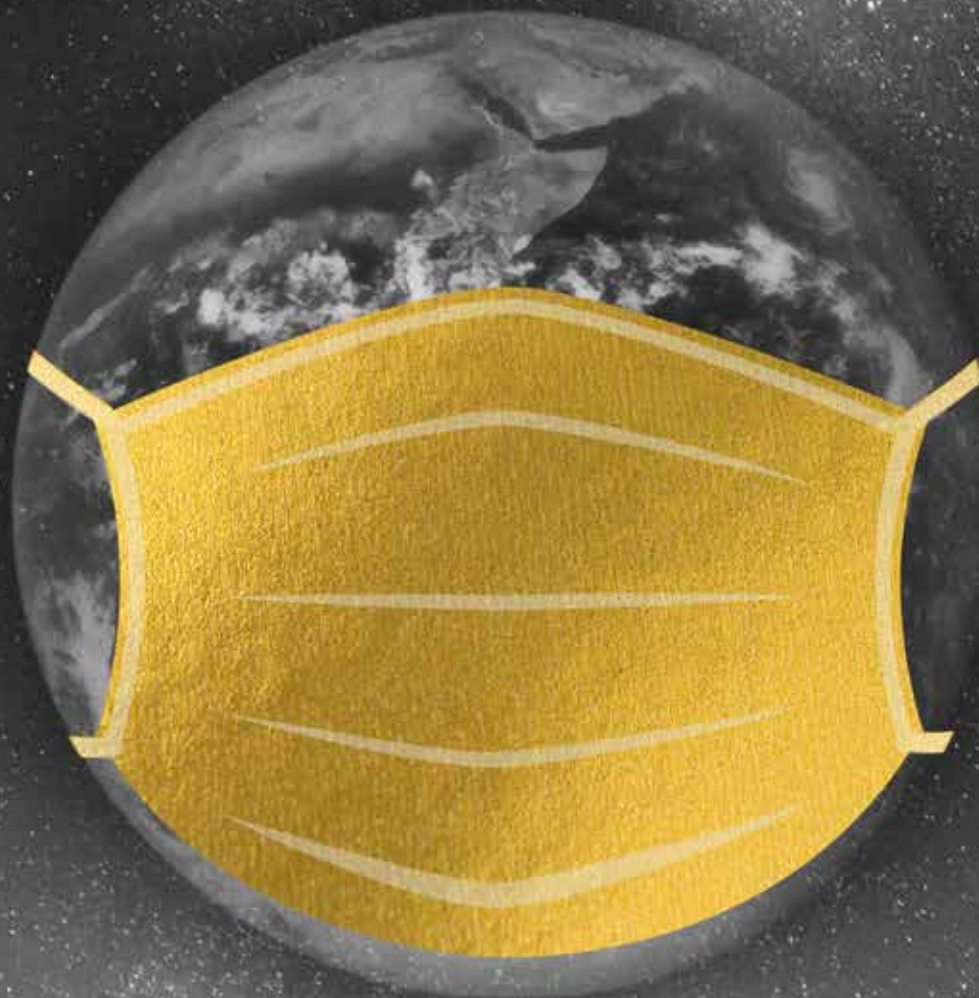




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Back to the Future:  
**The Return of Stagflation**

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MARCH 2020

# Tangible Assets Could Soar

## In a Stagflationary Environment

To understand where the principles discussed later in this report are derived, we must first look into the past for a foundation to build current forecasts which are being made by many of the top financial thinkers of today.

There was an economic nightmare during the 1970s that could soon be making a comeback to cause sleepless nights for investors: stagflation. It is a forecast being touted all over mainstream media as of late, and if correct, it could have dire effects on your wealth.

Stagflation brought misery to stock and bond investors, but some with the foresight to invest in tangible assets, such as certain rare coins and precious metals, not only preserved purchasing power, but also accelerated wealth.

