

## The Causes and Investment Implications of Dishonest Money

**Marc Faber**, *Luncheon Keynote*

Editor & Publisher, “The Gloom, Boom  
& Doom Report”

## The Causes and Investment Implications of Dishonest Money

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“The first panacea for a mismanaged nation is inflation of the currency; the second is war. Both bring a temporary prosperity; both bring permanent ruin.”

*Ernest Hemingway*

Never in the history of the world has there been a situation so bad that the government can't make it worse!

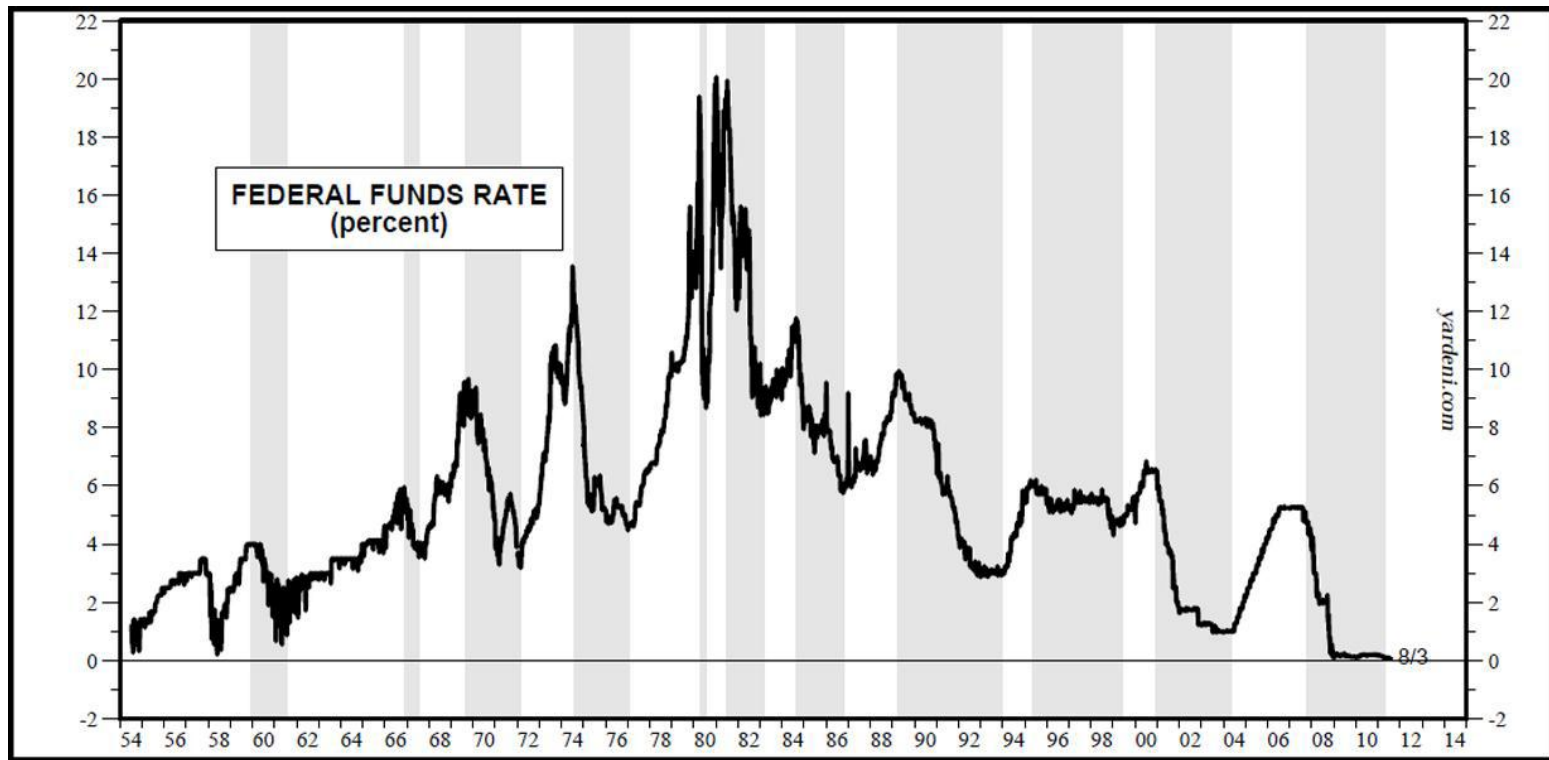
*Marc Faber*

# Topics for Discussion

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- The Death of Keynesian Economics
- “For the fact is that right now the economy desperately needs a short-run fix.”  
Paul Krugman (summer of 2011)
- “To be honest, a new bubble now would help us out a lot even if we paid for it later. This is a really good time for a bubble.” Paul Krugman (summer of 2009)
- The unintended consequences of expansionary fiscal and monetary policies
- Causes and consequences of the ongoing shift in the balance of economic and political power from the most developed countries to emerging economies
- How to play the shift in the balance of international economic and political power  
War Cycle Theories
- In 2008, the global financial system went bust. Will sovereign states follow?
- Under a fiat monetary system to play for safety might be the most dangerous investment strategy

# FED FUND RATE, 1954 - 2011

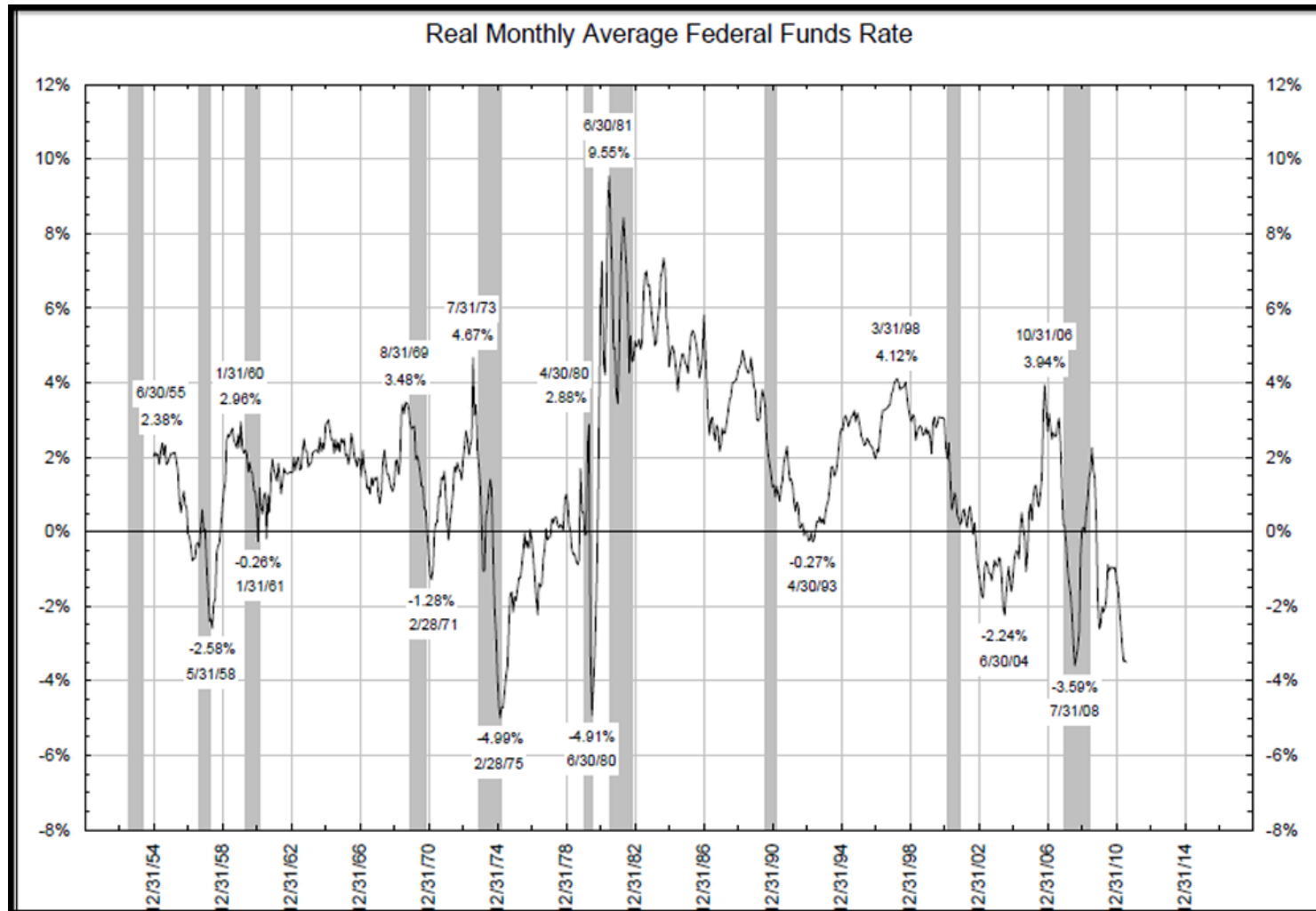


Source: Ed Yardeni, [www.yardeni.com](http://www.yardeni.com)

“If it were possible to take interest rates into negative territory I would be voting for that.”

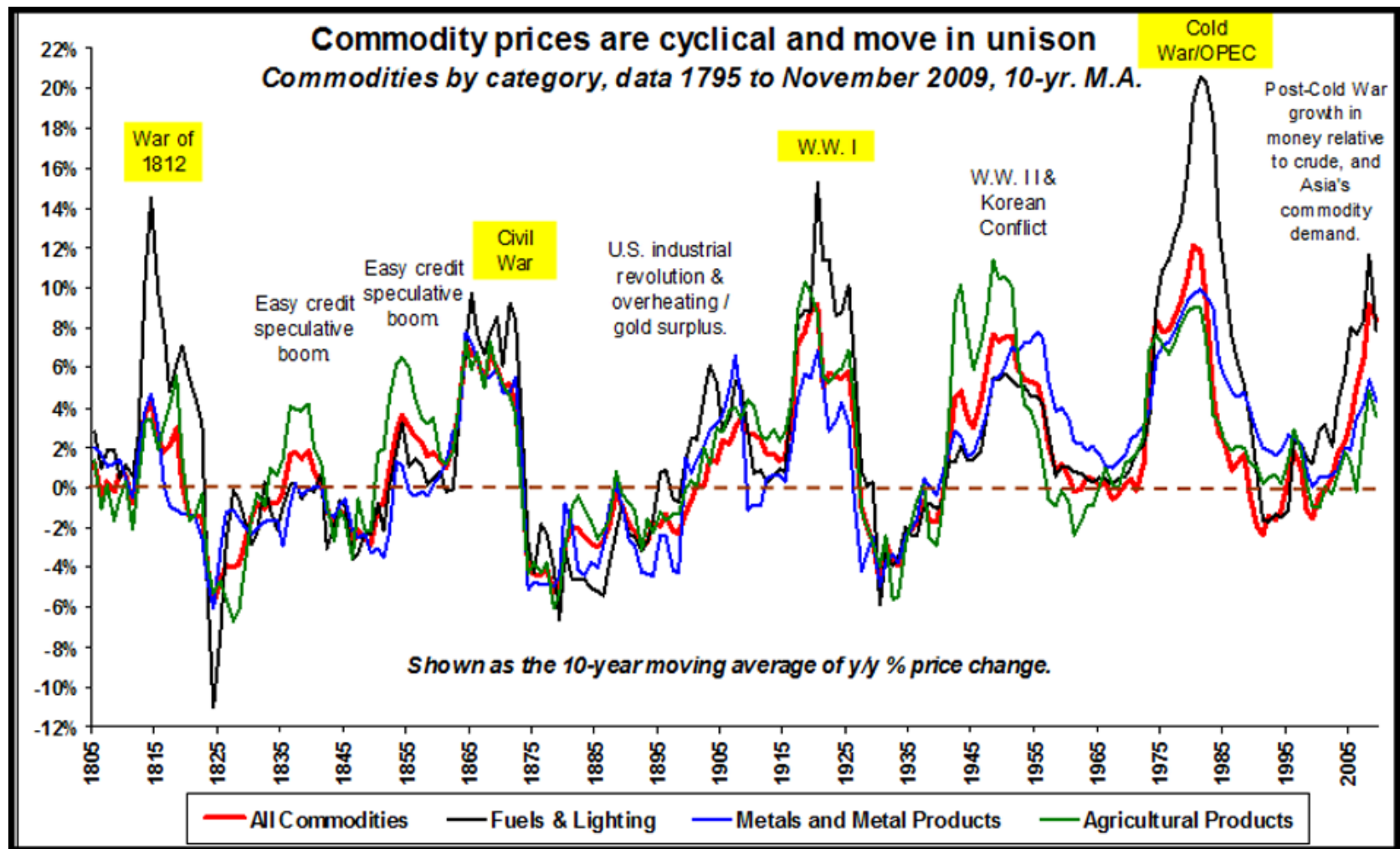
Janet Yellen

# NEGATIVE REAL INTEREST RATES FOREVER?



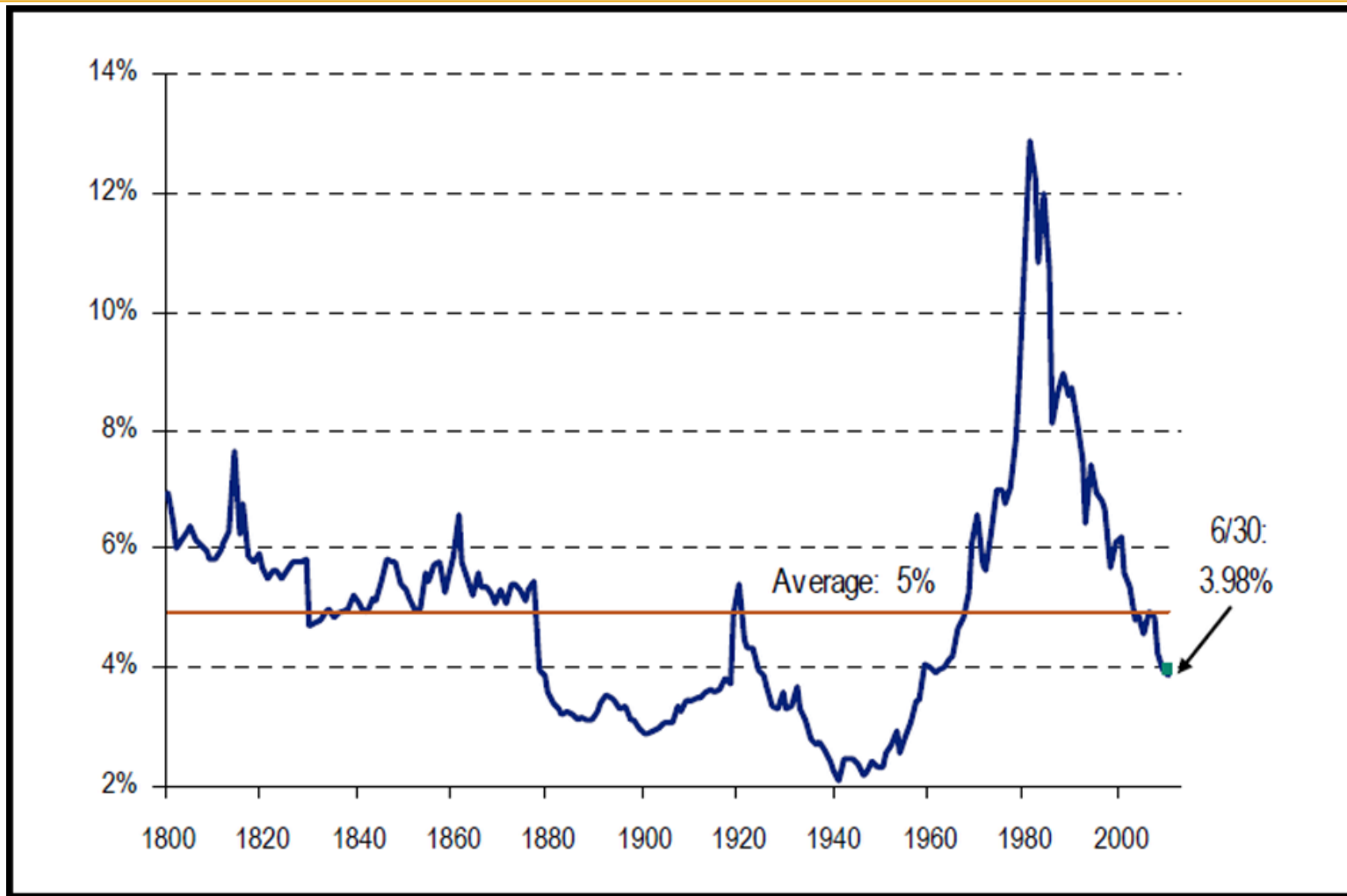
Source: Ron Griess, [www.thechartstore.com](http://www.thechartstore.com)

# COMMODITY PRICES, 1805 - 2010



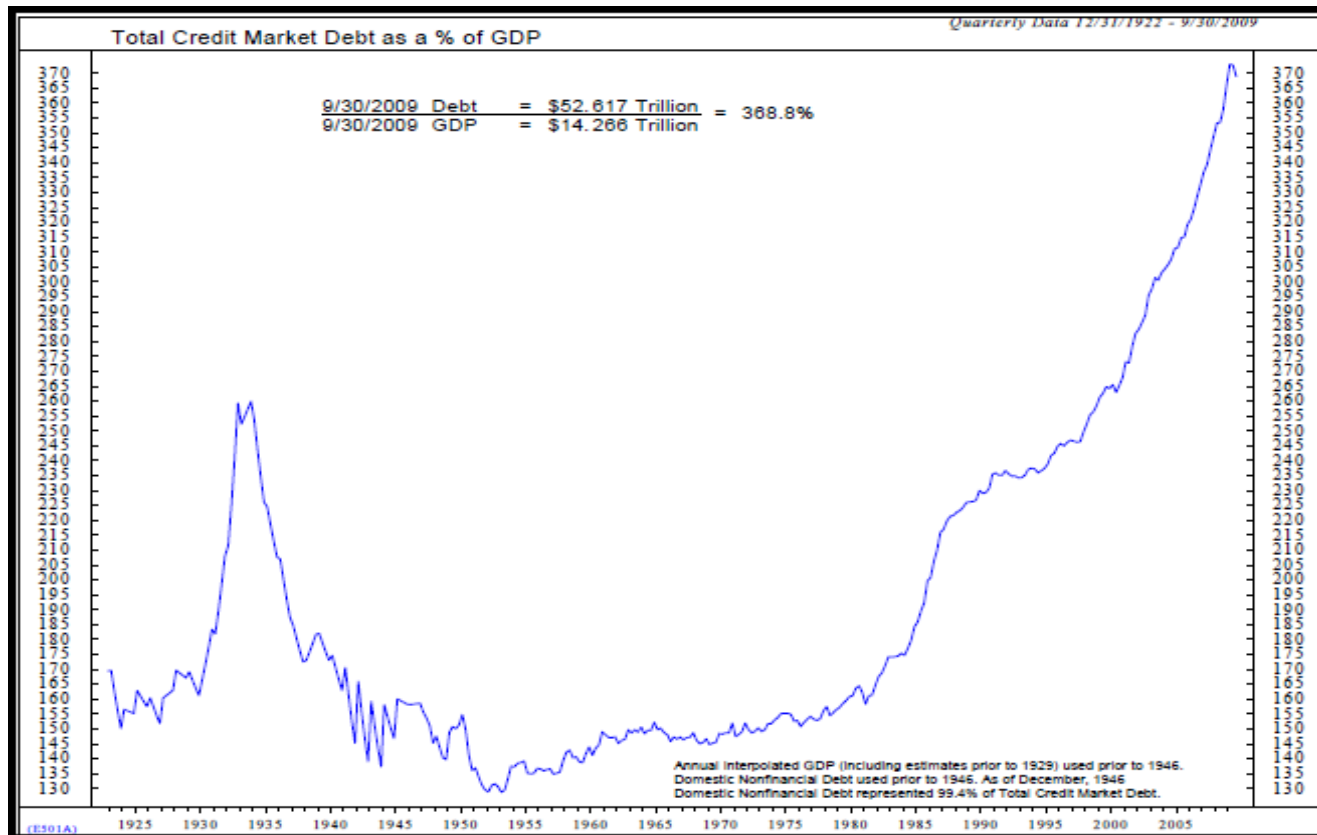
Source: Barry Bannister, Stifel Nicolaus

# AVERAGE ANNUAL LONG-TERM TREASURY BOND YIELD, 1800 - 2011



Source: BofA Merrill Lynch

# TOTAL CREDIT MARKET DEBT AS A PERCENTAGE OF US GDP, 1921 – 2010



Source: Ned Davis Research

“The overall level of debt makes no difference ... one person’s liability is another person’s asset.”

