

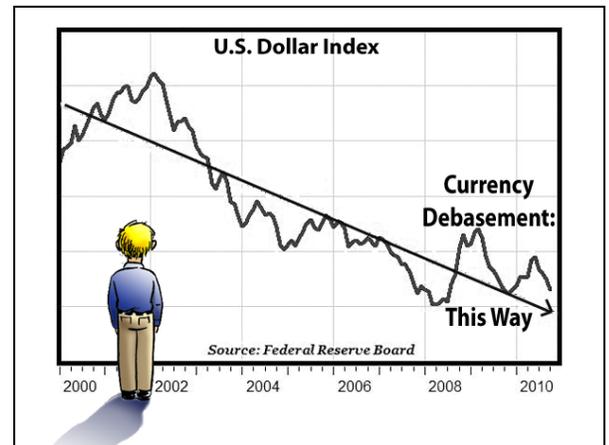
Protecting Your Retirement Against a Declining Dollar

Navigating the Retirement Maze

The chart accompanying this article isn't the profile of a double black diamond ski slope at Wildcat. It's actually much more frightening: the loss in value of the U.S. dollar over the past ten years as compared to nine major world currencies. Not coincidentally, during that same time period the Federal debt has more than doubled, the money supply has grown by 80%, and per capita GDP has decreased (once government deficit spending is subtracted out).

With the ongoing market turmoil, investors are looking for ways to safeguard their wealth. Treasury bonds are considered the safe alternative to stocks, though bonds will fall when interest rates eventually increase.

Not unnoticed by investors is precious metal prices. Since 2002, gold has appreciated by 500%; silver by 750%. True, there have been periods when gold and silver significantly lagged the stock market. More relevant, though, is whether they represent prudent investments today.



It Really Is Different This Time

The last time that gold and silver peaked in price (1980), the U.S. was beginning two decades of strong economic growth, emerging markets were just barely emerging, and the Federal debt was less than \$1 trillion. Fast forward thirty years. China and emerging market countries are now formidable competitors, the U.S. debt is \$14 trillion and rising, Europe is on the verge of a debt implosion, and the near-term forecast for the U.S. is continued high unemployment and a “muddle along” economy.

There are some compelling reasons for owning precious metals today:

- For nearly 3,000 years, gold and silver have been regarded as money and stores of value.
- Major world governments, particularly China and India, have moved away from purchasing U.S. Treasuries with their surpluses, and into gold.
- Precious metals have historically appreciated when inflation is rising and economic growth is weak.
- With Washington unlikely to make any meaningful deficit reductions – \$2.4 trillion over ten years isn't even a down payment – and with over \$65 trillion in unfunded liabilities, our current debt overhang will continue to impair the dollar.

Reasons for Owning Precious Metals

Precious metals can provide significant benefits when added to stock and bond holding:

- Their prices tend to move differently from those of stocks and bonds, and so provide diversification and reduced volatility.

- They counterbalance a depreciating dollar, as they typically appreciate when the dollar declines.
- They are globally accepted as a valid form of money.

In fact, I tell our clients that precious metals are an alternative investment class that acts as dollar depreciation insurance.

Will The “Gold Bubble” Burst?

Some people claim that we are in a “gold bubble” right now. Here’s your chance to prove otherwise. At your next social gathering, ask ten people whether they have at least 10% of their assets in precious metals. I’d be surprised if you find one person who does. The day that you conduct the same survey and more than half of your sample set respond positively, that’s when a bubble is forming.

If the U.S. Government had any likelihood of adopting fiscally sound spending practices, precious metal holdings wouldn’t be as important. As I can’t envision this happening, the best time to start accumulating gold and silver is now.

How to Buy? How Much?

As the prices of gold and silver are often volatile, dollar cost averaging is a prudent way to acquire them. The easiest ways to do this are with bullion coins (steer clear of “collectibles”), and exchange traded funds (ETFs). Our favorite ETFs for this are SGOL, IAU, and SIVR. Because of how precious metal gains are taxed, these are typically best held in tax-deferred accounts.

How much is enough? Around 10% of total investable assets is considered adequate by many financial experts. Some people will find that too extreme, while others may opt for more. It depends upon each investor’s comfort level.

You wouldn’t drive a car or own a home without adequate insurance. So why not insure your portfolio against dollar depreciation? Owning some precious metals is one way to accomplish this.

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