Stagflation was a term coined by economists back in the mid-1960s to describe the previously unprecedented combination of slow economic growth and rising prices. Put simply, stagflation is the worst of both worlds: inflation and recession. It is characterized by an economy that is contracting while prices continue to rise. Some elite economists and investment analysts, such as Alan Greenspan, are suggesting that the US economy is headed in that direction for the first time in over 40 years.

Many of today's investors were literally still in diapers during the last great stagflation of the 1970s. Those who are old enough to remember those days will never forget one of the darkest periods in post-World War II economic history.

As recently as three weeks ago from the time of this writing, economic headlines and a skyrocketing stock market had blinders on all but the savviest of investors. Hidden from view was the real possibility that the world economy may once again face a period of stagflation in which both growth and inflation are poised to disappoint. In fact, I wrote this original report in 2018 warning of the threat of stagflation. Many analysts now say it is only a matter of time before stagflation combines with other factors to put a damper on the financial markets.

Stagflation may not be as far away as you may think. And investors need to prepare ahead of time; there is a reason why stagflation has been known as the “Dracula” of economic threats.

**“We now have the worst of both worlds—not just inflation on the one side or stagnation on the other side, but both of them together. We have a sort of ‘stagflation’ situation.”**

Iain Macleod  
Speech in Great Britain's House of  
Commons, November 17, 1965



# The 1970s Revisited? A Brief History Lesson

Many people associate the 1970s with bell-bottom jeans, the unsuccessful outcome of the Vietnam War and the resignation of President Richard Nixon. But serious investors remember phrases like “the energy crisis” and “stagflation.” These terms could once again describe contemporary conditions because America could be heading toward a repeat of the 1973-75 economic crisis which ushered in what was then the most vicious bear market in stocks since the Great Depression.

Up until the 1970s, it was generally believed that recession and inflation could not occur at the same time. A slowing economy was supposed to bring stable prices, so inflation just could not be a problem when the economy slowed. That fact gave central bankers, like the US Federal Reserve, what they mistakenly believed was a sure-fire method for combating high inflation: just employ tight monetary policies until inflation was choked to death. The energy crisis that began with the Arab oil embargo of 1973 shattered that myth and resulted in that new word in financial circles: stagflation.

The four-fold increase in oil prices imposed by OPEC in 1973-74 raised price levels throughout the economy while slowing economic growth at the same time. This left policymakers in a quandary. World central banks, worried about a severe economic slowdown, chose loose monetary policies and inflation took off.

That oil embargo created a massive price rise and economic dislocation from New York, to London and to Tokyo. This explosion in oil prices is the triggering factor—but not the only factor—that ushered in an era of stagflation in which inflation soared while economies stagnated. By the end of the decade of the 70s, the United States was experiencing near-double digit unemployment, double digit inflation and, eventually, double digit interest rates.

The other thing that happened was that a long bull market in stocks turned into a severe bear market.

Now you may not see parallels between the conditions described in the 1970s and what we are experiencing today. After all, energy prices have plummeted, the stock market was booming and U.S. economic statistics were painting a picture of an accelerating economy. Then the bubble was burst by something nobody saw coming.