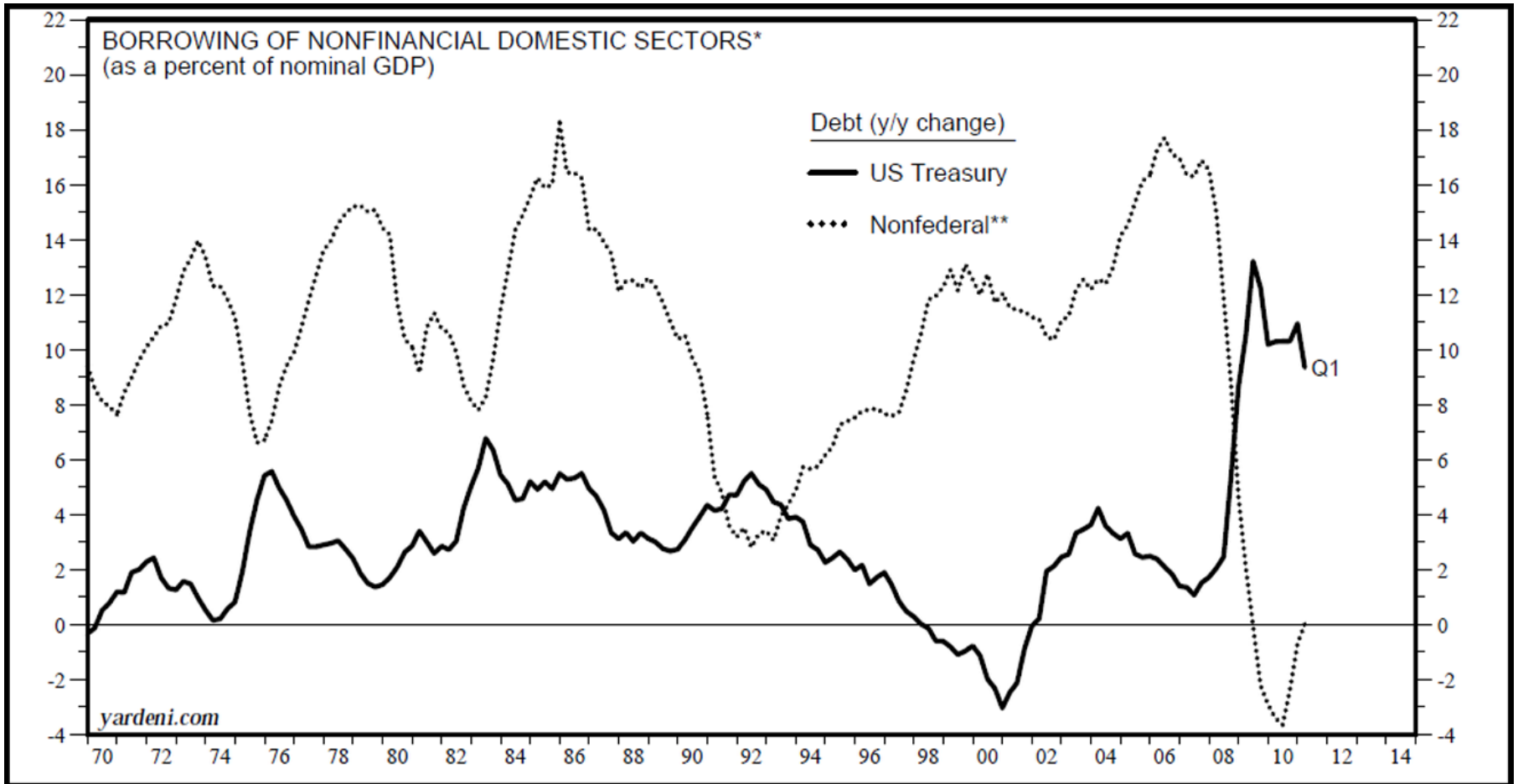
Paul Krugman

# WHY THIS IS UNLIKELY TO OCCUR (DOW JONES, 1955 – 2011)



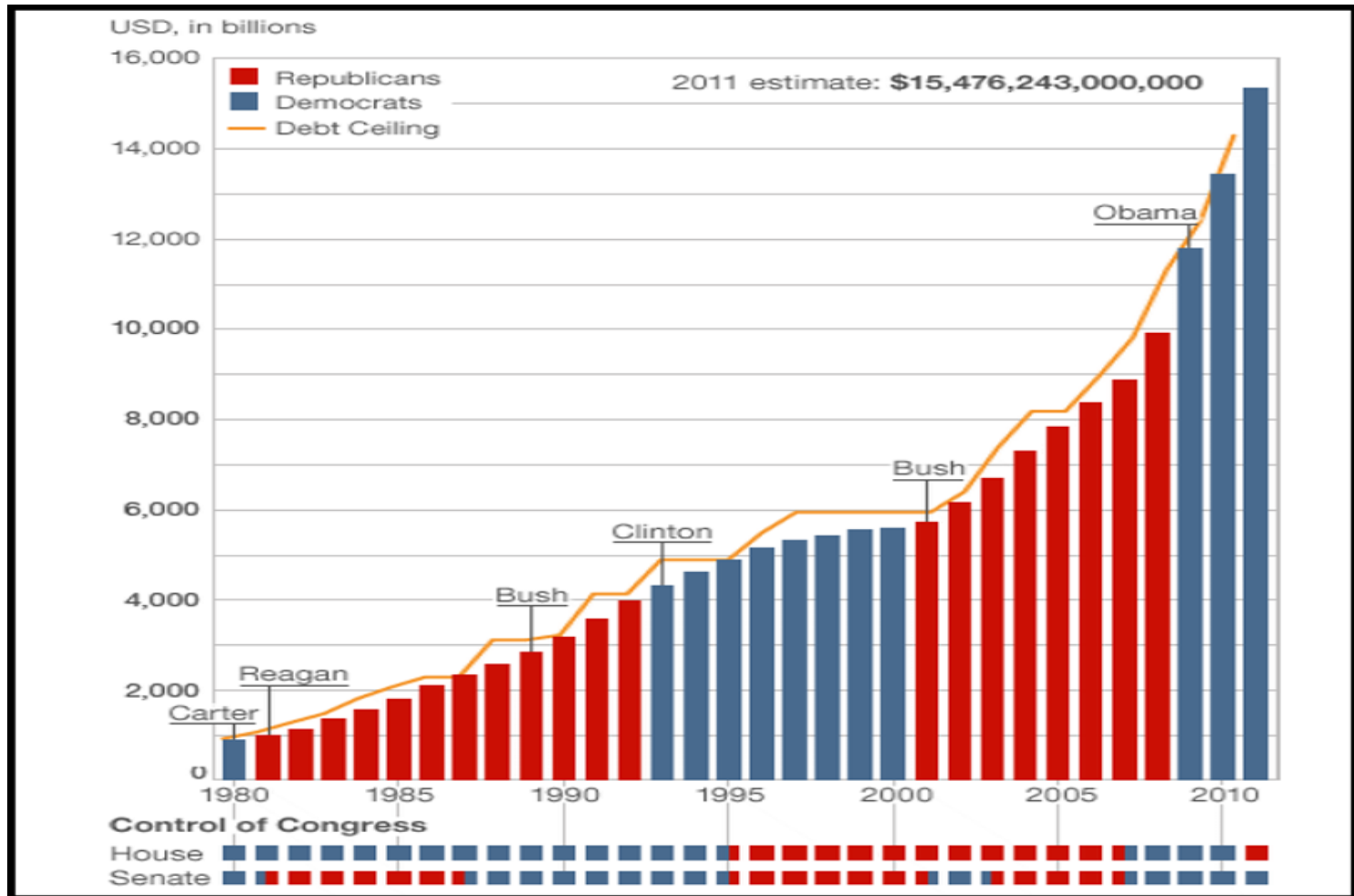
Source: The Longwave Group, [www.topline-charts.com](http://www.topline-charts.com)

# DEFLATIONISTS ARE FOCUSING ON PRIVATE DEBT CONTRACTION BUT OVERLOOKING THE GOVERNMENT'S DEBT EXPANSION



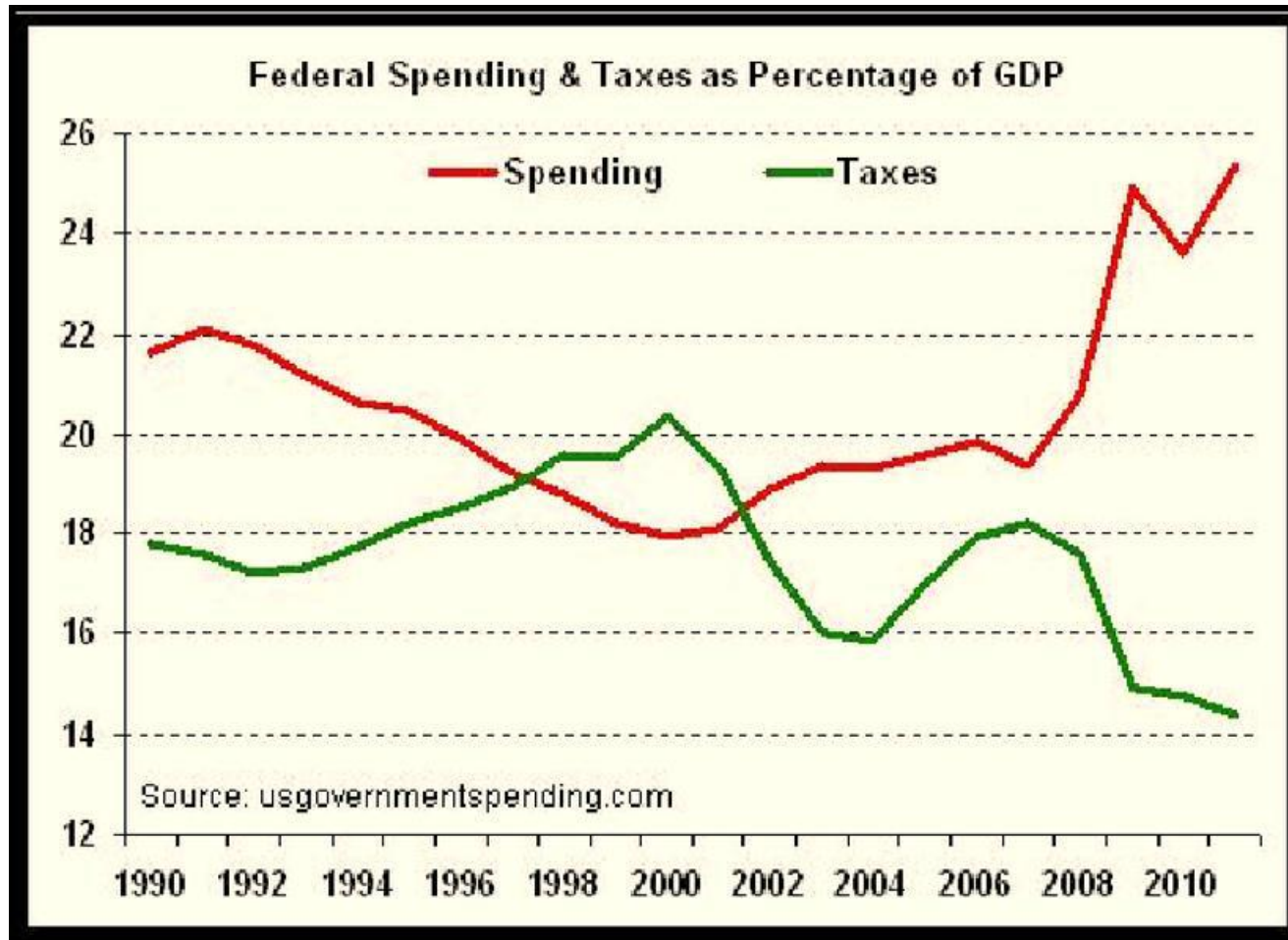
Source: Ed Yardeni, [www.yardeni.com](http://www.yardeni.com)

# US GOVERNMENT DEBT AND DEBT CEILING



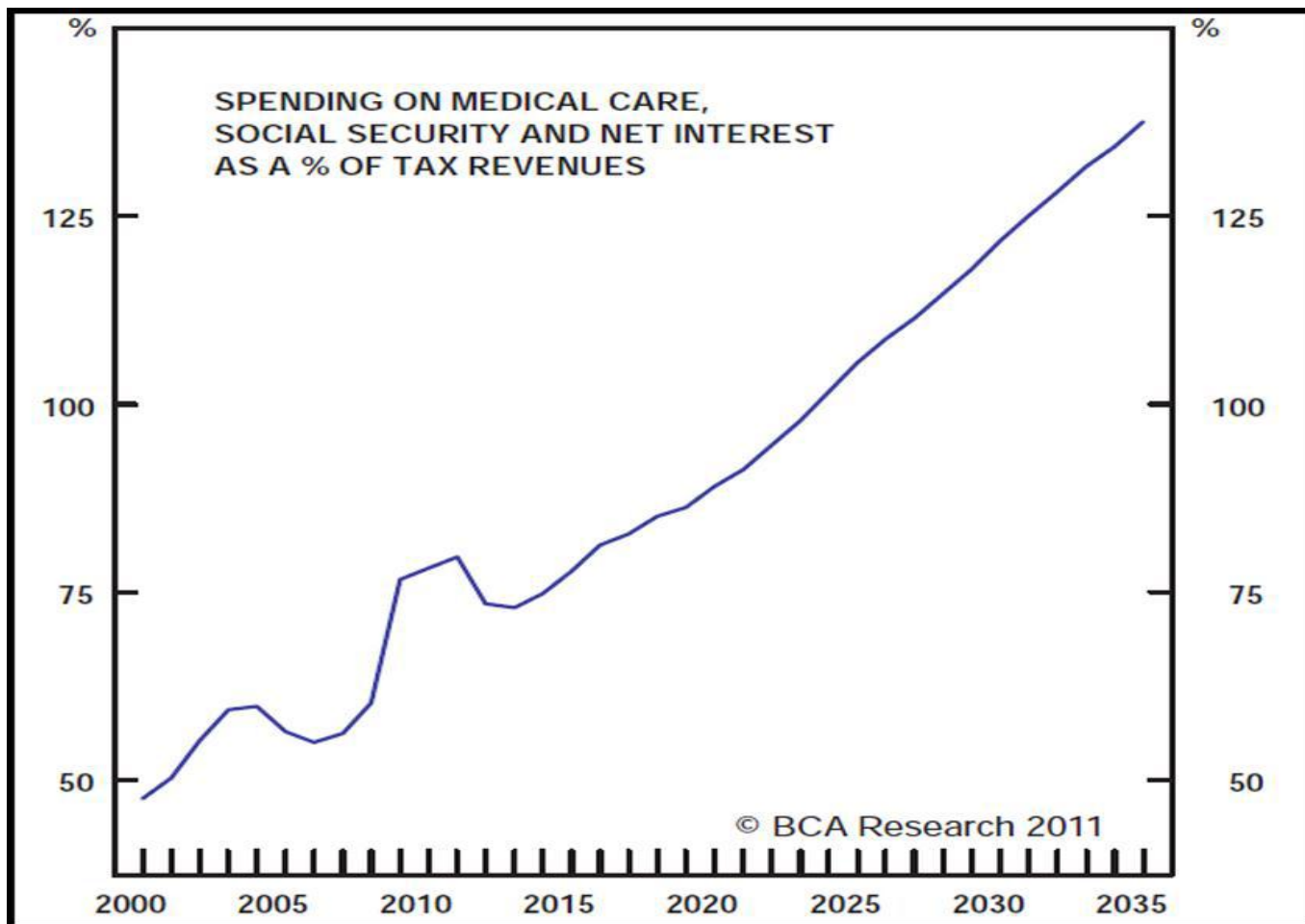
Source: [www.whitehouse.gov](http://www.whitehouse.gov)

