterfeiting money...is a scheme that has catastrophically failed in all previous attempts deserves what eventually befalls them....fake prosperity has to be created through expansion of credit....credit had to be expanded at exponentially increasing rates until exhaustion....[which] occurs at the point where...infinite credit or money has to be injected infinitely. This is impossible....The \$106 trillion gorilla (the unfunded entitlements of Social Security and Medicare) cannot be satisfied. What is so egregious is that the Boomer generation saw or should have seen it coming. Instead of tackling a very difficult problem, they chose distraction by bread and circuses....Means testing [benefits]...will prove ineffective at deflecting the...asteroid the size of Rhode Island hurtling at us at a hundred thousand miles per second. The situation is untenable....[there is] a huge retired population with no savings and assets that they will only be able to sell at a loss and pensions denominated in a worthless currency....This Grand Cycle top is unlike any other faced by mankind. We are at peak everything: peak oil, peak food, peak water, peak industrialism, peak credit....we have entered a long emergency.”

Smith describes the risks that a fraudulent market creates for small investors: “The business model of financial fraud, misinformation and manipulation renders investing fundamentally treacherous for small investors. Markets held aloft by intervention and propaganda have a nasty way of breaking down violently, and when information has been massaged to serve specific political agendas, then investment decisions based on that information will prove disastrously misguided.”

Smith explains how profits from financialization are completely different from normal profits: “The vast speculative rewards for...financialization created perverse incentives that completely distorted the economy. The key feature of financialization is that the outsized profits come not from producing goods and services but from misrepresenting risk and gaming regulations intended to limit risk-taking. Financialization inevitably

leads to economy-wide misallocation of capital and massively mispriced risk.”

Smith writes that the Fed's attempt to have capitalism without losses has greatly destabilized the financial system: “...the Fed has greatly increased the vulnerability of the entire financial ecosystem....in insulating participants from risk, fact-finding and fluctuations, you make price discovery and thus stability impossible. Any stability that is forced on a system via intervention and purposeful obfuscation is merely a veneer of apparent stability waiting for an excuse to shatter.”

Smith then explains how financial markets are now primed for a sudden collapse: “...the default/collapse of the government debt pile is inevitable. In betting the farm...to prop up a façade of financial stability, the Fed and the Federal government have doomed the entire system to collapse. [Nassim] Taleb explained why....'Complex systems that have artificially suppressed volatility become extremely fragile, while at the same time exhibiting no visible risks.'...the very act of suppressing fluctuations renders systems extremely prone to large-scale disruptions....Complex systems such as financial markets exhibit...chaotic characteristics that lead to an unpredictability that is prone to disruption by seemingly small events. When volatility and risk...are suppressed by central authorities, the variations that inform an open market...are lost.”

Smith continues his explanation: “The misguided attempts to engineer a false stability by suppressing volatility have created an intrinsically fragile system that is doomed to crises of ever greater dimensions even as the periods of calm between crises shrink from years to months....pressure builds up within the system that is invisible to those looking at an apparently stable surface. But at some impossible-to-predict moment, the built-up pressure within completely disrupts the system, and it 'slips' into a new and unpredictable configuration.”

Smith includes a list of predictions that, if correct, should be due soon: “Here is a partial list of events deemed 'impossible' now that I consider probable within the next ten years [the book was published in 2011]:

1. The financial markets will be restricted or closed for a time due to a financial or national 'emergency.'
2. Currency crises...
3. Shortages in energy and/or food will trigger rationing.
4. Trading in precious metals, foreign exchange...and commodities will be restricted.
5. Capital controls will limit the amount of capital that can be taken out of the country.
6. Financial contracts [and] trades...will be negated by Force Majeure.
7. Some financial markets will shut down for lack of interest/participation.
8. The majority of asset classes will see staggering declines in real value...while others will leap to heights beyond current conception.
9. The government (federal, state and local) will renege on its entitlement promises and bonds.
10. Asset prices will undergo unprecedented swings in valuation over increasingly shorter periods of time.”

“In sum: the rules of the investment/speculation 'game' will be changed without warning as authorities attempt to stabilize an increasingly chaotic financial system. Their attempts to force a superficial stability will only make the next round of instability more severe and less controllable.”