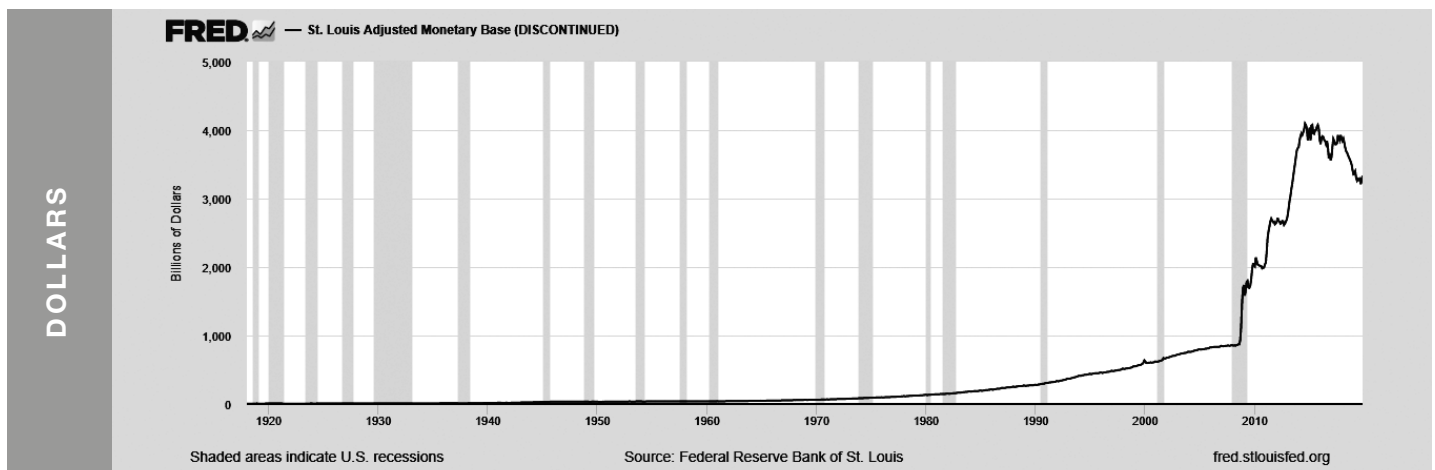
However, today, countless experts are warning of a different cause for the next round of stagflation. Moreover, some are even questioning that the stagflation of the 1970s was primarily caused by the energy crisis.

In January 2002, MIT economist Olivier Blanchard, who served as the chief economist for the International Monetary Fund (IMF) commented as part of a little-known report for the National Bureau of Economic Research (Do We Really Know that Oil Caused the Great Stagflation? A Monetary Alternative) in which he maintained that stagflation may arise in response to sustained monetary expansion, even in the absence of supply shocks such as the 1973 Arab oil embargo.

This is vitally important for investors to understand today because we have experienced decades of “sustained monetary expansion,” better known today as QE, and the Federal Reserve has recently renewed those efforts. Now with the

current pandemic, we are witnessing what is going to be a monetary expansion of unprecedented amounts. Combined, major economies around the globe are promising a combined expansion of many trillions of dollars in the coming year.

The chart below demonstrates the monetary madness since 2008 and it doesn't show what is in the works at the time of this writing. There will be another significant spike in dollar supply due to more QE.





# Stagflation:

## A Very Tough Economic Problem to Solve



**This aging bull market may soon face the third market collapse since the year 2000. Nobody can predict the exact starting date of its decline—but either a recession or stagflation will surely be its catalyst. During the next debacle, the typical balanced portfolio designed by Wall Street, which consists of approximately 60% stocks and 40% bonds, will no longer provide much protection at all. In fact, that type of portfolio construct has become downright dangerous.**

Michael Pento | Pento Portfolio Strategies | October 28, 2011

### THE FOUR LETTER WORD

Stagflation is a 4-letter word on Wall Street because, once it takes hold, it is very difficult to stop.

Fiscal and monetary policies aimed at stimulating the economy exacerbate the inflationary aspect of stagflation. Tight money policies, on the other hand, amplify the stagnating effects of things like high energy prices.