# FEDERAL SPENDING AND INCOME AS A PERCENTAGE OF GDP



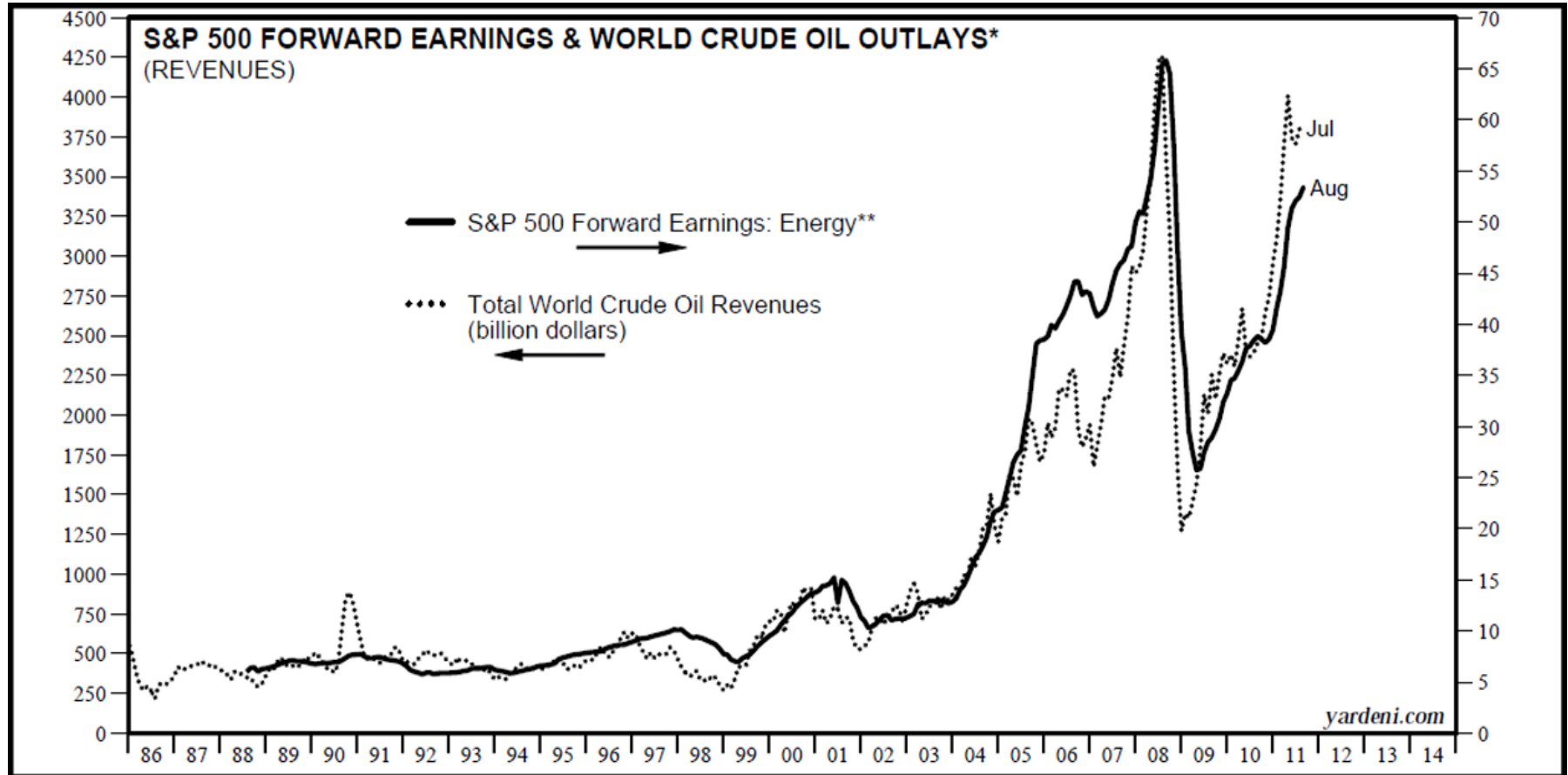
Source: [www.usgovernmentspending.com](http://www.usgovernmentspending.com), [www.theliscioreport.com](http://www.theliscioreport.com)

# PROBLEM IS THAT MANDATORY EXPENDITURES ACCOUNT FOR MORE THAN 70% OF TAX REVENUES



Source: The Bank Credit Analyst

# ARTIFICIALLY LOW INTEREST RATES CONTRIBUTED TO RISING COMMODITY PRICES



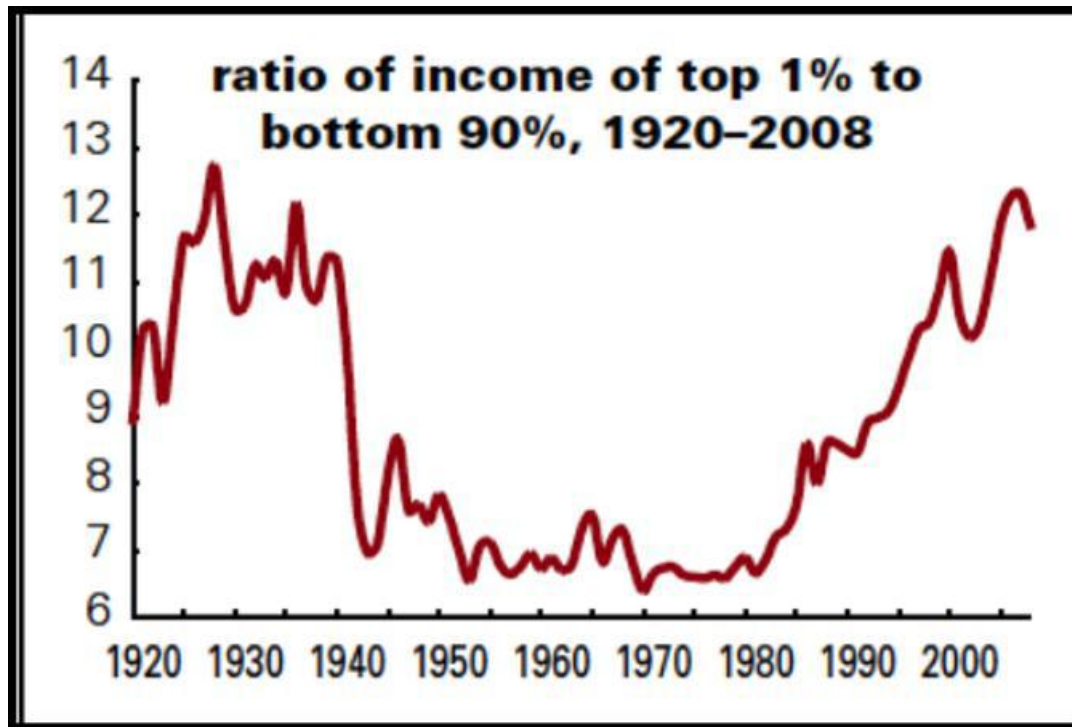
Source: Ed Yardeni; [www.yardeni.com](http://www.yardeni.com)

# THE IMPACT OF EXPANSIONARY MONETARY POLICIES ON WEALTH AND INCOME INEQUITY



Source: [www.businessinsider.com](http://www.businessinsider.com)

# US GOVERNMENT DEBT AND DEBT CEILING

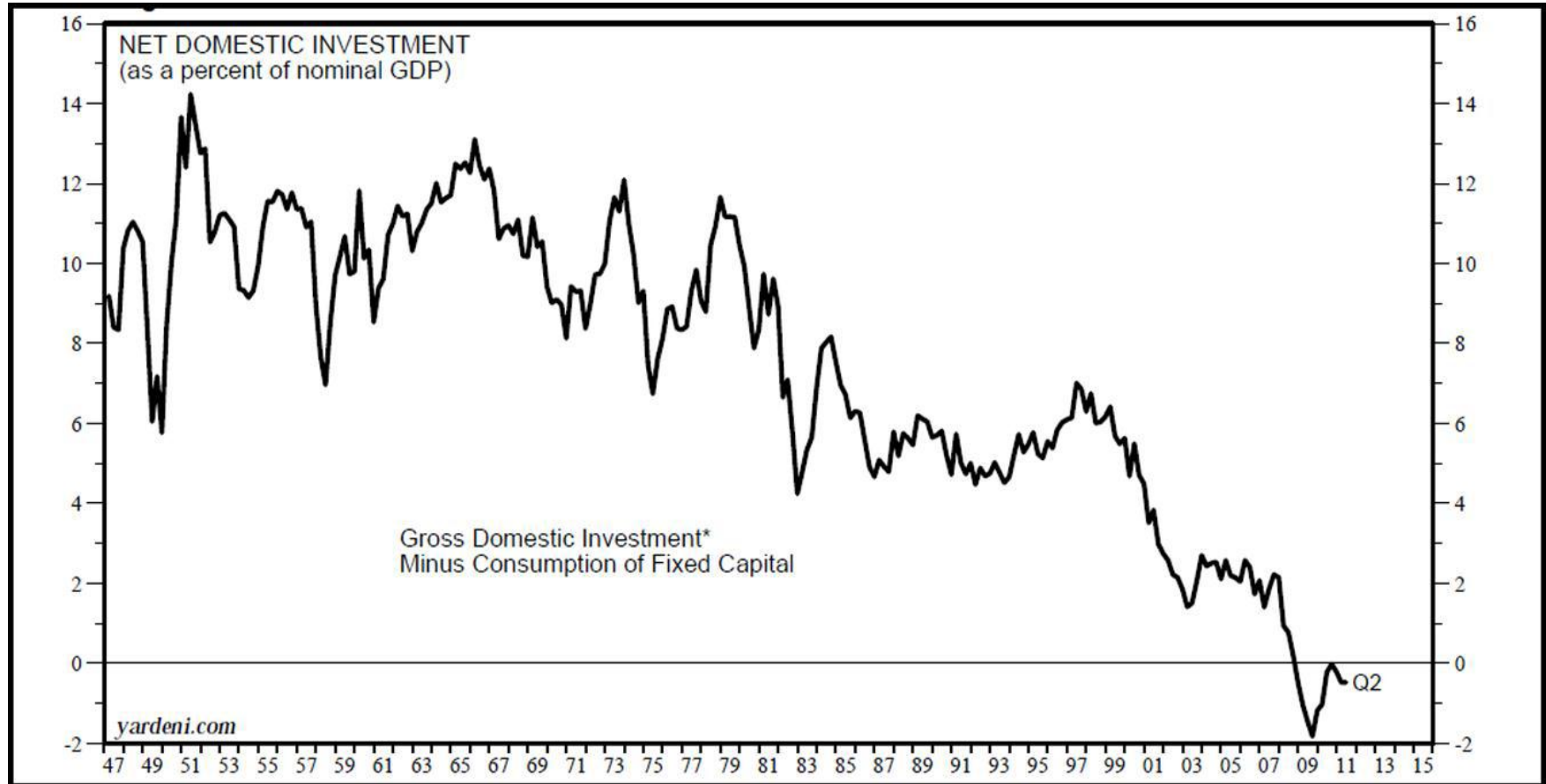


Source: The Financial Times

In progressive societies the concentration (of wealth) may reach a point where the strength of numbers in many poor rivals the strength of ability in the few rich; then the unstable equilibrium generates a critical situation, which history has diversely met by legislation redistributing wealth or by revolution distributing poverty.”

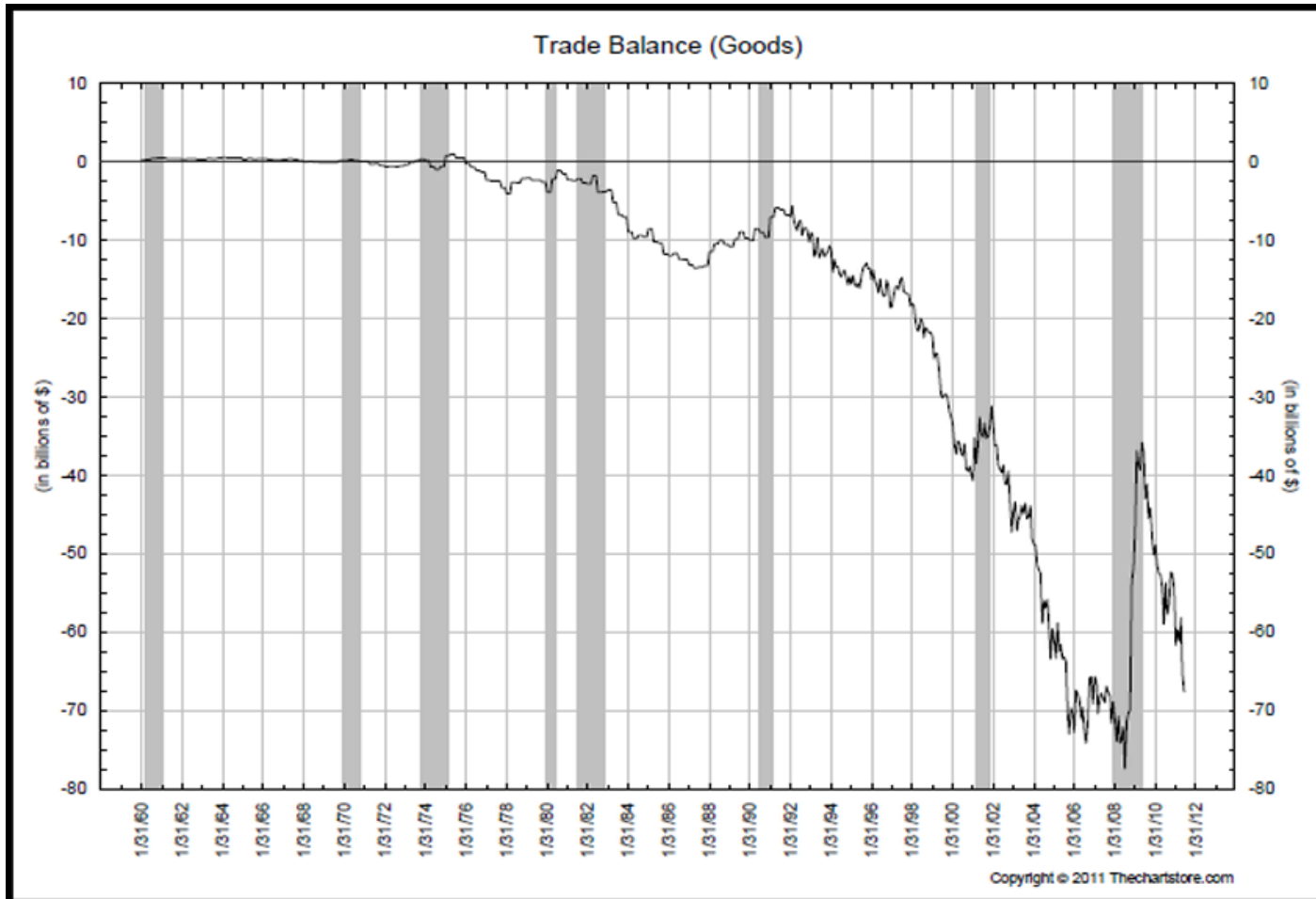
Will Durant, The Lessons of History, 1968

# NET DOMESTIC CAPITAL SPENDING, 1947 - 2011



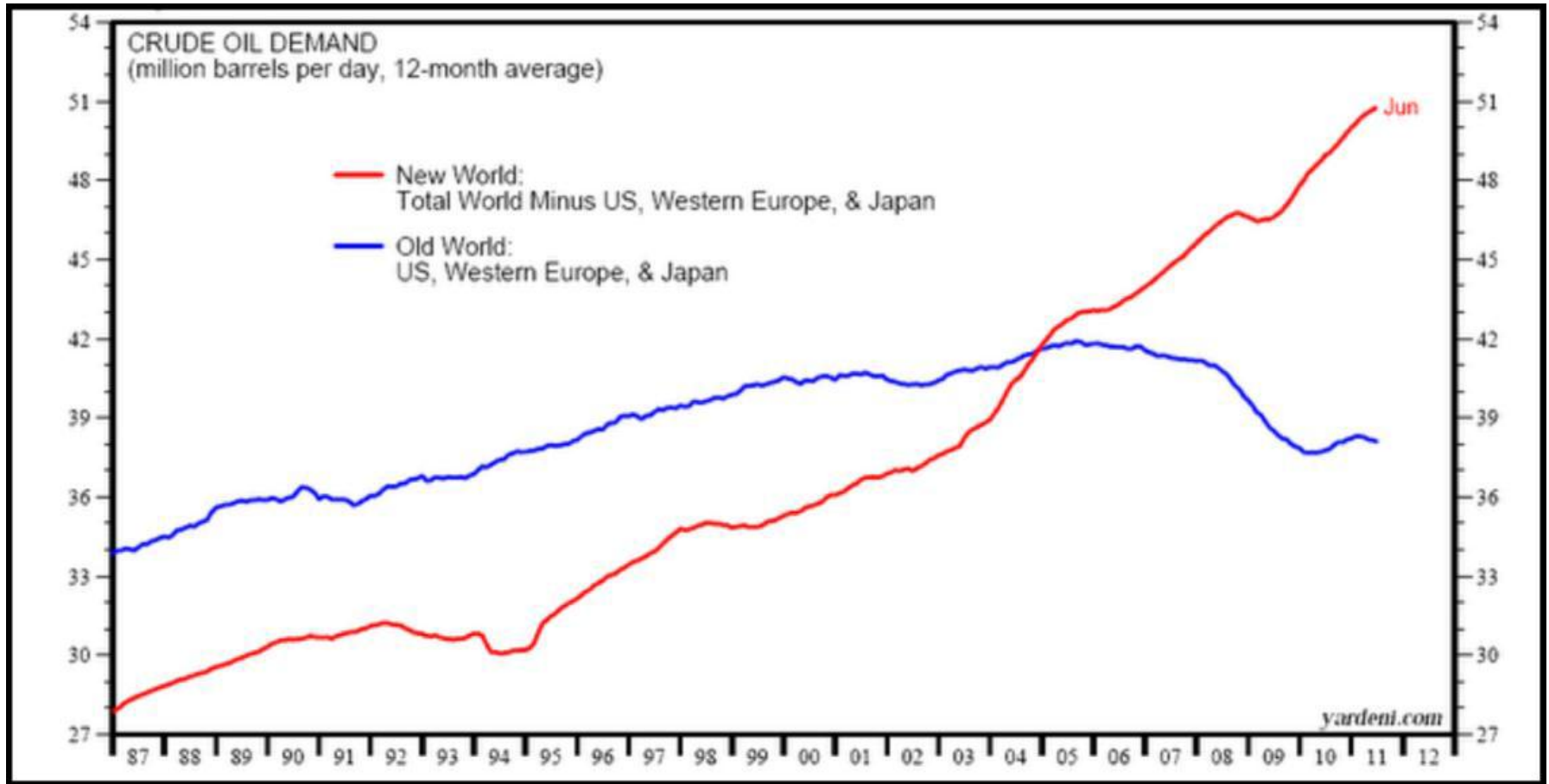
Source: Ed Yardeni; [www.yardeni.com](http://www.yardeni.com)