Smith says that destabilization and a financial meltdown are inevitable no matter what the Fed does: “The Grand Partnership of the Central State and the Financial Plutocracy (parasitic globalized cartel crony-Capitalism writ large) has suppressed [the] natural implosion of speculative debt by printing and distributing trillions of dollars in 'free' money so over-indebted borrowers and speculators can continue to 'extend and pretend'....the Status Quo is now addicted to unlimited flows of free credit by central banks. If the flow continues, then inflation will destabilize it; if it's cut off, then rising interest payments will destabilize it. No matter what policy path is taken, the result is the same: destabilization....This is why a systemic financial meltdown is now inevitable.”

Smith describes how gaming the system is increasingly replacing honest production: “The incentives for productive investment and complying with the...law have declined while the incentives to 'game the system,' obfuscate, misrepresent and 'beat the system' via lobbying, creative accounting and contributions to elected officials have dramatically increased. This cultural acceptance of cheating, political bribes and financial fraud as normal...has created a self-reinforcing cycle of ever-deepening dishonesty, masked by ginned-up statistics, propaganda and...complexity.”

Smith says that gaming the system leads to the socialization of private losses: “‘Oligarchies spread only the risks, while keeping most of the benefits to themselves.’...the financial Oligarchy has partnered with the Central State and bank; others see the State and central bank as captured by the financial cartel....the market...is a carefully engineered web of shadow institutions...opaque self-serving, favoritism, protected vested interests, embezzlement, fraud, misrepresentation of risk, lax oversight, near-zero accountability...bogus accounting and...the transfer of private risk to public coffers.”

This process is leading to a change in the nature of the law and the state: “An increasing number of citizens believe the U.S. is slipping from a rule-of-law State to a 'banana republic' kleptocracy with two sets of laws: one for the wealthy and political Elites, and another for the commoners.”

Smith describes the phase in which we currently find ourselves: “Since governments possess the power to raise taxes, their resistance to trimming fixed costs and declines in revenues is far more tenacious....As revenue declines and pressure for real reform mounts, the embattled institutions find that propaganda and facsimiles of reform are far more expedient 'solutions' than real reform....reform is impossible but the Status Quo is unsustainable—the institution deploys its gargantuan resources to laying down a smoke-screen of bogus 'reforms,' distracting sideshows and ginned-up statistics....But it's all deception. Nothing has truly been changed or reformed; another layer of self-preservation has been added to an already bloated defense of perquisites and power....America's centralized governmental institutions are all careening toward a super-nova end state....the institution will collapse inward on itself.”

The end game of an increasingly desperate kleptocracy is confiscation (de facto or de jure). Smith describes what will happen then: “...Central States will find it increasingly appealing to impose a 'state of emergency' which includes direct confiscation or confiscation by other means such as a...wealth tax....it costs very little for the State to collect these taxes via centralized authorities, and so there are major incentives to skim from those who are powerless to evade the State's reach: for example, employees whose wages are subject to withholding, those with their money in banks, pensioners who receive checks from the State....Governments tend to confiscate what is easy to confiscate,Thus the government can rather easily order banks to open all private security deposit boxes and remove any gold coins, just as it can rather easily impose new withholding taxes on employers. Conducting house-to-house searches for gold coins is a far more costly method of confiscation....”

Smith recommends investing in underappreciated and often ignored forms of wealth that can't be confiscated, such as human and social capital. He explains why social capital has atrophied, which has led to gaming the system: “'independence' and 'security' now come from an entitlement check from the Central State rather than from human and social capital. This dependency on centralized authority breeds apathy towards reciprocity and encourages the resentful self-absorption of permanent adolescence. In a society dominated by the Savior State, people have been trained to extract benefits, and to focus their energy and time on gaming the system to maximize their extraction. As a result, the idea that you should contribute value before attempting to extract value has become an alien concept in the U.S. Reciprocity doesn't exist in a monoculture dominated by the Savior State; two traits characterize such a society: (1) victimhood is rewarded, as being a victim qualifies one to extract 'free' benefits from the State, and (2) State coercion via taxation and the restriction of civil liberties.”

Smith explains why the dearth of social capital has led to our current dangerous, depressed and impoverished state: “...it is looking out for numbers two through twenty [instead of #1], i.e., social capital, which actually underpins human happiness....'looking out for Number One' is actually a model for vulnerability, unhappiness and impoverishment.”