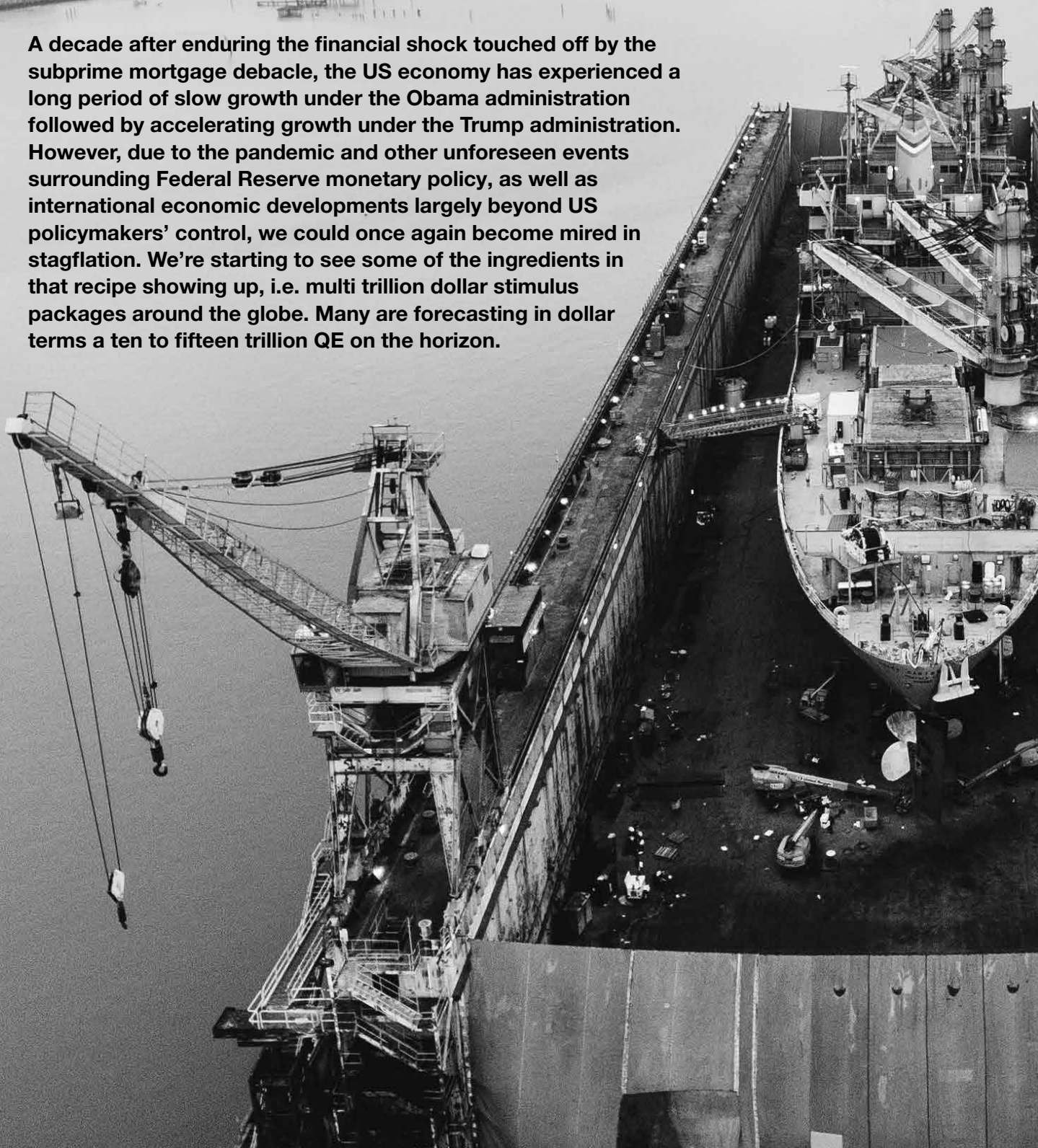
Stagflation can also cause other distortions that put policymakers in a no-win situation. For instance, one part of the economy can be growing at the same time that another is shrinking. An example would be a shrinking manufacturing sector at the same time a service

sector is growing. This can mean that wages are growing in one sector at the same time that they are falling in another sector. This creates a serious problem for timing any economic policies. It can even make it difficult for economists to judge what direction the overall economy is moving in, up or down.

So, what is the Fed to do? Should it try to tackle recession and high unemployment with easy money policies of low interest rates and “quantitative easing,” i.e. printing money? Or should the Fed battle inflation with tightening monetary policies?

# Looking to the Future

A decade after enduring the financial shock touched off by the subprime mortgage debacle, the US economy has experienced a long period of slow growth under the Obama administration followed by accelerating growth under the Trump administration. However, due to the pandemic and other unforeseen events surrounding Federal Reserve monetary policy, as well as international economic developments largely beyond US policymakers' control, we could once again become mired in stagflation. We're starting to see some of the ingredients in that recipe showing up, i.e. multi trillion dollar stimulus packages around the globe. Many are forecasting in dollar terms a ten to fifteen trillion QE on the horizon.