# OVERCONSUMPTION LEADS TO A GROWING TRADE DEFICIT



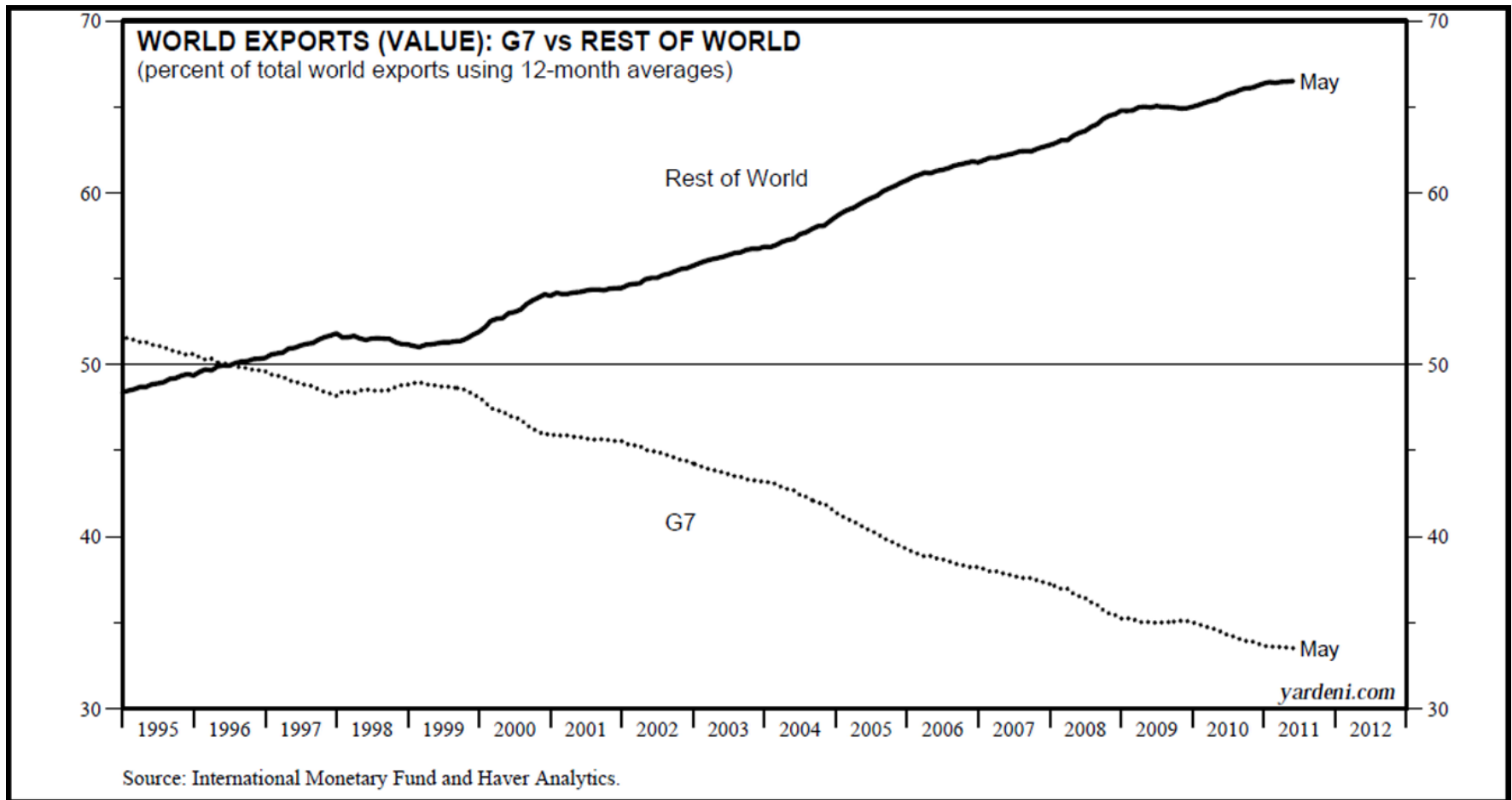
Source: Ron Griess, [www.thechartstore.com](http://www.thechartstore.com)

# FOR THE FIRST TIME IN THE HISTORY OF CAPITALISM OIL DEMAND IN THE EMERGING WORLD IS EXCEEDING OIL DEMAND IN THE OLD WORLD



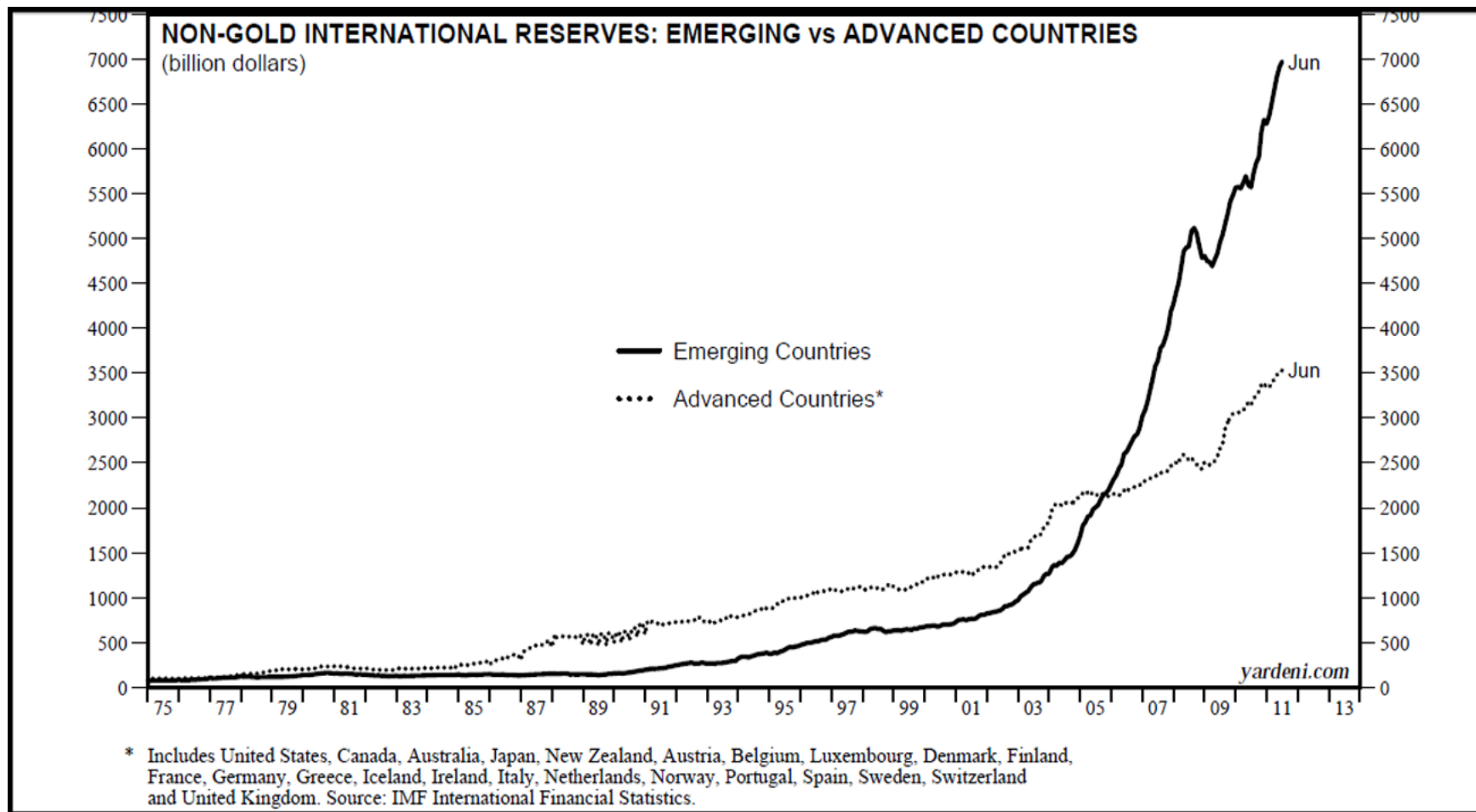
Source: Ed Yardeni; [www.yardeni.com](http://www.yardeni.com)

# THE INDUSTRIALIZED COUNTRIES' RELATIVE ECONOMIC DECLINE



Source: Ed Yardeni; [www.yardeni.com](http://www.yardeni.com)

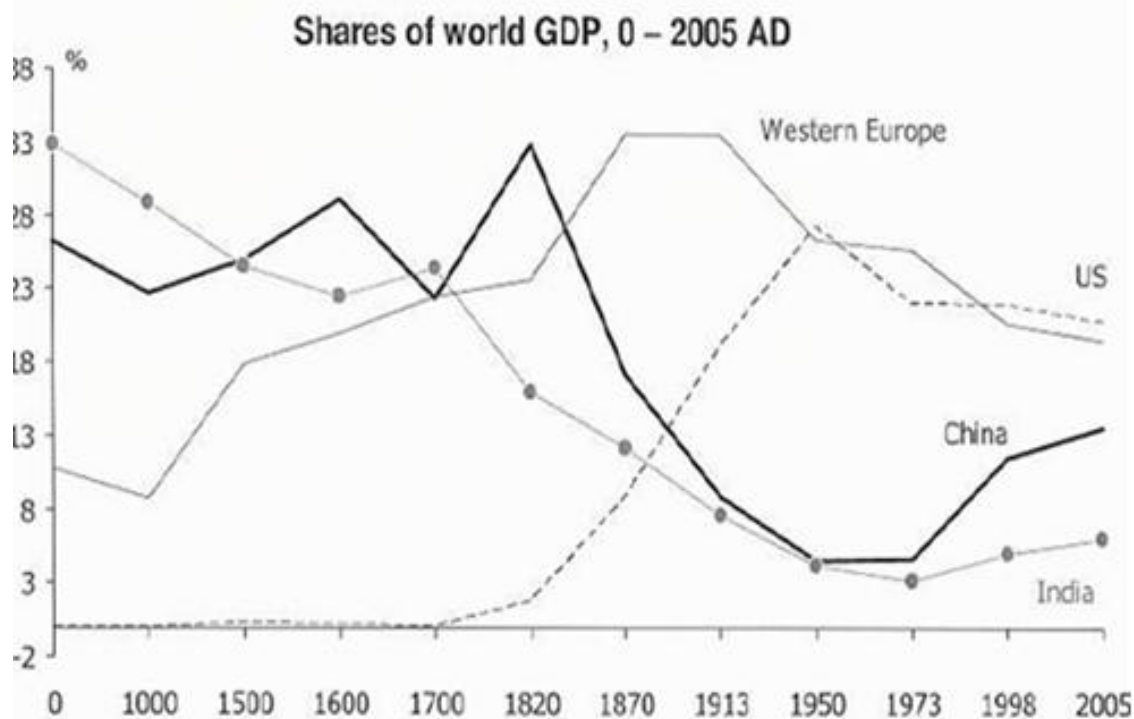
# GROWTH IN INTERNATIONAL RESERVES IN EMERGING ECONOMIES A SYMPTOM OF MONETARY INFLATION AND OF A SHIFT IN WEALTH



Source: Ed Yardeni; [www.yardeni.com](http://www.yardeni.com)

# SHIFTING BALANCE OF ECONOMIC POWER FROM THE INDUSTRIALIZED COUNTRIES TO THE EMERGING WORLD WILL LEAD TO GEOPOLITICAL TENSIONS

China is reclaiming its historical position as the world's largest economy

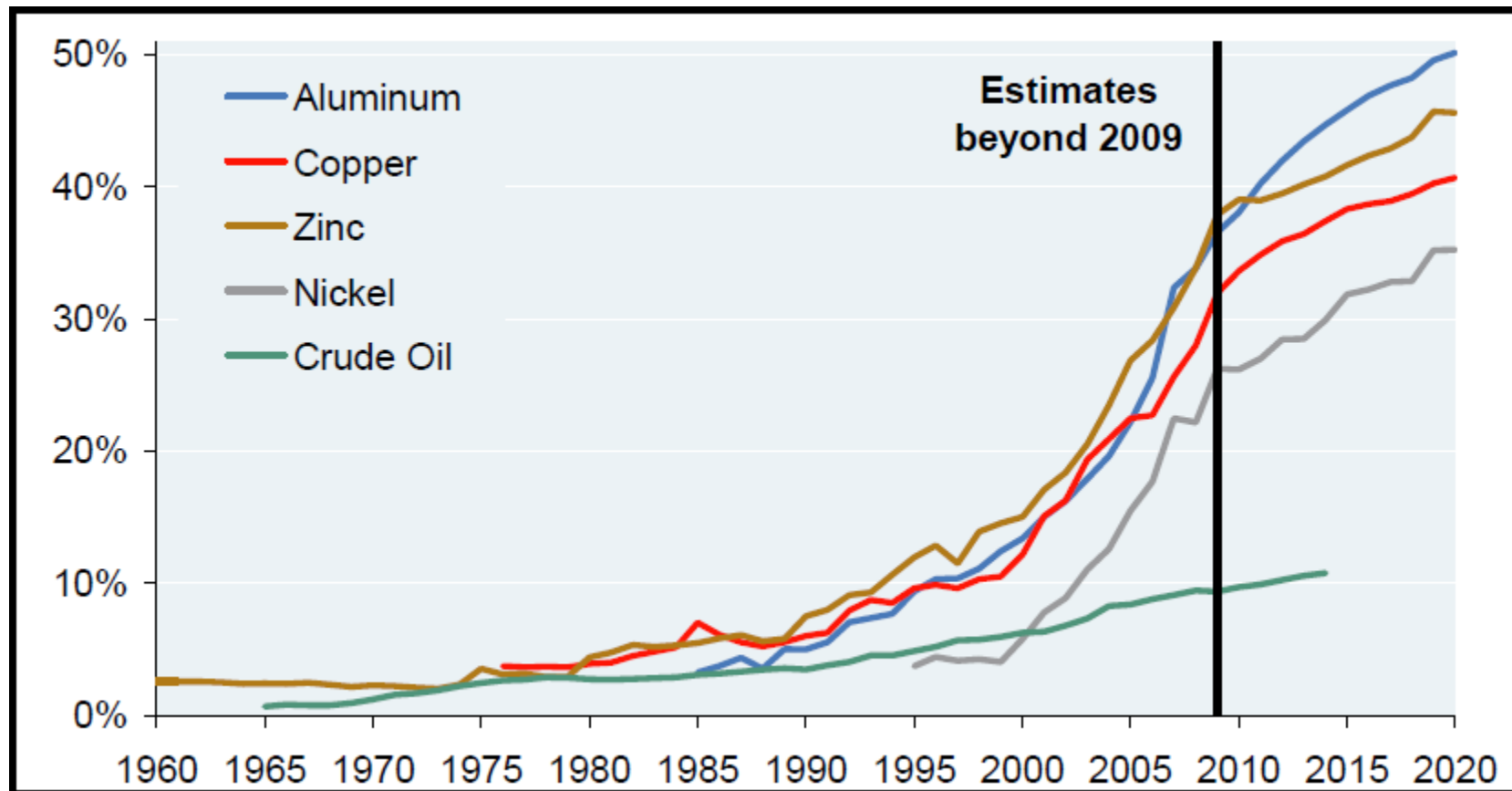


Source: Angus Maddison, *The World Economy: A Millennial Perspective*, OECD Development Centre, 2001; IMF, *World Economic Outlook Database*, April 2005; Economics@ANZ.

Source: Angus Madison

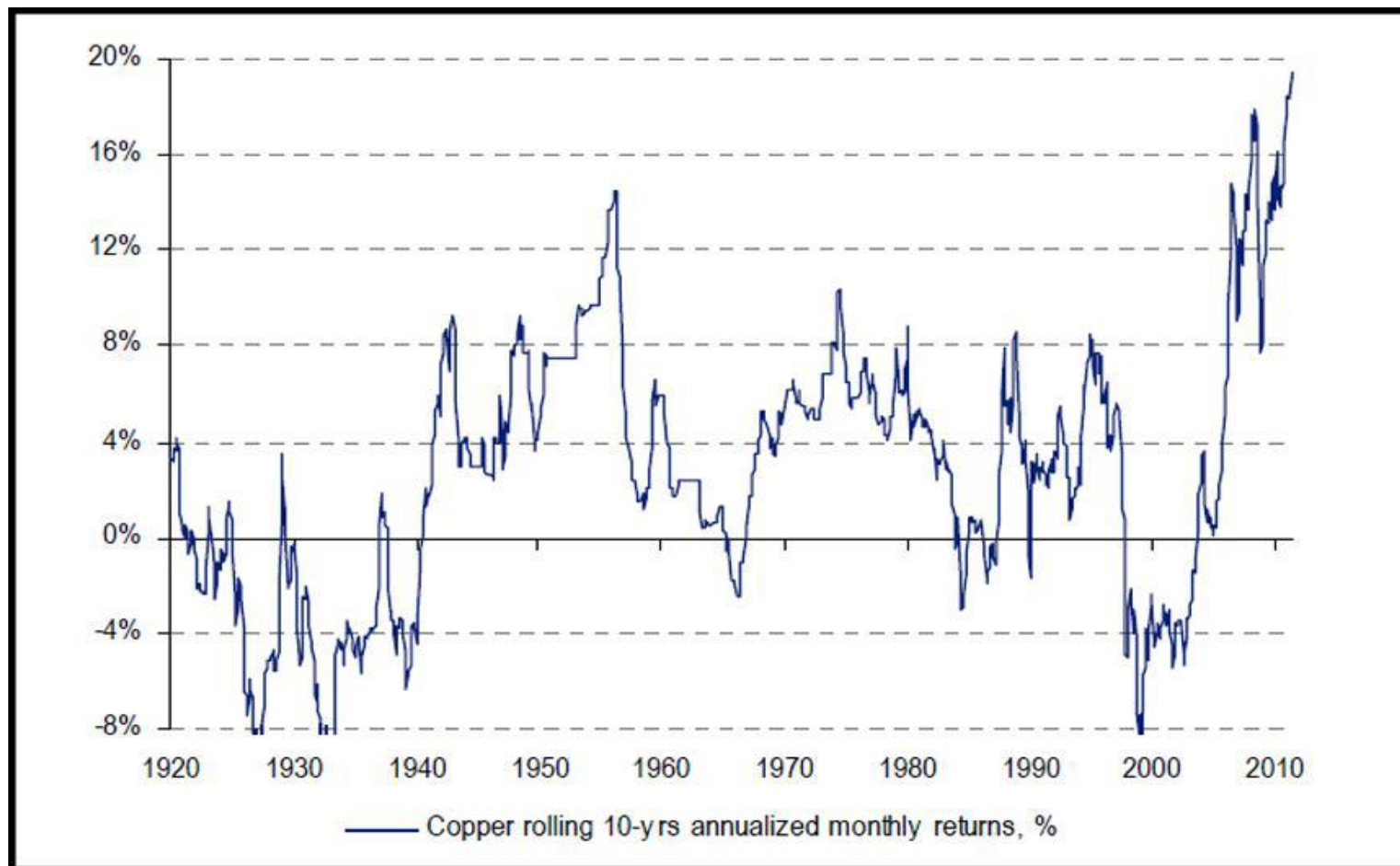
# HOW TO PLAY THE SHIFT IN ECONOMIC POWER TO THE EMERGING WORLD?