Smith says that health is the ultimate form of wealth: “...control over one's work and schedule is fundamental to well-being. [I discovered this 25 years ago when I became self-employed.] Just as sitting down all day at a desk job increases the risk of a heart attack by 50% because it is unnatural, stress is not so much the result of hard work as it is of work over which we have no control....measures of wealth lose their meaning once you lose your health. The world is awash with wealthy people who have lost the ability to enjoy their wealth because they are beset by chronic diseases.” *This realization is one of the primary reasons I started this newsletter!*

Given the rise of massive currency printing and unfunded liabilities, political power, fraud, gaming the system and rigged financial markets, Smith says we need to rethink (and probably abandon) the standard financial planning concept of saving for retirement: “...the entire notion of 'saving for retirement' within a global marketplace dominated by Wall Street, hedge funds, complicit government agencies and 'too big to fail' banks is an

artifact of the financially stable world....”

Smith echoes what I wrote in Issue #40 (What Is Wealth?): “The unsaid assumption is that money can buy everything of value...[and that financial] wealth will magically make us secure and happy....But just as wealth cannot buy health once it has been lost, it also cannot buy friendship, loyalty, trust or security....counting on...wealth for security is akin to relying on a monoculture crop: rather than being a source of security, it is instead a source of systemic risk and insecurity. It's the decentralized, resilient ecosystem which offers security, not the centralized, concentrated monoculture.”

If you invest in financial markets, Smith recommends a strategy he calls “guerrilla investing,” which I have increasingly used in recent years (even though I was not aware that he had a name for it): “hiding quietly in the jungle until a low-risk opportunity arises, emerging to make the trade and exit with the gains, and then fade back into the shadows, out of harm's way, until the next opportunity arises....don't waste precious time and energy wandering around the wastelands [of a richly valued market with high investor sentiment] looking for the occasional grub and root.”

Smith explains why—like I've been saying—the essentials of life will soon become dear, so now is the time to localize your life: “...dependence on resources and labor that fall under the ultimate authority of distant nation-states greatly increases systemic vulnerability....taxes and the cost of borrowing will both rise....Everything which depends on borrowed money or distant suppliers will become dear or scarce, and so local supplies of food, energy, water and other essentials will gain in value.”

Finally, I'm currently reading a book about democracy, and the authors make the point that in a democracy, virtually everything (including personal finance) is political because nothing is outside the realm of the State (as Benito Mussolini advocated). As a financial advisor, I have found that my bachelor's degree (and interest in) politics has served me well, even though one might think that the two have nothing to do with each other. Smith makes a fascinating point about this: “...all investment decisions are inescapably political. If you give your capital to Wall Street to play with and borrow money from 'too big to fail' banks, then you are 'voting' for a deeply corrupt, parasitical and doomed system. Our participation is what gives the Status Quo power over our economy and governance.”

What You Should Be Doing Now

1. Rethink the concept of “saving for retirement” (as well as the desirability of retiring), as that is no longer a realistic possibility given our current and future circumstances. Instead, ask yourself how you can become more resilient by investing in human and social capital and localizing your life.

Ω

I would love to hear from you! I thrive on feedback from readers. If you have any

comments, suggestions, insight/wisdom, or you'd like to share a link to a great article, please [email me](#).

Generally, I don't have time to answer questions about your specific situation, but if you have a general question that I think other readers also have, [let me know](#) and I will provide an answer in a future issue.

Feel free to forward this to a friend. If you would like to subscribe (it's free!) or unsubscribe, [email me](#) with either “subscribe” or “unsubscribe” in the subject line.

Disclaimer

The content of this newsletter is intended to be and should be used for informational/educational purposes only. You should not assume that it is accurate or that following my recommendations will produce a positive result for you. You should either do your own research and analysis, or hire a qualified professional who is aware of the facts and circumstances of your individual situation.

Financial Preparedness LLC is not a registered investment advisor. I am not an attorney, accountant, doctor, nutritionist or psychologist. I am not YOUR financial planner or investment advisor, and you are not my client.

Investments carry risk, are not guaranteed, and do fluctuate in value, and you can lose your entire investment. Past performance is not indicative of future performance. You should not invest in something you don't understand, or put all of your eggs in one basket.

Before starting a new diet or exercise regimen, you should consult with a doctor, nutritionist, dietician, or personal trainer.

Copyright 2021 Financial Preparedness LLC