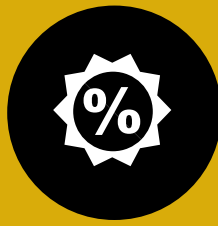




**While oil may not be the driving factor behind the stagflation of tomorrow, investors should not discount its supporting impact in producing a stagflationary economic environment.**

The price of oil is at multi-year lows, just under \$25 per barrel at the time of this writing. Where oil goes from here is less certain, but seems unlikely to fall much further. When the price war finally ends with Russia and Saudi Arabia, and the pandemic eases, demand will surely increase and we will likely see \$40+ oil again. If tensions with OPEC member Iran continue emerging, we could see oil right back to \$60+.

For instance, when Iran struck Saudi Arabia's Abqaiq and Khurais oil processing facilities in eastern Saudi Arabia with drones and missiles in September 2019, it was initially thought that these two vital, major Saudi facilities would be offline for an extended period of time. This would mean more than half of Saudi output would be out of commission. The price of oil surged 20% in one day in the wake of the attacks, the largest single-day increase since



the Iraqi invasion of Kuwait in August of 1990. Two days after the attack, it was determined that the Saudi oil facilities were not as badly damaged as first believed and they could be repaired quickly.

The world economy dodged a bullet. It showed that the oil market, which is still vital to the global economy, is still very vulnerable to exogenous events. Moreover, there are no signs that tensions with Iran will be easing anytime soon.

**The Goldman Sachs economic team is concerned that current policies could result in stagflation and expressed it more deeply March 25, 2020 forecasting lower currency values caused by massive monetary expansion. They forecasted gold to go to \$1,800 this year. On the one hand, the Trump administration's tax reform and rebuilding infrastructure proposals should result in greater economic activity** —but, when combined with Federal Reserve monetary policy—it seems likely to result in higher inflation. On the other hand, the



proposals to limit free trade and impose protectionist tariffs on trade could have a decidedly negative impact on economic growth and could cost jobs. Under this stagflationary scenario, Goldman Sachs forecasts that GDP could decline, while unemployment could start to rise.

These trends could just be getting started and the world economy could be headed in the direction of stagflation.

**Oxford University's Oxford Economics division's forecasts are similar to those of Goldman Sachs.**

They base their forecast on a combination of protectionist trade policies that can be instituted by the executive branch without congressional action and heightened domestic uncertainty created by the inability of the gridlocked Congress to pass any policy proposals whatsoever.

**Bruce McCain, chief investment strategist for Key Private Bank, penned an important column for *Forbes* entitled "Why You Need to Worry About the Return of Stagflation."** He





maintains that long-term trends in demographics will produce labor shortages that will both limit economic growth and produce major inflationary implications as firms bid wages higher to compete for scarce skilled labor. McCain concludes: *“In all probability, the impending labor shortfall will both limit economic growth and increase inflationary pressures. That could be a recipe for stagflation.”*

Note that Bruce McCain’s forecast is a decidedly different scenario for stagflation when compared to the one that plagued our economy in the 1970s. His scenario is completely independent of monetary or fiscal policy factors.

**Michael Pento of Pento Portfolio Strategies, also is forecasting stagflation,** but his outlook calls for perhaps a more sustained version than we’ve seen before: “I think we’re going to have, we will engender, a protracted period of stagflation like we’ve never before seen. So, it’s going to be the ‘70s on steroids, but for a long time.”



**In October 2019, EuroPacific Capital CEO Peter Schiff warned that the next downturn will be worse than 2008** and will be characterized by stagflation. “The dollar is going to crash,” Schiff says. “And when the dollar crashes, it’s going to take the bond market with it, and we’re going to have stagflation, we’re going to have a deep recession with rising interest rates, and this whole thing is going to come imploding down.”