Growth of China's Share Of World Commodity Consumption, 1960 - 2009



Source: J.P. Morgan

## HOWEVER A WORD OF CAUTION: ROLLING 10-YEAR ANNUALIZED COPPER PRICE RETURNS SINCE 1920



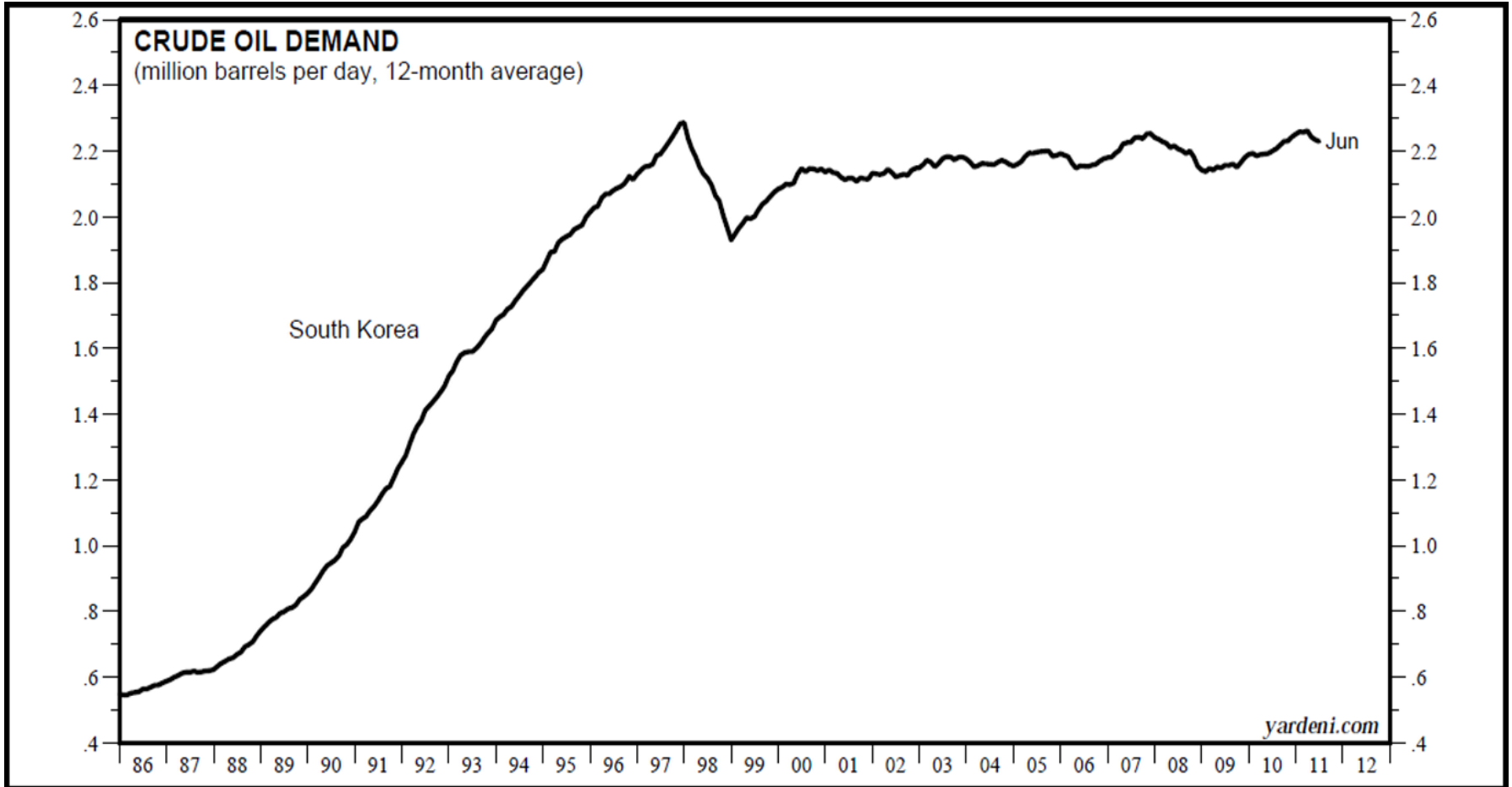
Source: BofA Merrill Lynch

# CHINA'S CURRENT SHARE OF WORLD COMMODITY CONSUMPTION

Commodity	China % of World
Cement	53.2%
Iron Ore	47.7%
Coal	46.9%
Pigs	46.4%
Steel	45.4%
Lead	44.6%
Zinc	41.3%
Aluminum	40.6%
Copper	38.9%
Eggs	37.2%
Nickel	36.3%
Rice	28.1%
Soybeans	24.6%
Wheat	16.6%
Chickens	15.6%
Oil	10.3%
Cattle	9.5%

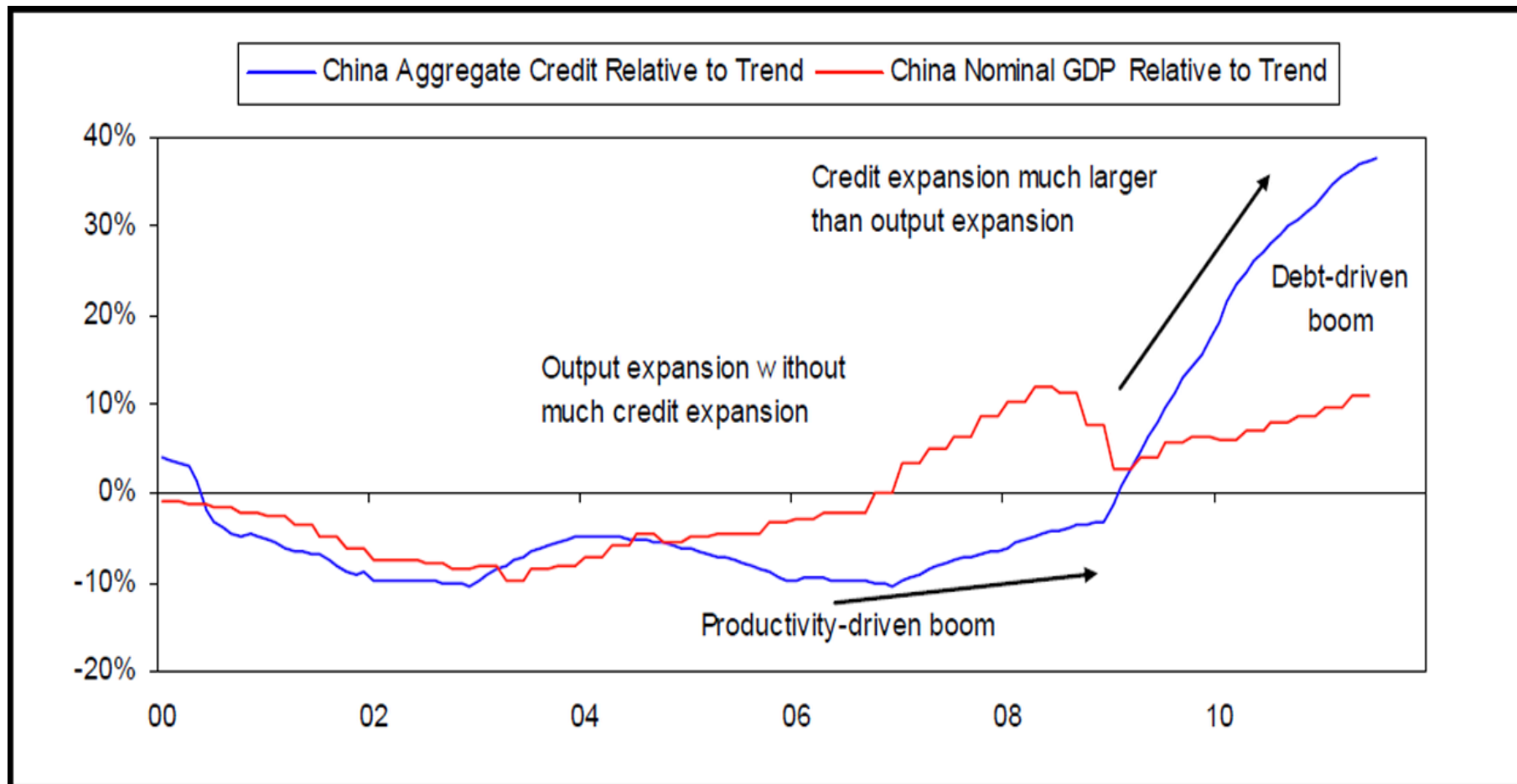
Source: Barclays Capital, [www.agorafinancial.com](http://www.agorafinancial.com)

# AT SOME POINT COMMODITIES CONSUMPTION GROWTH LEVELS OFF!



Source: Ed Yardeni; [www.yardeni.com](http://www.yardeni.com)

# A CREDIT BUBBLE IN CHINA?



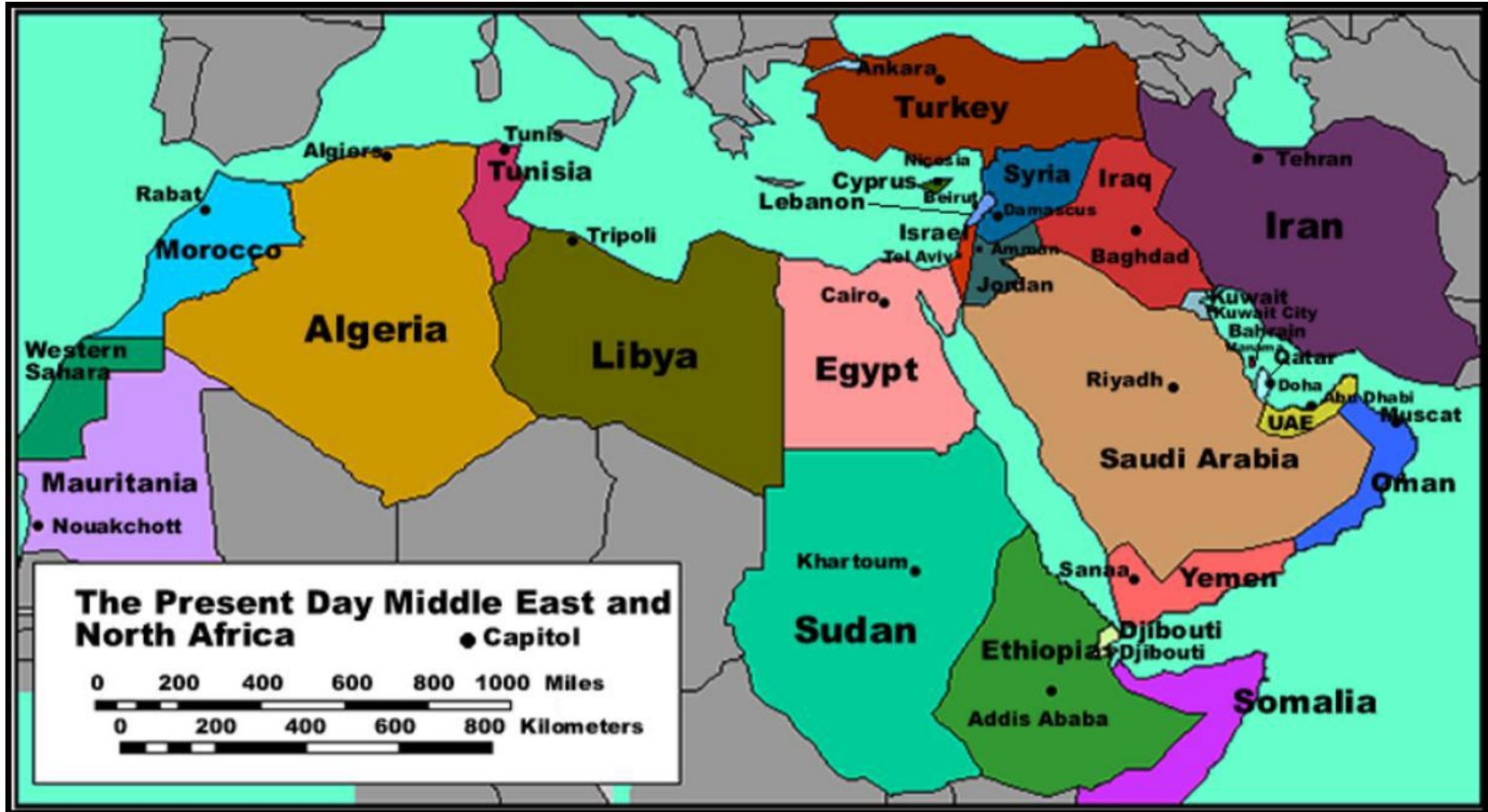
Source: Bridgewater Associates

# COTTON (SPOT CASH, US CENTS PER POUND), 1970 - 2011



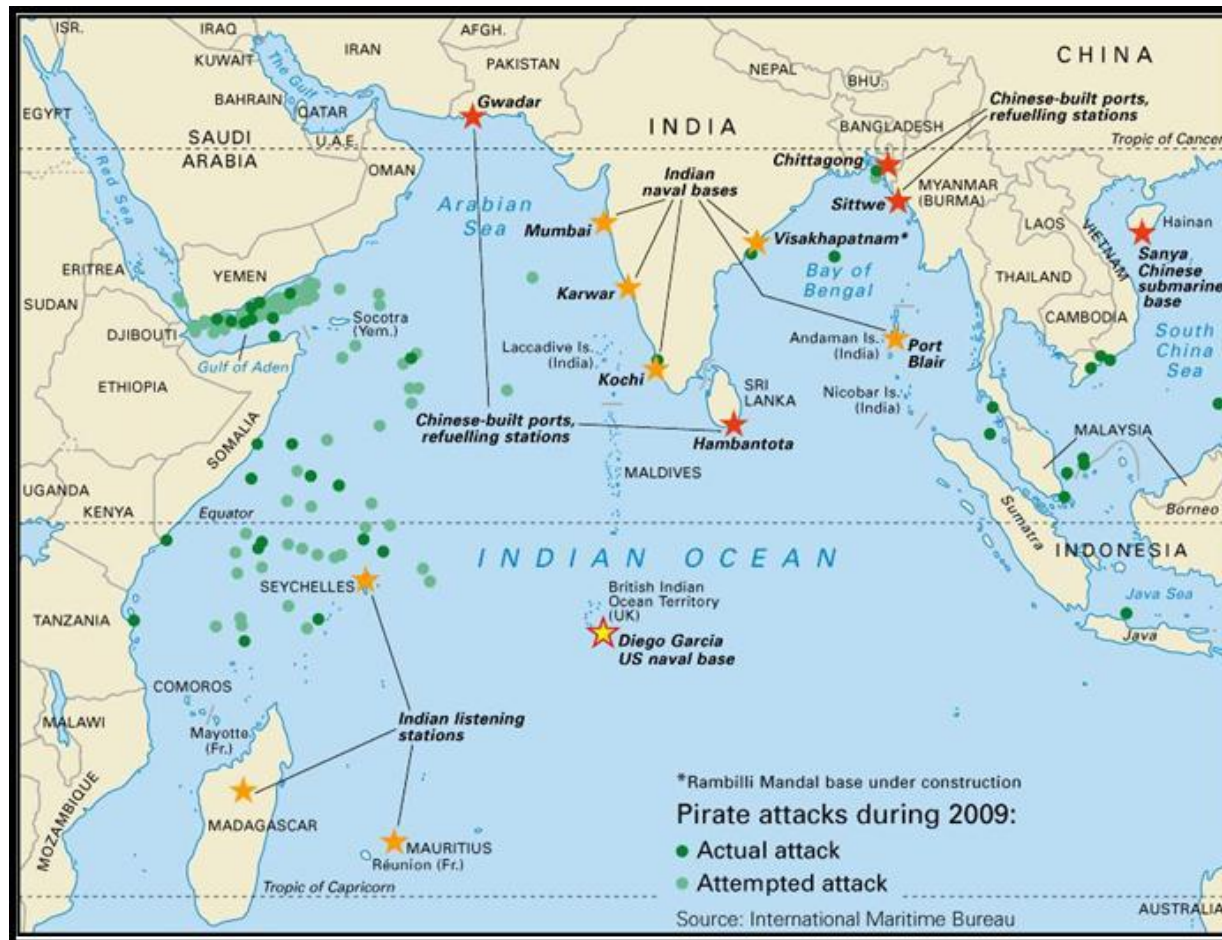
Source: Ron Griess, [www.thechartstore.com](http://www.thechartstore.com)

