The Money GPS *Lite*

*Guiding You Through An Uncertain Economy*

A Preview Into *The Money GPS*

David Quintieri
Introduction

"Time is the most precious element of human existence. The successful person knows how to put energy into time and how to draw success from time."
Denis Waitley

Rare Resources

Despite all of the changes in our lives and technological advances throughout the generations, we are still bound by a finite resource: time. Because we can't create any more time, we need to manage that resource as efficiently as possible. After returning from our daily routine of work or school, we aren't left with much time to invest, create businesses, and learn about the world. With the rate of information more than doubling every two years,\(^1\) it makes these tasks seem impossible. In fact, it really isn't possible. However, if you choose specific topics, you can focus on them and get a good foundation built, in order to succeed at it.

The Foundation Of Financial Knowledge

The purpose of the book is to provide a foundation of knowledge in the world of investing. This book does not have a poetic writing style or any other form of twitter. It is a shotgun blast of information, gathered from government statistics, mainstream media, and economist views. Investment media is bombarded by self-proclaimed "gurus", analysts, and money managers. Unfortunately for them, their performance speaks for itself. In the most recent economic crisis, trillions of dollars evaporated in the financial markets—all through the hands of the so-called experts from whom most people take their advice.

The Money GPS is a formula for guaranteed wealth. With a solid foundation and minimal maintenance, anyone can understand exactly what's going on in the world and how to profit from it. If you rely on the government or money managers who do not have your best interests in mind, you will not succeed. If you invest purely for your own good, you can stick to the principles, apply the formula, and achieve wealth, regardless of the economic conditions.
Into Your Own Hands

Most people are sinking further into debt, when factoring in inflation and general living expenses. In order to overcome this downward spiral, you need to have more income than your expenses. Mutual funds are simply not the answer. While a mutual fund might be a better investment than cash and government bonds, it's not going to outpace inflation. In fact, the world's largest mutual fund, the Total Return Fund by Pimco, has only returned less than 7% over the last decade. This is further evidence that everyone can make money when the stock market is rising, not when it's falling. When the economy begins to head downward, people panic while their wealth disappears before their very eyes.

Acquiring continuous wealth isn't hard but it will require skepticism of much of what is in the mainstream media.

Pieces Of The Puzzle

The following are some current and future issues that we face.

Money Issues

Most countries around the world are in an obscene amount of debt. Many of which are requiring bailouts from more-solvent nations or worse, central banks. They are printing money at lightning speed in order to try and save their economies from high unemployment and low levels of consumer spending. It's not working as this crisis has been dragging along. The Federal Reserve is printing trillions of dollars and handing it out to financial institutions around the world, hoping to keep the world above water.

Europe's Weakening

European nations are falling victim to the virus of debt contagion. The system is slowly breaking down as country after country are requiring bailouts by other nations, as well as banking and other institutions. Ireland, Greece, and Portugal have all received bailouts to keep their economies afloat. The eyes are now on Spain and Italy as the cracks have began to show in their markets as well. There have been tens of thousands of cuts of European bank employees as a result of the fear of collapse. The banks have gambled with people's money and now they are forced to keep their profits up by cutting back on
employees, not their gambling.

**Real Stuff**

The U.S. dollar has weakened against many currencies over the past decade. Although Europe's problems pose a more immediate threat, the U.S. dollar looks to be fading away from its role as the default currency around the world. It is easy to see the gains or losses when measuring one currency versus another. When buying goods online from overseas or when you go on vacation, it's easy to see what your money is worth in that other country.

Most people don't measure their money in relation to real goods, however. When you think about how much "stuff" a $1 bill purchases now, 10 years ago, and 100 years ago, the difference is obvious and staggering. This goes for any country around the world, some more so than others. Paper dollars are continuing to lose their value in relation to real goods.¹⁶

For the last decade, gold and silver have been increasing in price when you purchase them in any currency. The metal is still the same lump of metal, yet it costs more dollars to buy them. That paper bill still has the same number printed on it which fools the public. This hoax makes you think that it is worth the same as it was when you earned it working your 9-5 job. Yet, it is incapable of maintaining its purchasing power over long periods of time. This is inflation robbing the public of the value of the money they earn.

**Free Your Mind**

The truth will unfold in the following pages. The governments around the world are incapable of preventing crashes and fixing economic or political issues. Their policies always work in favour of the bankers and the average person gets the short end of the stick, time and time again. Prepare yourself to learn how crashes occur and how they are made worse by those trying desperately to solve the issue.

Brace yourselves for an uncertain future.
How A Bank Works

“Any system which gives so much power and so much discretion to a few men, [so] that mistakes—excusable or not—can have such far reaching effects, is a bad system.”
Milton Friedman

Where's My Money?

