MARKET COMMENT

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Profitable advice for smart people

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If The Worst Happens, This Has You Covered

By: Stephen Leeb

Record debt levels in the U.S.A. Rising inflation. Throw in a potential gathering storm between West and East, and you have grounds for fearing the worst.

Any number of events, from a trade war to, heaven forbid, a ratcheting up of military conflict at some flash point somewhere in the world could catapult our economy into a severe downturn. And it could happen faster than you might think.

A Bloomberg headline just now has hollered that Defense Secretary Mattis is pushing for tariffs on steel and aluminum. He views imports of these metals as a national security threat. But the trade war such tariffs might spark would be a deflationary threat to West and East alike.

A military conflict could be either deflationary or inflationary. One missile that hits its target in the middle of the Saudi oil fields would send commodity prices to the moon.

The Need for Protection

I am not predicting such calamity. I am simply reminding anyone reading this that we are a mere decade away from the 2008 events that almost spelled a coda for capitalism. This is no time to be complacent.

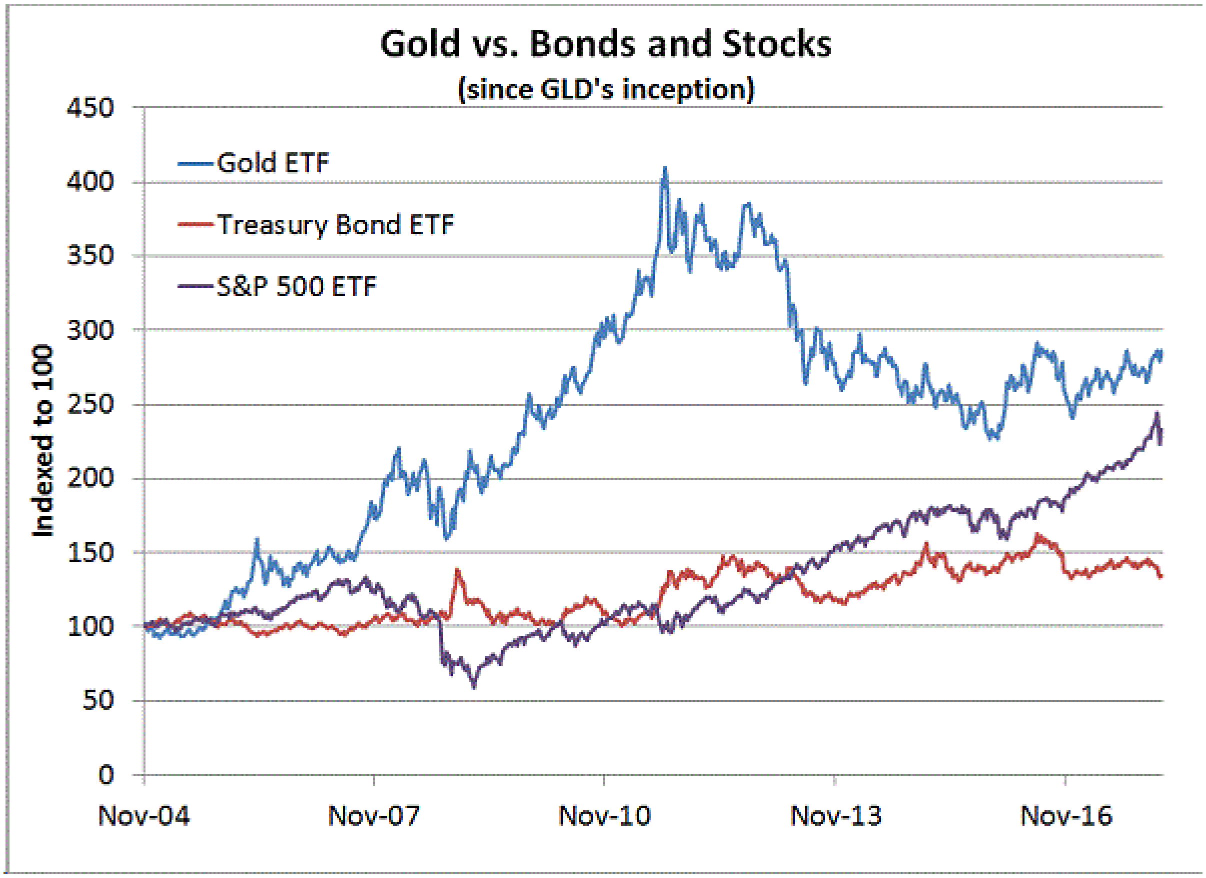
The two conditions that are most dangerous to every investor's wealth are inflation and deflation. Often one follows the other. In 2008, surging commodity prices and unwieldy debt led to a deflationary bust.

Now more than ever investors should seek protection against both inflationary and deflationary threats. Even if one of these conditions emerges on a less than full-blown scale, it still can inflict a lot of damage to your finances and your well-being.

For instance, a relatively small rise in inflation can play havoc with investors who depend largely on fixed-income vehicles. And just the threat of a recession could send our richly valued stock market tumbling.

Fortunately, it turns out there is one investment that simultaneously offers insurance against deflation and inflation alike. That investment is gold. While gold often is thought of as an inflationary hedge, history shows it's the best guard against deflation as well.

For as long as records have been kept, every case of deflation and tumbling economic activity in either the U.S. or Britain has seen gold gain in purchasing power. Ditto for its role during inflation. Just look back to the wild inflation of the 1970s: Gold outshone every other asset, as it did when commodities were surging during the 2000s.



Gold and the Human Psyche

Why is gold invariably your best friend during extremes of deflation and inflation? It's because in those times gold is the only thing you can count on to maintain purchasing power. Paper money works fine as long as there is not a severe crisis. But during times of crisis, it loses ground. In the 1970s and in the Great Recession that followed the 2008 commodity bust, only gold kept you ahead of the game.

In a tumultuous world it would be foolish not to have some gold. Not only would it fly in the face of relatively recent events, it also would fly in the face of history and, I would argue, the human psyche.

You can go back nearly 3,000 years and find examples of gold coins. You can find gold jewelry more than 10,000 years old. Gold has abundant unique qualities, ones that elevate it to some Platonic ideal of beauty. It is nearly indestructible and never loses its luster. It is the world's most malleable metal. It is the only metal prized more for itself than for any material or commercial uses. And it is scarce.

Strategies for Income

Gold even has something to offer income investors. While gold does not pay dividends, you can use it to generate income. How? By taking advantage of strategies involving the very popular **SPDR Gold Shares ETF** (NYSE: GLD). This ETF, which tracks the price of gold, has options associated with it.

This means you can sell calls against part or all of your position in the ETF to generate income. Obviously you need to balance a lot of variables. If you write calls that are near the price of the GLD, your income will potentially be high but you may end up losing your protection. There is also the issue of margin and of how margin interest is related to inflation. You might want to use your entire gold holding to generate income or just a portion of it. All these considerations are interrelated.

But whatever your strategy, simply owning gold keeps you hedged against the two worst economic pitfalls, inflation and deflation. If you can use your holdings to generate income, so much the better.

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Investing Daily, a division of Capitol Information Group, Inc.
7600A Leesburg Pike
West Building, Suite 300
Falls Church, VA 22043-2004
U.S.A.