# GEOPOLITICAL CONCERNS: TURBULENCE IN THE MIDDLE EAST



Source: University of Notre Dame

# CHINA'S "STRING OF PEARLS" TO PROTECT THE SHIPPING LANES



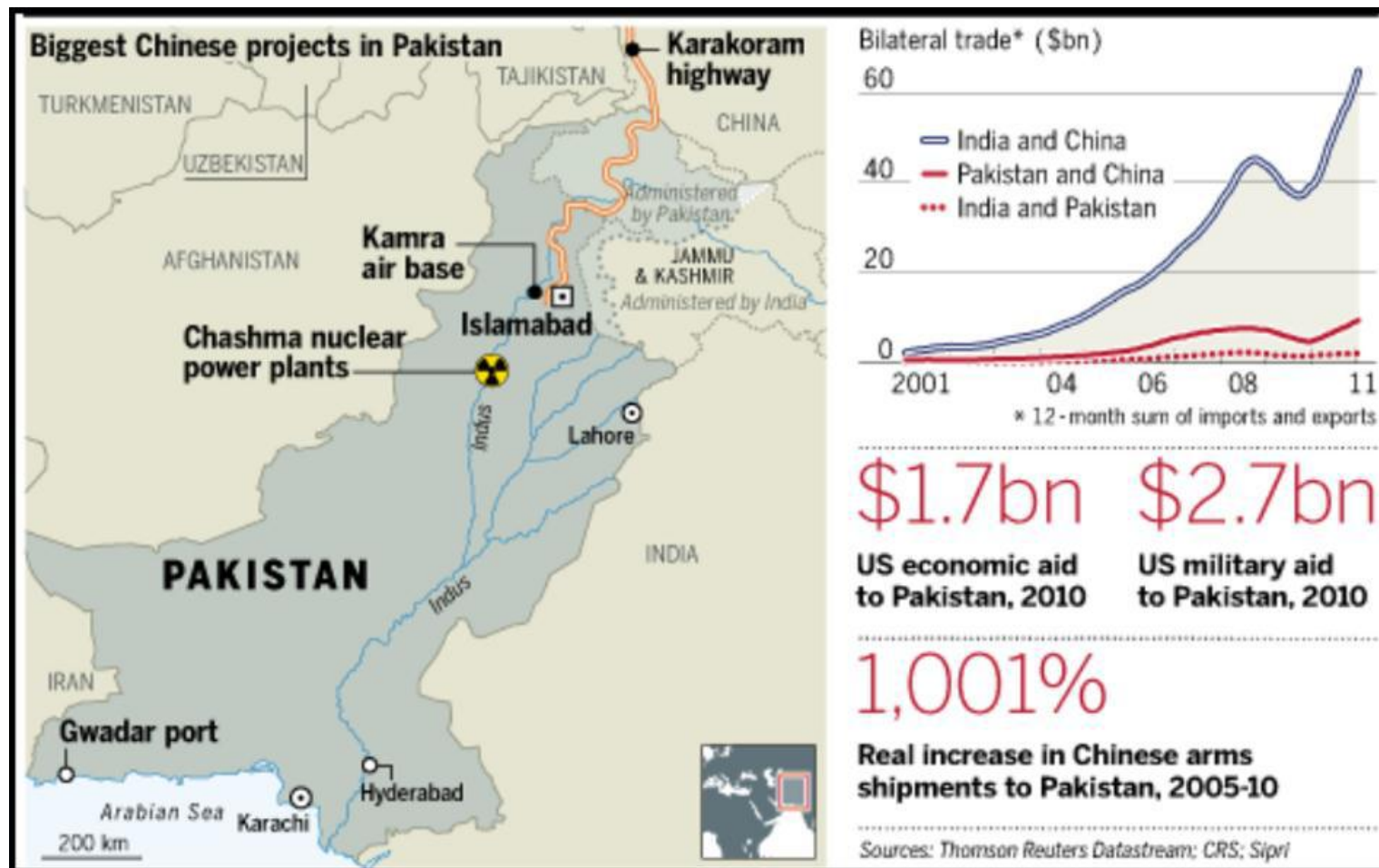
Source: International Maritime Bureau

# THE SHANGHAI COOPERATION ORGANISATION INCLUDES CHINA, RUSSIA, KAZAKHSTAN, UZBEKISTAN, KYRGYSTAN, AND TAJIKISTAN



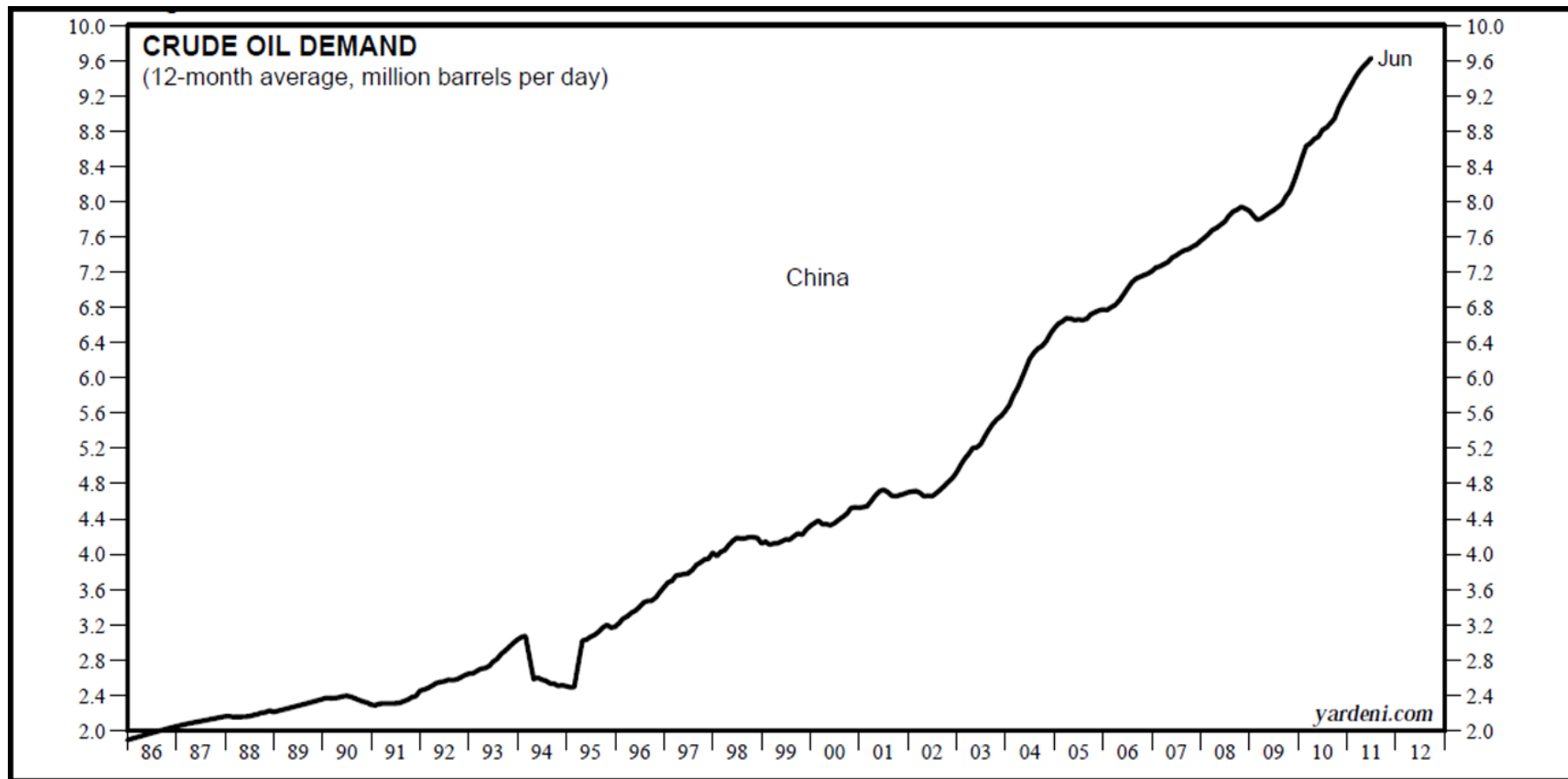
Source: [www.centralasiatravel.com](http://www.centralasiatravel.com)

# CHINA'S CLOSER TIES TO PAKISTAN



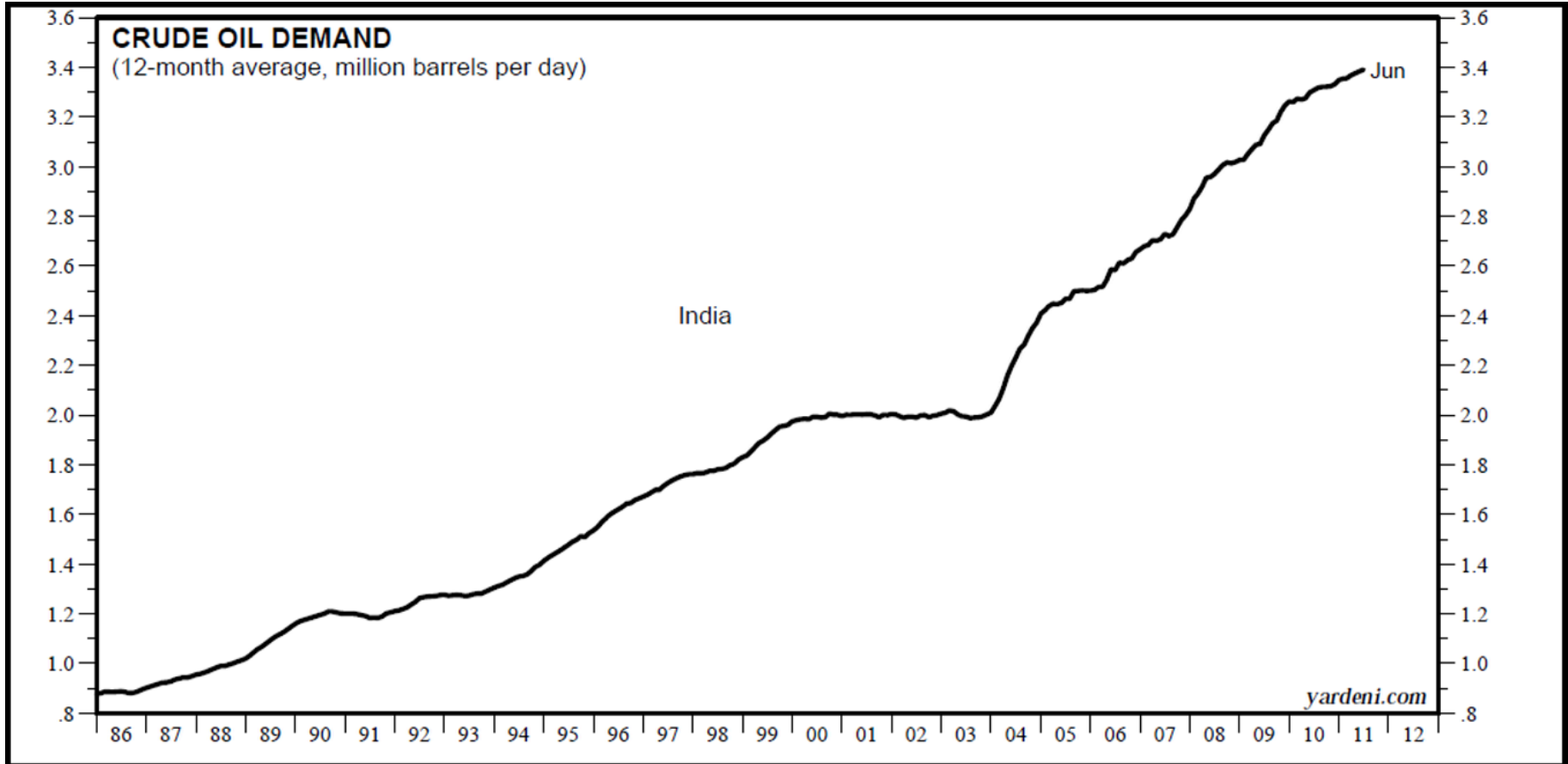
Sources: Thomson Reuters Datastream, CRS, Sipri

# CHINA'S OIL CONSUMPTION, 1986 - 2011



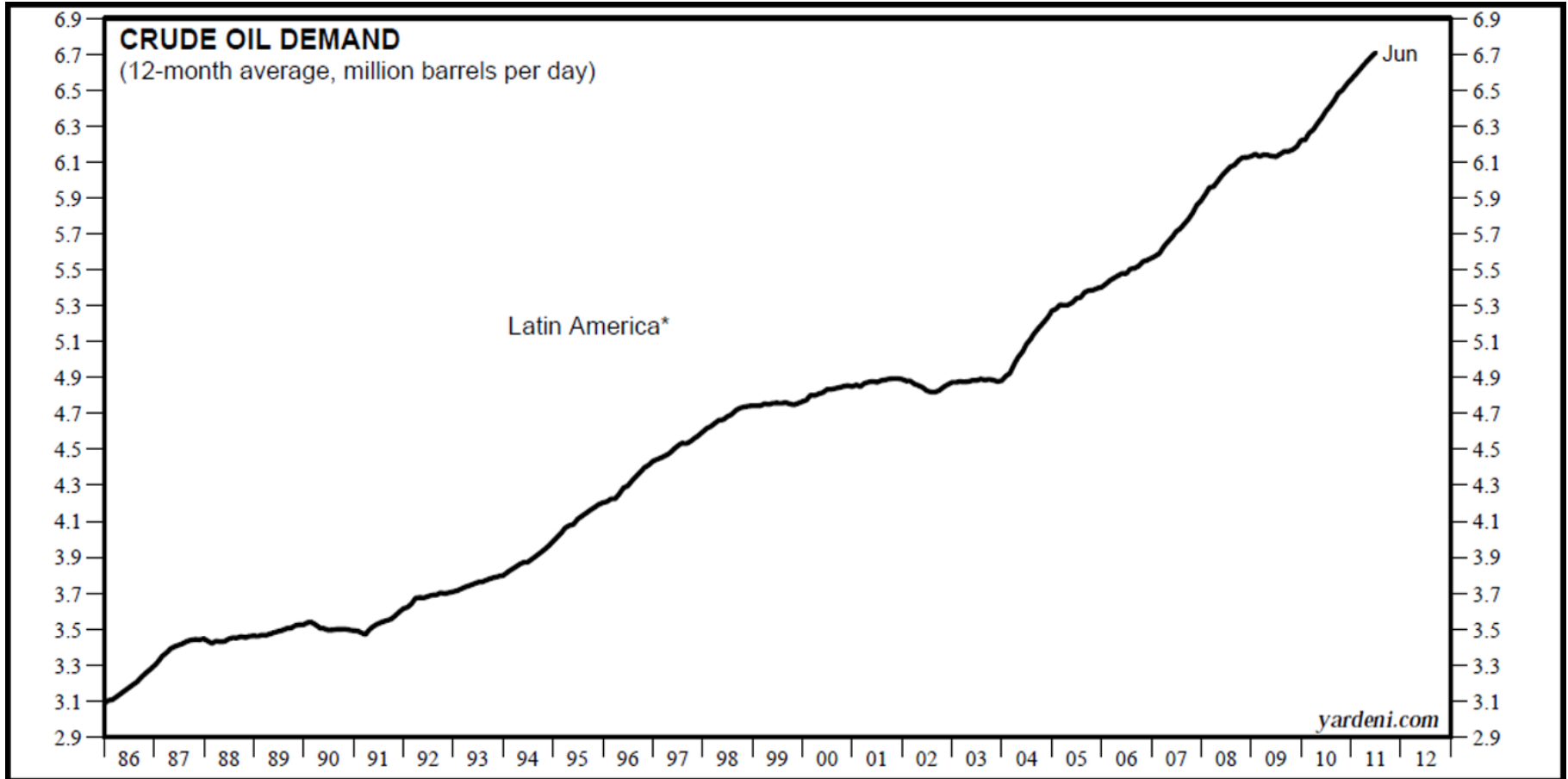
Source: Ed Yardeni; [www.yardeni.com](http://www.yardeni.com)

# INDIA'S OIL CONSUMPTION, 1986 - 2011



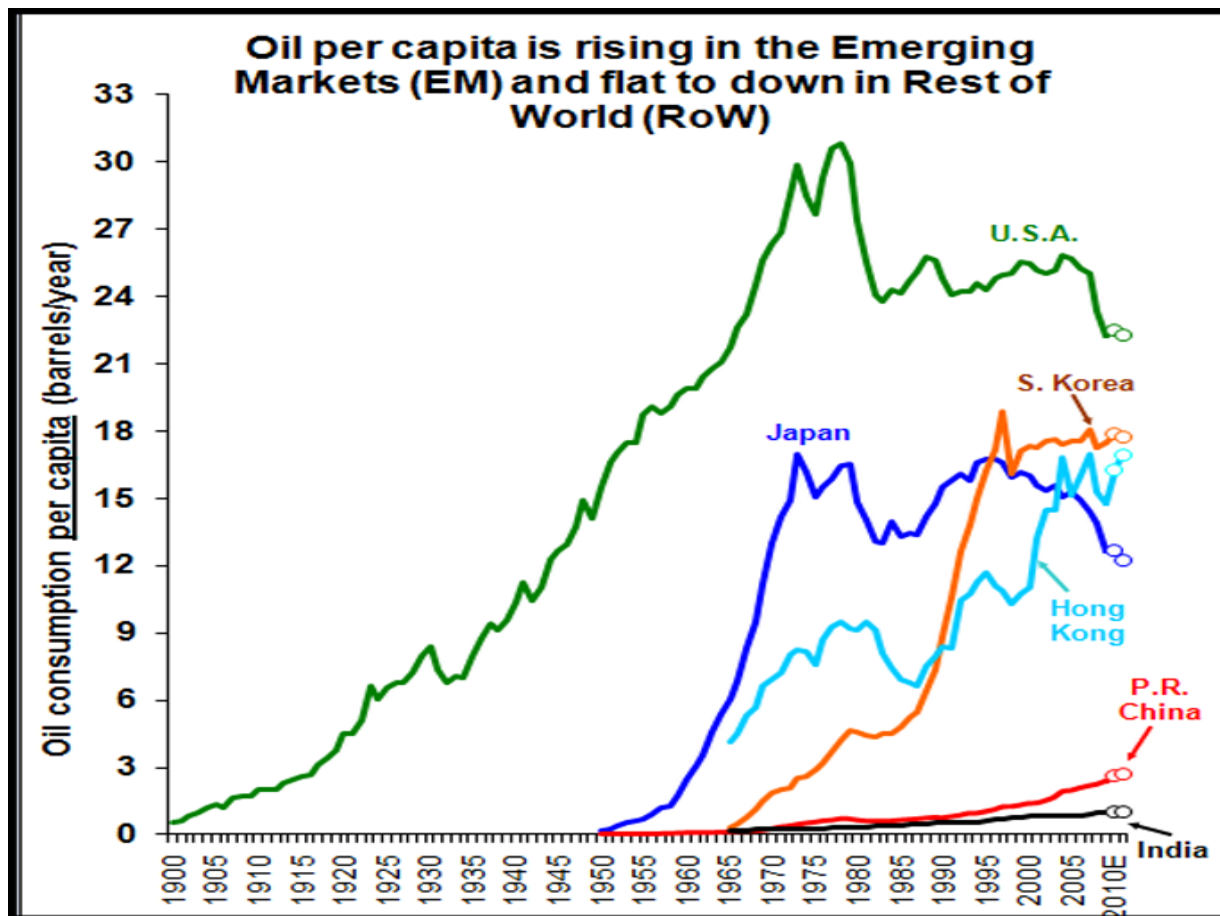
Source: Ed Yardeni; [www.yardeni.com](http://www.yardeni.com)

# LATIN AMERICA'S OIL CONSUMPTION, 1986 - 2011



Source: Ed Yardeni; [www.yardeni.com](http://www.yardeni.com)

## WHAT WILL HAPPEN TO OIL DEMAND IN A GLOBAL ECONOMIC RECOVERY?



Source: Barry Bannister, Stifel Nicolaus

# GREATER MEKONG REGION



Source: Phatra Securities

## ASSET PROTECTION THROUGH DIVERSIFICATION:

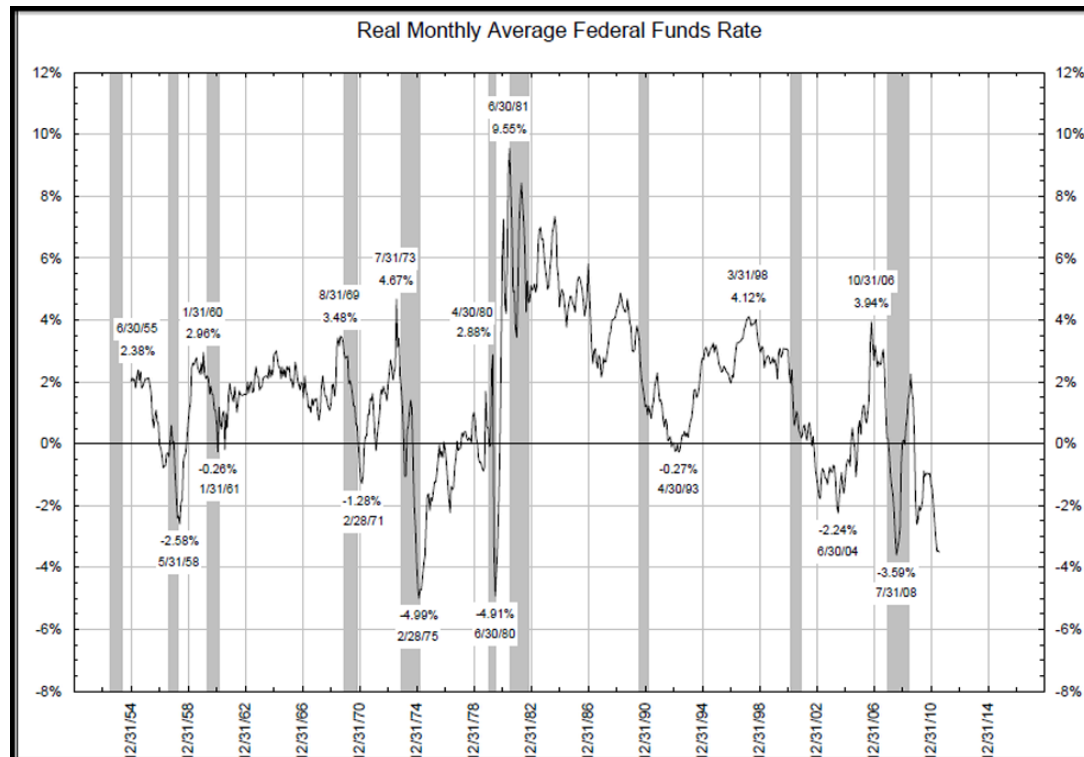
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- Cash: But what currencies?
- Government Bonds and Corporate Bonds
- Real Estate in Asia
- Equities: What countries and what sectors?
- Precious Metals