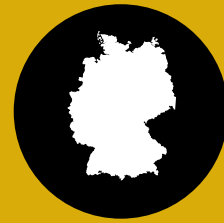
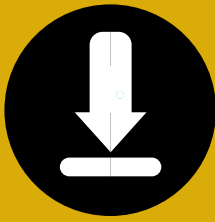
Economist Nouriel Roubini of New York University sees another problem with the coming stagflationary scenario: the Federal Reserve and other central banks will be essentially powerless to combat against it. Roubini says that monetary policymakers have been rendered ineffective by the long easing cycle they have entered. When the economy weakens, whoever is president will pressure the Fed to keep interest rates low in a likely failed attempt to jump-start the economy. This will only exacerbate inflationary pressures. That, in a nutshell, is the quandary of stagflation.



**There is an important difference between the forecasted stagflation of today and the stagflation of the 1970s.** Today, America’s economy is not alone. Other major economies, notably China, Japan and Germany are also seeing the early warning signs of stagflation. In today’s interconnected world, factors in markets move at the speed of light from one continent to the next. China, Japan, Germany and America all trade heavily with each other. When one economy “catches the flu, or COVID19” it is much more likely to be contagious today than it was in the 1970s.

In October the *Wall Street Journal* published an article entitled “China Grapples with Stagflation.” China’s GDP growth has been on a downward trend and China has been trying to boost its economy in the face of a possible trade war with the U.S.

In that article, the Journal reported that China was already experiencing the quandary that Roubini warns about: “The latest round of monetary stimulus from Beijing has stoked inflation without much helping industry.” Fast forward to March 2020



and you can find countless articles warning of the coming stagflation and the causes discussed here are exactly what the governments around the world are doing. It is like we are completely ignoring the warning signs and throwing fuel on a wild fire. The massive monetary expansion must have some impact on the value of currencies which could exacerbate inflationary, or stagflationary pressures.

Conditions aren't much different in Japan, but are as much a result of demographics as fiscal and monetary policies. In an article on the SeekingAlpha web site entitled "Japan: News from the Land of Stagflation," author Maximilian Sancho goes into great detail to explain how Japan is becoming mired in stagflation and concludes with this sobering assertion: "Private

consumption remains Japan's weak point and has been since the rise of stagflation. One future challenge to keep in mind would be the declining demographics, which provides an opportunity for innovation and investment in productivity enhancing areas, or could keep Japan stuck in this stagflation spiral."

Shaun Richards of Core Finance TV, reports that Germany is facing a "credit crunch version of stagflation." German GDP growth has been declining year over year since 2016, and likely to plummet along with every other economy this year due to the pandemic, meanwhile inflation gauges have been rising. This is the very definition of stagflation.

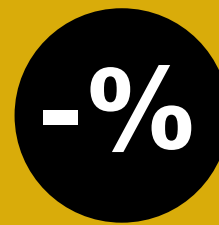
**Perhaps the most significant harbinger of future stagflation comes from former Federal Reserve officials, including none other than former Fed Chairman Alan Greenspan himself.** Love him or hate him, Greenspan has been around to see—and perhaps help create—every economic condition of the past 50 years. Now 94 years old, Greenspan literally "has no skin in the game." It can't be said that his economic forecasts have any kind of hidden agenda. And Greenspan is leading those who forecast stagflation ahead.

Greenspan sees stagflation looming on the horizon and he believes it bodes ill for the U.S. economy and financial markets.

Greenspan says. "We are moving into a different phase of the economy – to a stagflation

**” The latest round of monetary stimulus from Beijing has stoked inflation without much helping industry.**





not seen since the 1970s -- that is not good.”

Greenspan says he is already beginning to see the transition in the economy from stagnation towards stagflation.

Greenspan compares it to the U.S. economy in the 1970s.

“We’ve been through this period before of stagflation, back in the 1970s, and it’s going to be very tough to get our way beyond it.”