# WITH NEGATIVE REAL INTEREST RATES CASH AND BONDS ARE FROM A LONG-TERM PERSPECTIVE UNATTRACTIVE

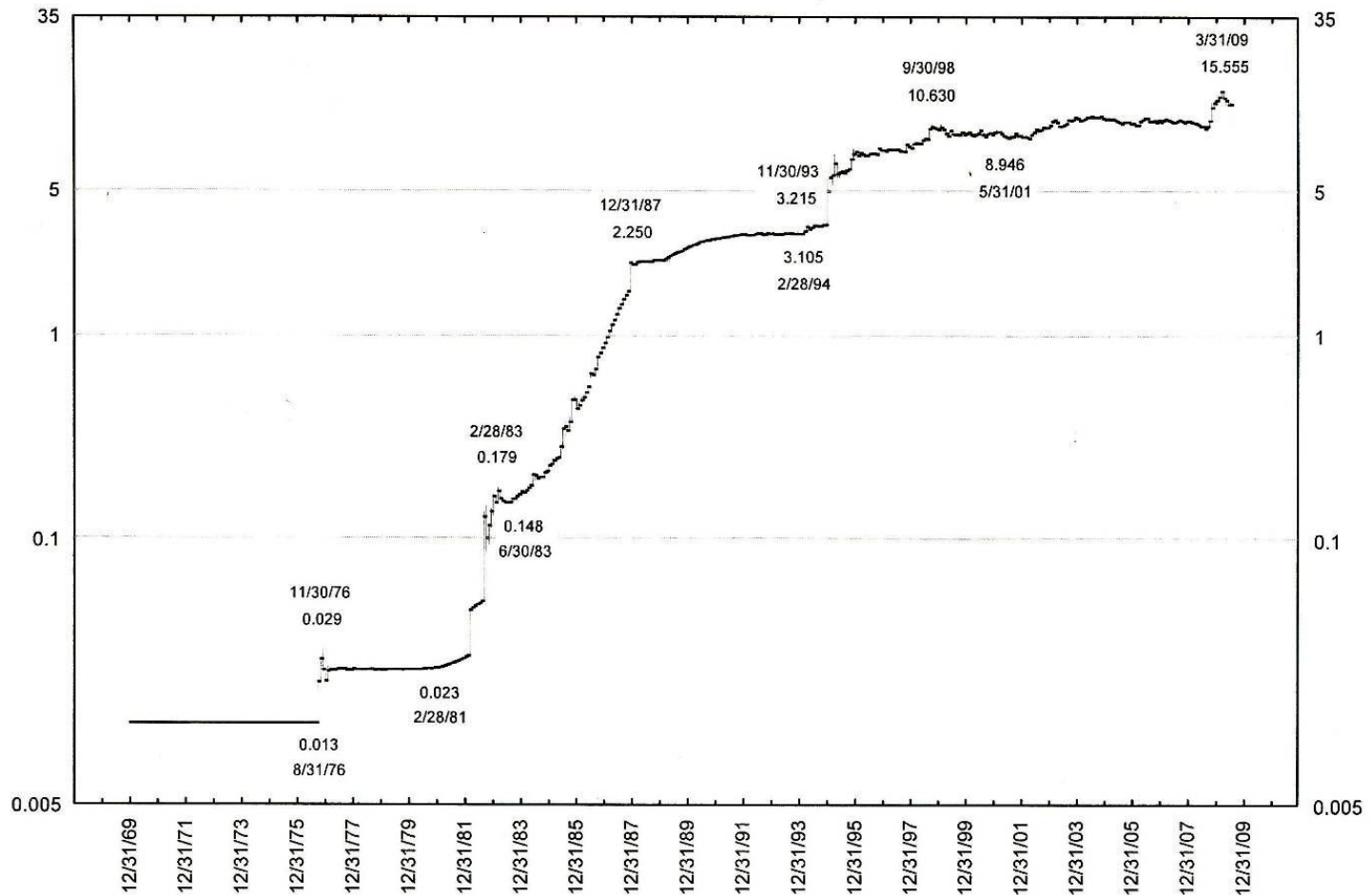
“...in the current environment, the goal could be to produce enough inflation to ensure that the real interest rate is sufficiently negative.”

Gregory Mankiw



Source: Ron Griess, [www.thechartstore.com](http://www.thechartstore.com)

# MEXICAN PESO, 1969 - 2009 (Monthly Spot – Pesos per USD)



Source: Ron Griess, [www.thechartstore.com](http://www.thechartstore.com)

# MOVEMENT OF MEXICAN STOCKS IN PESO AND USD, 1979 - 1988

**Table 1 High/Low of Mexican Stock Exchange Index (pesos), 1979–1988**

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
High	1,651	1,432	1,479	796	2,452	4,366	11,197	47,101	343,545	178,456 (Feb)
Low	1,066	1,107	862	496	837	2,885	3,710	12,802	60,281	139,620

**Table 2 High/Low of Mexican Stock Exchange Index (US\$), 1979–1988**

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
High	70	62	63	29	15	24	25	51	220	77 (Feb)
Low	48	48	34	5	5	16	16	25	47	62

**Table 3 Mexican Fund Net Asset Value (US\$), 1979–1988**

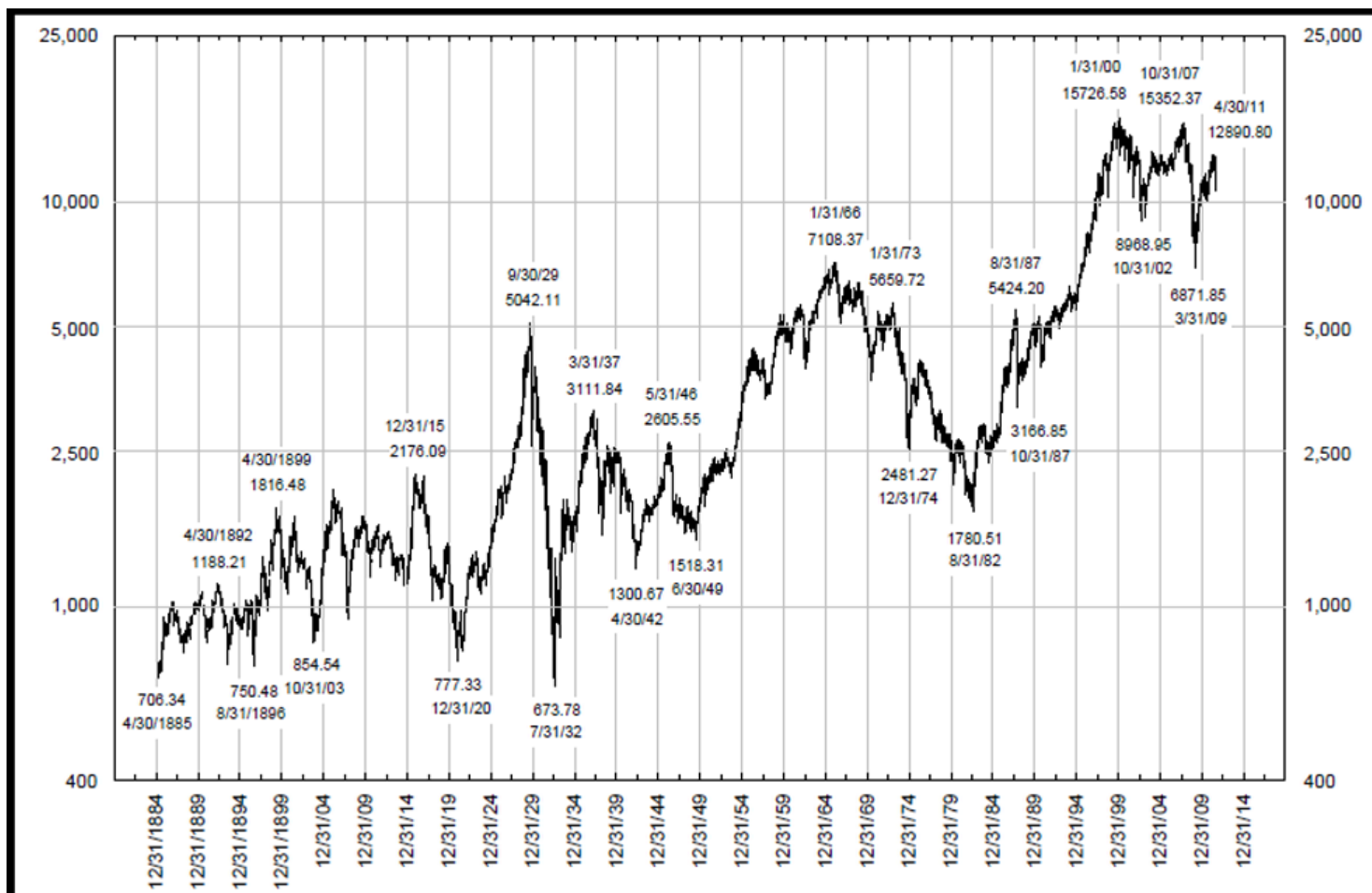
	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Net Asset Value	N.A.	10.00	3.30	1.72	2.88	2.95	3.53	9.84	15.70	7.10*

\* As at March 4, 1988

Sources: Acciones Y Valores De Mexico, SA; Marc Faber, *The Great Money Illusion* (Hong Kong, 1988)

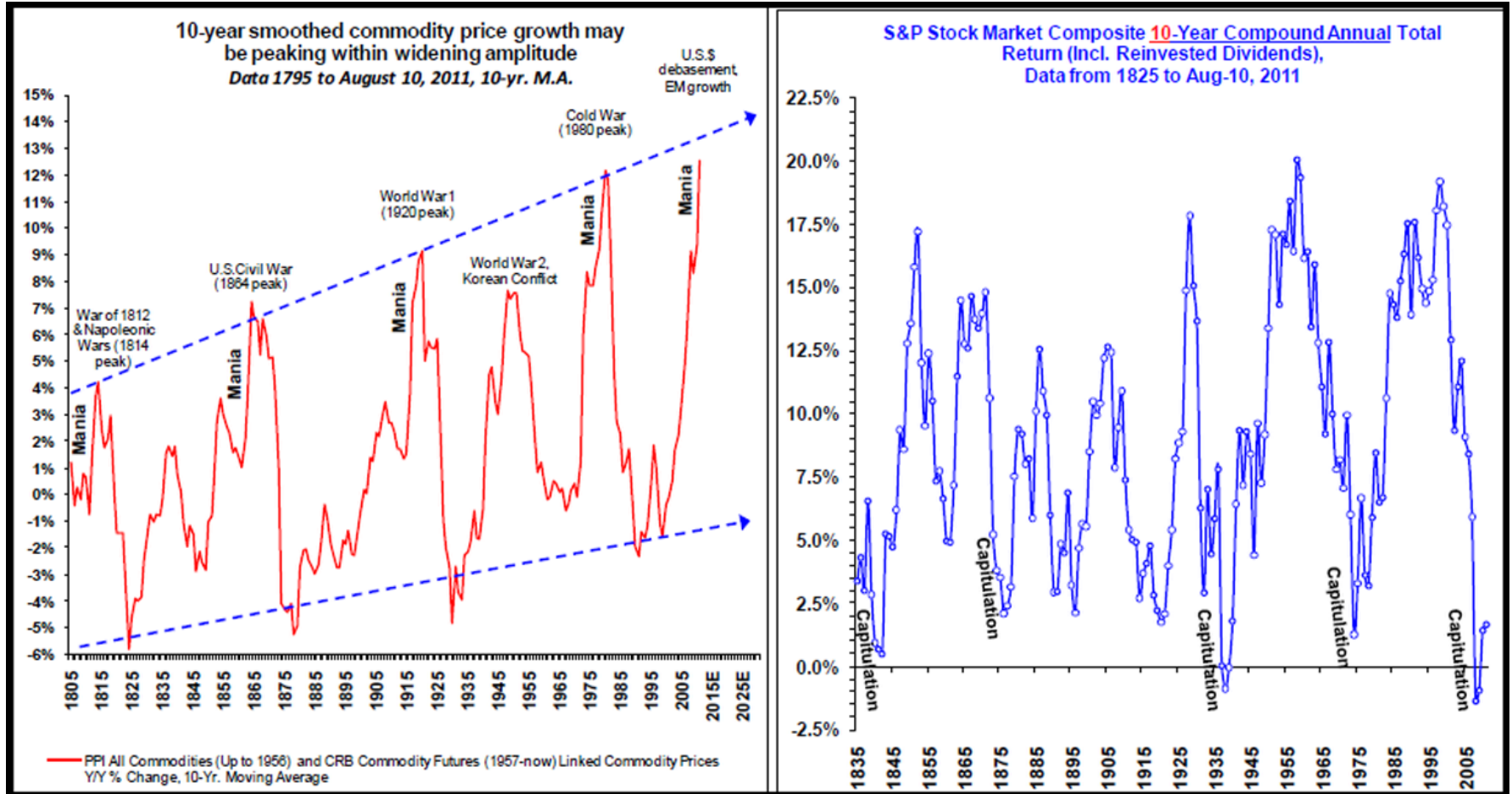
Source: Acciones Y Valores De Mexico, SA; Marc Faber, *The Great Money Illusion* (Hong Kong, 1988)

# DOW JONES INDUSTRIAL AVERAGE, (ADJUSTED FOR INFLATION BY THE CPI – ALL ITEMS), 1884 - 2011



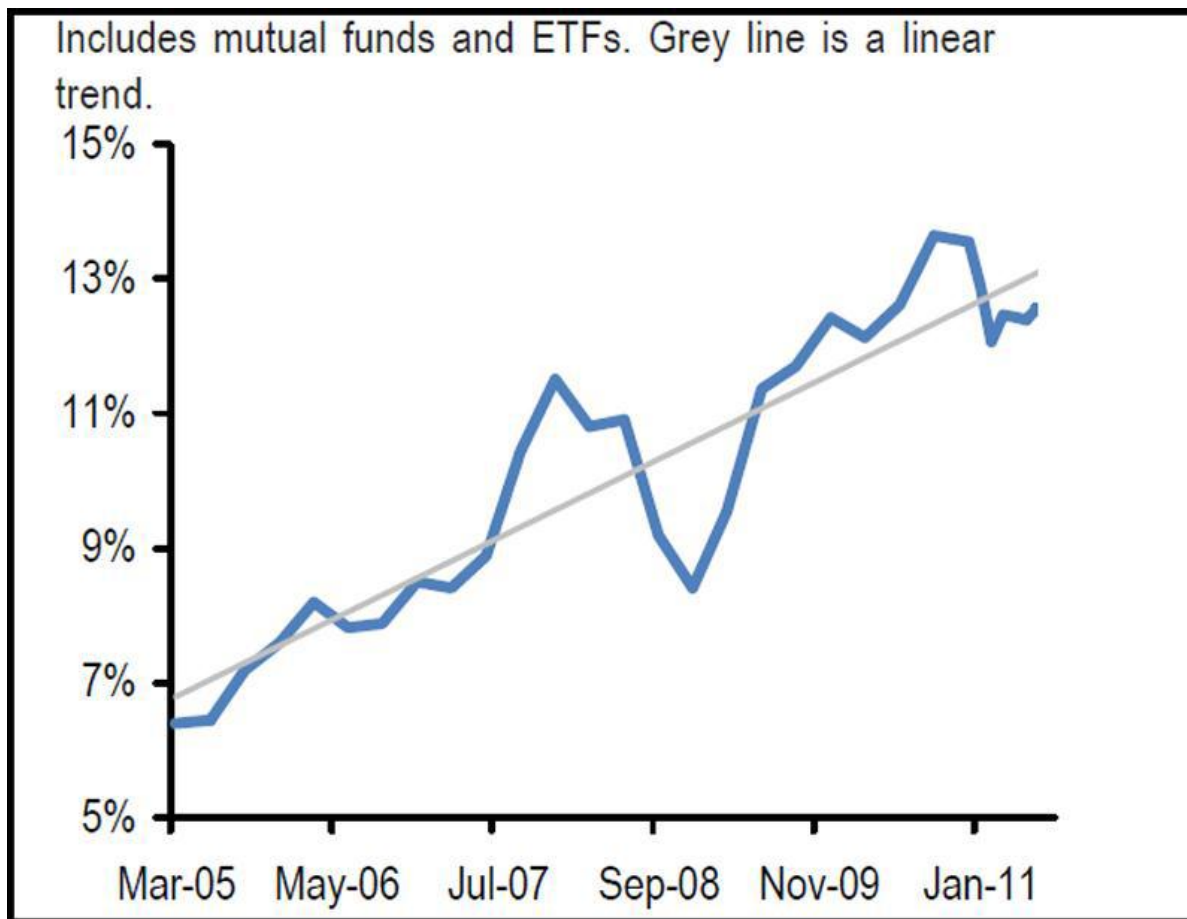
Source: Ron Griess, [www.thechartstore.com](http://www.thechartstore.com)

# TEN-YEAR PERFORMANCE OF COMMODITIES AND US STOCKS



Source: Barry Bannister, Stifel Nicolaus

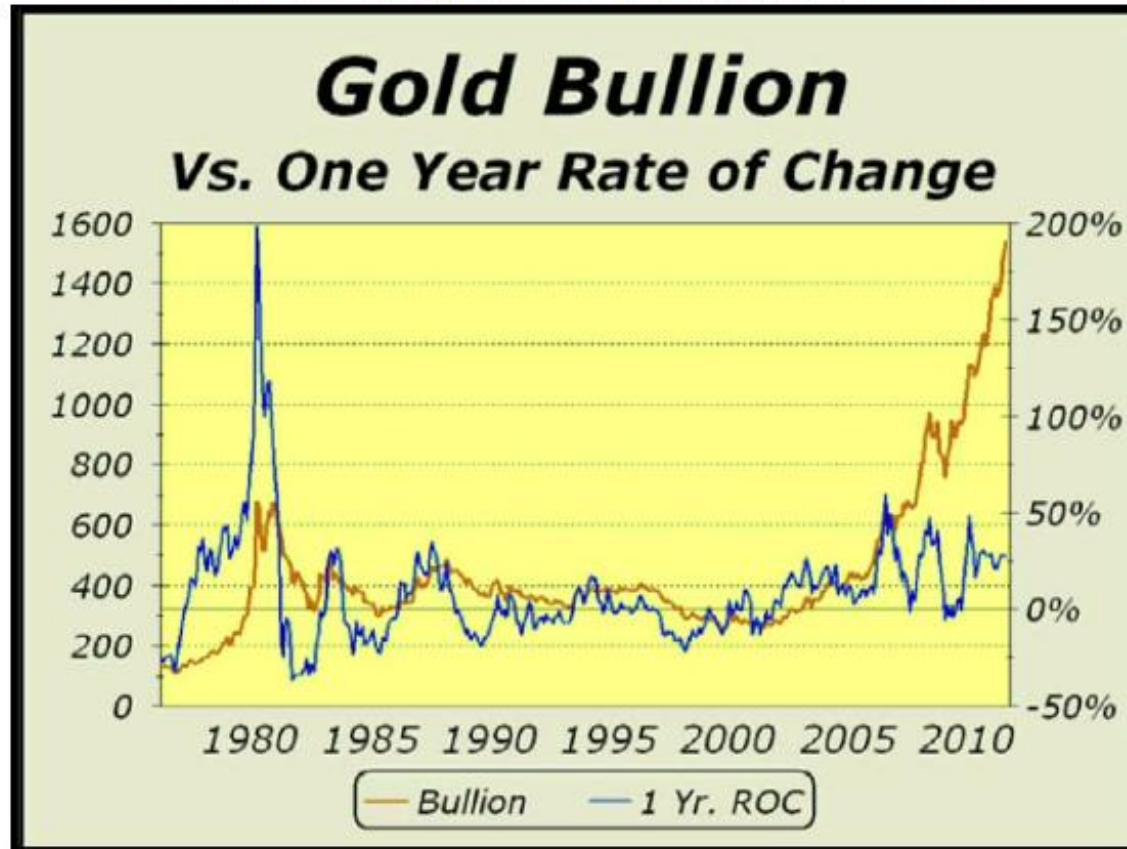
# SHARE OF EMERGING MARKET EQUITY FUNDS IN THE TOTAL EQUITY FUND UNIVERSE, 2005 - 2011



Source: JP Morgan

# IN GOLD I STILL TRUST

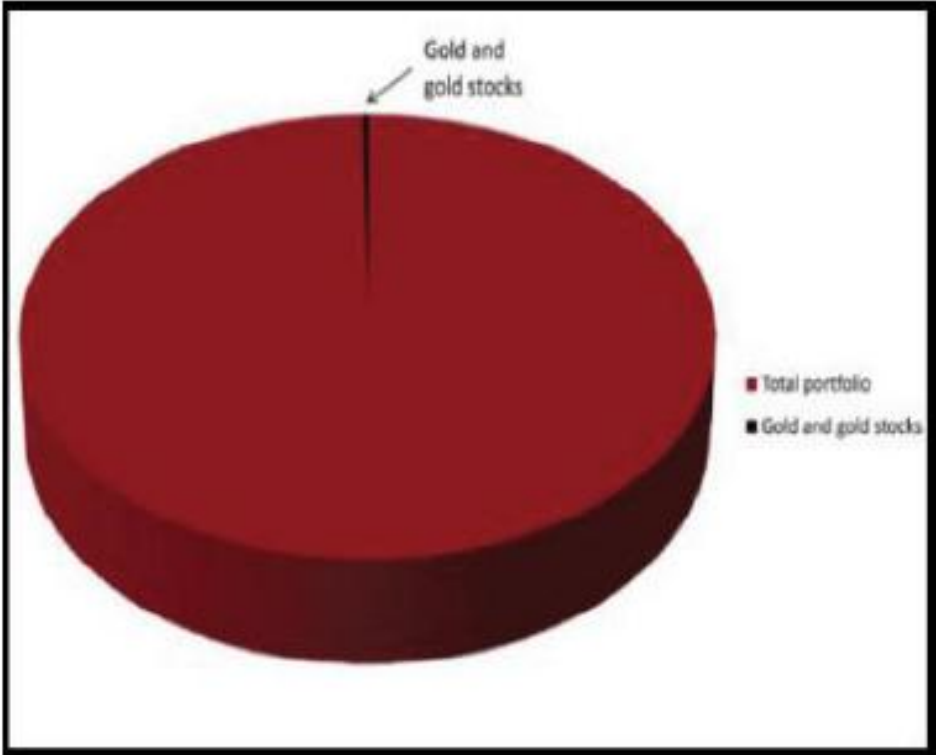
Gold, One-Year Rate of Change, 1973 - 2011



Source: Alan Newman, [www.cross-currents.net](http://www.cross-currents.net)

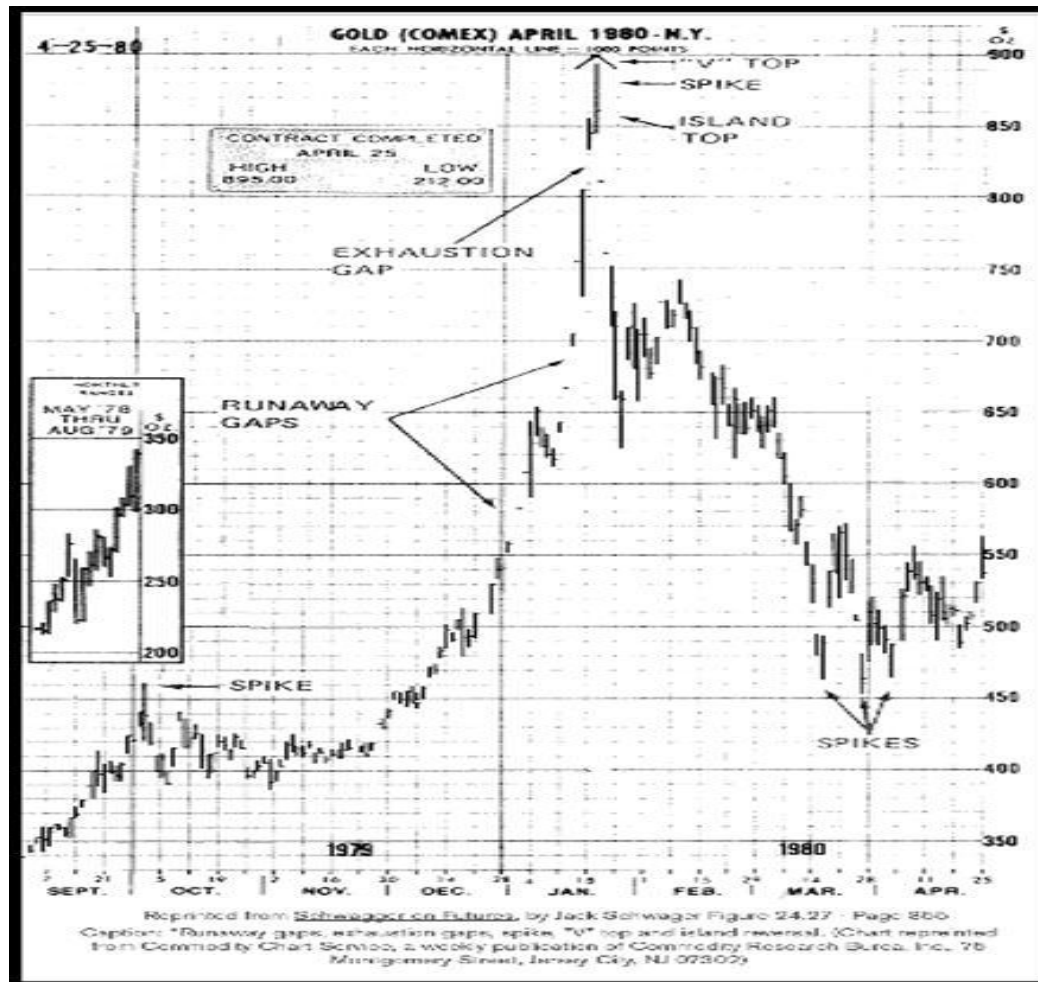
# PERCENTAGE OF GOLD HOLDING IN A TYPICAL PENSION FUND

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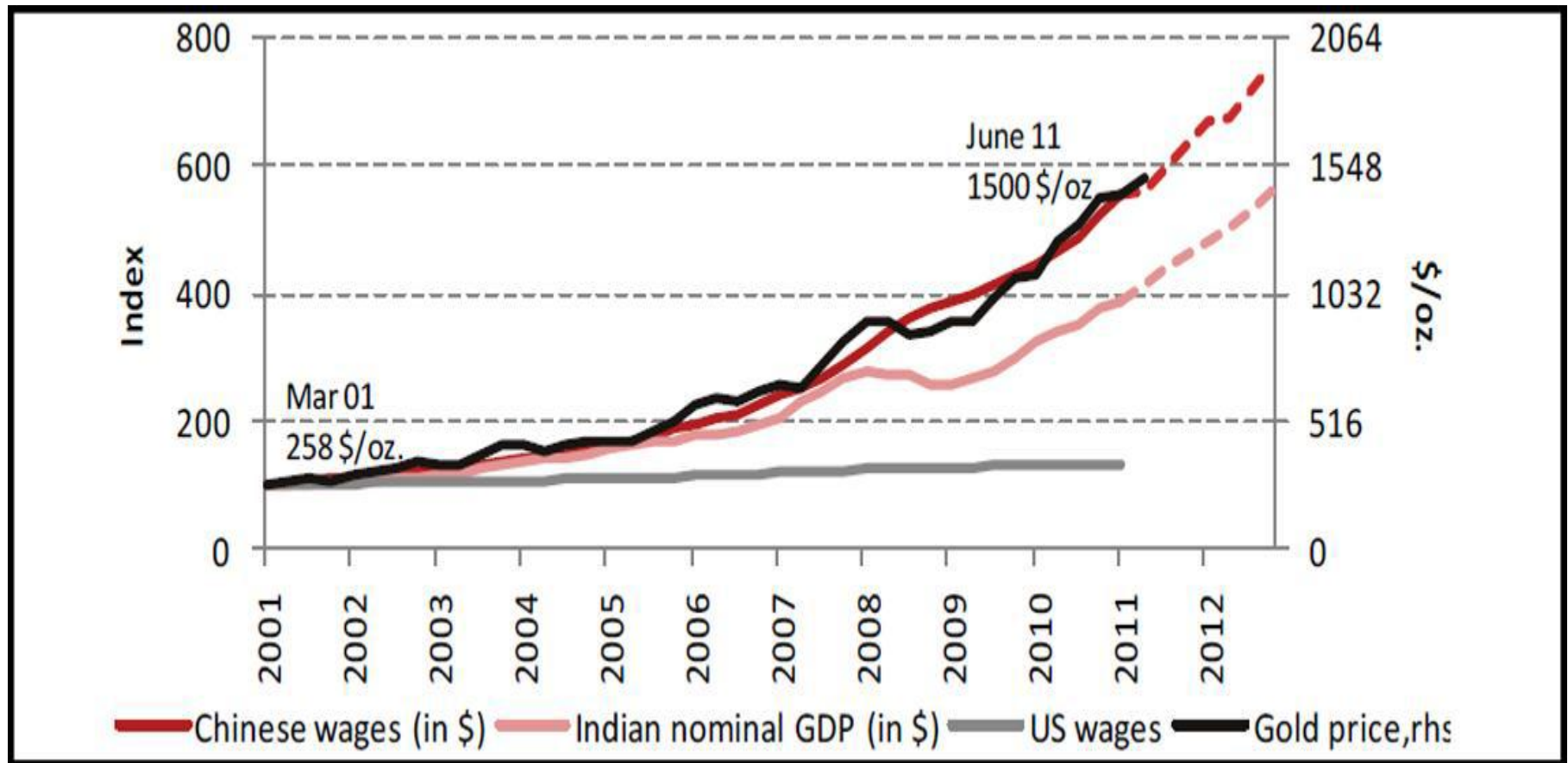
Source: Casey Research

# GOLD BUBBLE IN 1979 - 1980



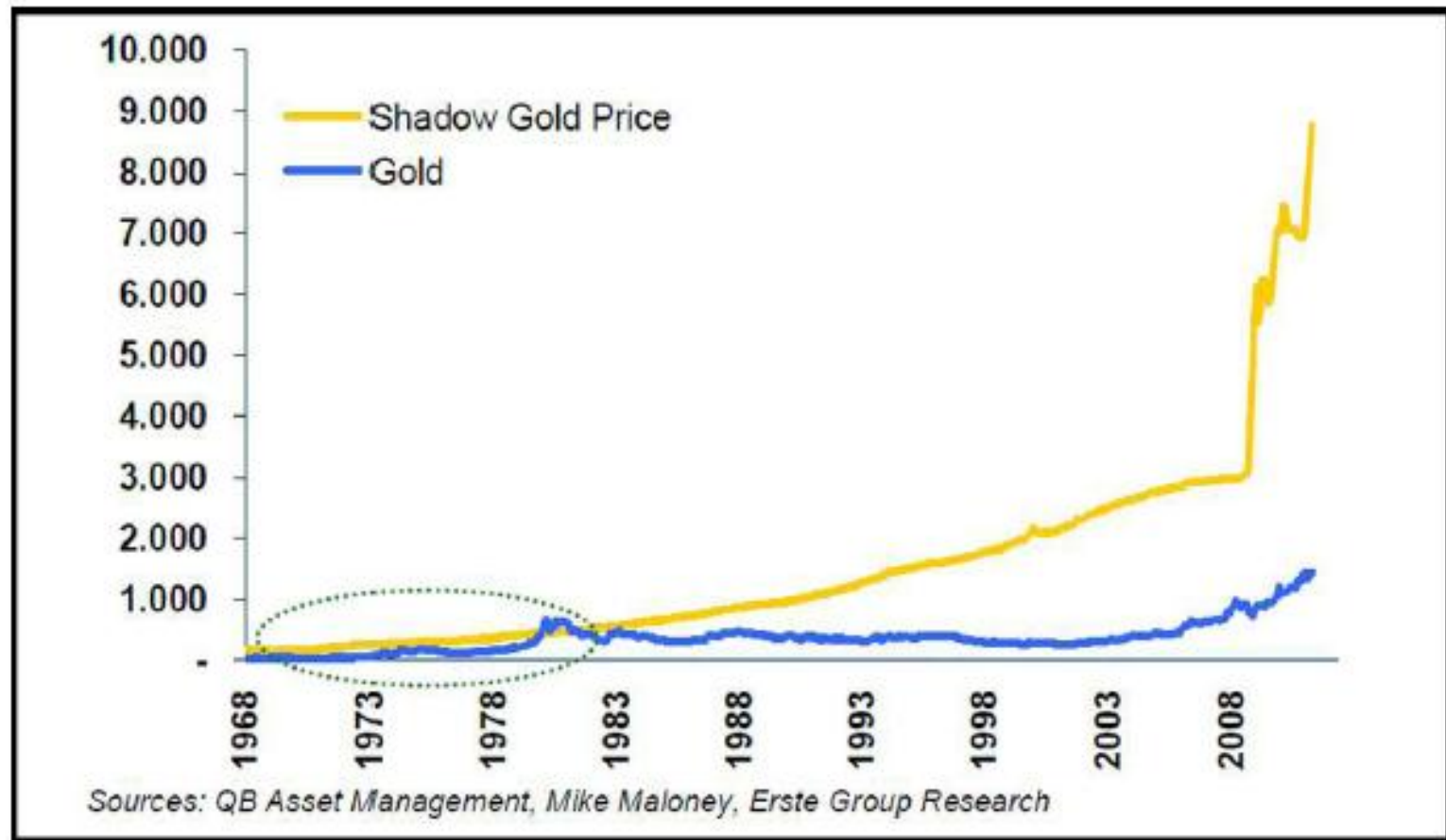
Source: Securities Research Company

# GOLD PRICE HAS INCREASED IN LINE WITH NOMINAL INCOMES IN ASIA



Source: Nomura Securities

# QB ASSET MANAGEMENT'S SHADOW GOLD PRICE, 1968 – 2011



Source: Ronald Stoeferle, Erste Group Research, QB Asset Management

# DOW JONES/GOLD RATIO, 1800 - 2011



Source: [www.sharlynx.com](http://www.sharlynx.com)

# THE PROBLEM WITH WESTERN DEMOCRACIES: GOOD INTENTIONS ARE REPLACED BY ....

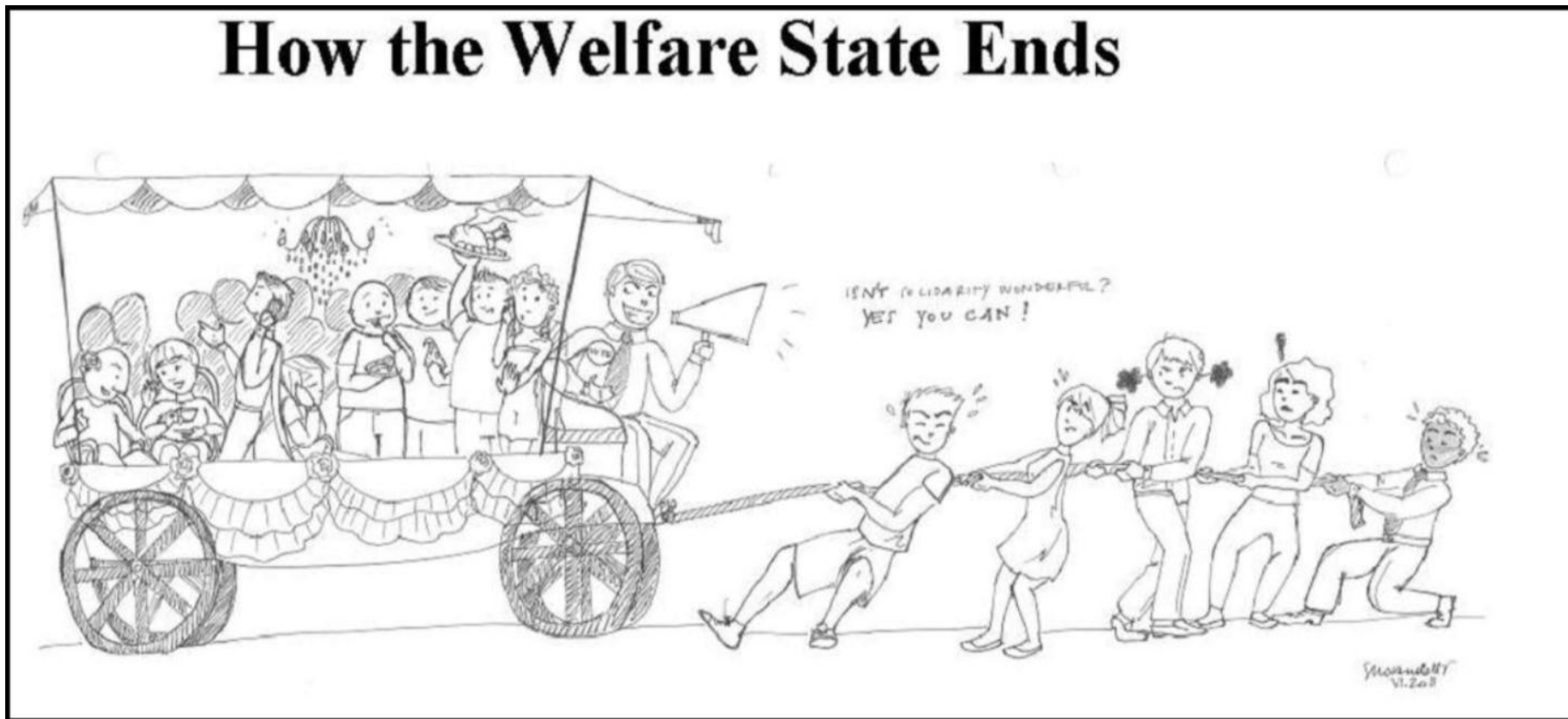
## How the Welfare State Begins



Source: [www.danieljmitchell.wordpress.com](http://www.danieljmitchell.wordpress.com)

# ...ABUSE, CORRUPTION AND DISAPPOINTMENT

## How the Welfare State Ends



Source: [www.danieljmitchell.wordpress.com](http://www.danieljmitchell.wordpress.com)

**There is no means of avoiding a final collapse of a boom brought about by credit expansion. The alternative is only whether the crisis should come sooner as a result of a voluntary abandonment of further credit expansion, or later as a final and total catastrophe of the currency system involved.**

Ludwig von Mises



## The Causes and Investment Implications of Dishonest Money

**Marc Faber**, *Luncheon Keynote*

Editor & Publisher, “the Gloom, Boom  
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