Greenspan worries about some factors that many others seem to have forgotten about: the national debt and the federal deficit. The federal deficit will exceed \$1 trillion in fiscal 2020, according to the Congressional Budget Office. “This is a terrible fiscal situation we’ve got ourselves into. We’re in a stage where if nothing is changed, we’re about to go from stagnation to stagflation, with a significant rise in inflation and a

wholly significant imbalance in the economy, which is very difficult to anticipate at this stage. But the outlook is not exactly terrific. All the econometrics that I’ve seen over the years tell me that when you increase the deficit and you increase the demand for funds, you’re crowding out capital investment, and capital investment is the key statistic determining output per hour, that is, productivity.”

Alan Blinder, former Vice Chairman of the Federal Reserve Board of Governors and a professor of economics at Princeton University, has a similar outlook. He believes that trade tensions, with China and other countries, could produce a shock similar to the stagflation of 1973-74: “It’s a stagflationary shock. Hopefully a small one. It looks like pretty smooth sailing for the economy. But this is capable of killing it.” Keep in mind this was before the pandemic.



**Greenspan compares it to the U.S. economy in the 1970s.**



**From the Great Depression, to the stagflation of the seventies, to the current economic crisis caused by the housing bubble, every economic downturn suffered by this country over the past century can be traced to Federal Reserve policy. The Fed has followed a consistent policy of flooding the economy with easy money, leading to a mis-allocation of resources and an artificial ‘boom’ followed by a recession or depression when the Fed-created bubble bursts.**

Ron Paul  
February 4, 2009

# Lessons Learned

Investors should appreciate the fact that, unlike the 1970s, today they have the benefit of hindsight. Stagflation is no longer unprecedented.

**So, investors should prepare now.**



## How?

Start by taking a look at what happened in the 1970s during the first great era of stagflation.

The period 1972-75 saw the worst bear market in stocks since the Great Depression. This period included a vicious 21-month bear market in which the S&P 500 fell 45%. The price of gold in London increased from \$66 per ounce to \$186 per ounce, an increase of 282% in less than two years.

Meanwhile, certain carefully selected, truly rare, investment quality coins appreciated even more.



# 1970s

## **GOLD AND STOCKS DURING THE 1970S ERA OF STAGFLATION**

**S&P 500 1973-74: -45%**

**Gold 1973-74: +282%**

Dr. Franz Pick was a noted economist and currency expert in the 1970s when he published an annual measure of the performance of various investment categories.

On February 8, 1973, Dr. Pick's survey was published in the Pittsburgh Post-Gazette in an article by journalist Sylvia Porter. An index of over 3,000 selected "Numismatic Coins" in specific guides appreciated 225% during 1972 to lead all categories. Gold bars, on the other hand, appreciated just 45%.

## **RARE COIN PERFORMANCE DURING THE 1970s**

**DR. FRANZ PICK'S**

**NUMISMATIC COINS (1972): +225%**

This performance was confirmed in another article published on August 22, 1977 in the *New York Times*. The 1977 *Times* article quoted the famed coin dealer, Harvey Stack, who said, "*Now we can see that coins had almost continuous growth between 1970 and 1977. What was worth \$1 in 1970 is now worth \$4.*"

There is no guarantee that history will repeat itself (past performance is no guarantee of future performance), but every investor needs to be prepared for stagflation, especially given the weight of the evidence suggesting that stagflation may soon be making a comeback and likely to be for a protracted period of time.


## **HISTORY HAS BEEN VERY UNKIND TO THOSE WHO IGNORE THE WARNING SIGNS OF TROUBLE WHEN THEY APPEAR.**

The federal government now seems to be trying to lull the country to sleep with a false sense of security by playing games with inflation and unemployment numbers. Credible, impartial analysts and surveys indicate that the admitted-to unemployment rate is unrealistically low and the Consumer Price Index (CPI) under-reports rising prices. These may be great tactics to get incumbent politicians re-elected, but it will only magnify the effects and impact of stagflation.

Call **Finest Known** now to learn more about investing in rare and precious coins during this challenging economic time.

**(888) 751-1933**





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