Many years ago, some clever bankers noticed that not everyone redeemed their money at the bank all at once. In Peter Schiff's book, *How An Economy Grows And Why It Crashes*, he explains that your money isn't really in the vaults of the banks you deposit it at. They decided to loan out more than they actually had in reserves by using the clients’ savings in order to make additional profit.

Attention: Fraud Alert

This system works well and enables the banks to make incredible profits from their customers who earn basically next to no interest for keeping it in the bank. The party is over when the majority of the people start asking for their money back and the fraud is exposed. This fraud is known as Fractional Reserve Banking. As economist Murray N. Rothbard explains, banks only have to keep a fraction of the money on hand. When they loan out more than they have, "the nation's money supply has just, by magic, increased... The inflationary, counterfeiting process is under way.”

This amount varies based on the economic conditions, but on average, it's about a 10:1 ratio. To generalize, you could say that for every dollar that you deposit, they can loan out about $10. In order to get an image of this in your mind, picture a pyramid, with its wide base and narrow top. It has a firm footing on the ground. It's stable because that's its design. Now flip it upside down; That's fractional reserve banking.
Increasing Levels of Debt

"The U.S. is the largest debtor nation in the history of the world."
Jim Rogers

Under The Table

Most of the major countries in the West are heavily in debt. The U.S. debt to GDP ratio is approximately 100%\(^1\) which is far beyond the danger zone. That is an incredibly high number, but the naysayers will still suggest that this level of debt is manageable. Although a debt level that borders anywhere near GDP is hardly manageable, let's assume that it is for a moment. The hidden truth is that these numbers do not include the largest parts of the debt! Social Security, Medicare, and Medicaid are considered "unfunded liabilities" or "off-balance sheet". They don't come up in official statistics, but the truth is that they are still forms of debt held by the government. With increasing levels of federal debt, unfunded liabilities, and aging populations around the world, many countries have a very serious problem on their hands.

Free Stuff!

The following are statistics regarding the deteriorating economic situation in the U.S.:

- More than 50 million impoverished Americans are on Medicaid.
- More than 40 million Americans get food stamps. The food stamps program has risen 80%, to $70 billion.
- More than 4.4 million Americans are on welfare.
- Close to 10 million Americans receive unemployment insurance, nearly four times the number from 2007. To top it off, benefits have been extended by Congress eight times beyond the basic 26-week program. This allows the long-term unemployed to get up to 99 weeks of benefits.\(^2\)

Unemployment Opportunity

Economist Jim Rogers agrees that all of these programs are creating a moral hazard. Why would someone work if they can get unemployment insurance for 99 weeks?
Here is a simple example: if a job pays a worker $1000 per week but unemployment insurance will pay $800, simple mathematics shows that getting a job adds only $200 per week. This reduces the incentive for people to get up and go to work. Many people are seeing this fact and taking advantage of the program.

**Pile It On**

After the real estate bubble crashed in 2008, the U.S. government took over the two largest mortgage companies: Fannie Mae and Freddie Mac. They also bailed out countless companies by distributing multibillion dollar packages. Although the official numbers vary, the unfunded liabilities amount to over $60 trillion according to *USA Today*. However, this figure had been shown to be much higher depending on the calculations. Either way, this far exceeds the total GDP by several times. This clearly indicates a massive credit bubble.

**How Can They Get Away With This?**

It works just like any other Ponzi scheme, whereby new people paying into this pool of money are funding the people receiving those benefits now. As long as new money flows in, this system can theoretically continue. However, many countries have aging populations which will increase the burden upon the individuals paying into the system now. As it stands, there is actually no money in these funds.

In *The Dollar Crisis* by Richard Duncan, he states: "Social Security is an unfunded pension scheme." He goes on to say that if a private company did this, it would be illegal but because it's the government, it isn't a crime.

**Base Money**

This is the total money in circulation over which the Federal Reserve has control. You can see the expansion of currency during the Financial Crisis. It is a shocking spike upwards, yet the only media coverage this gets will suggest that it isn’t an issue.

An increase in the Monetary Base is a visual indicator of inflation. True inflation is defined by an expansion of the money supply. Break free from the media’s spin on the economy and use this chart as an indicator of real financial health.
Monetary Base
(In $Billions, Source: St. Louis Fed)

**What Does This Mean For Me?**

As stated previously, in economics, the true definition of inflation is the increase in the money supply. The money supply increases when a central bank prints money to buy bonds, give to other foreign central banks, give to commercial banks, and bailing out failed companies. The higher these charts go, the less value your money has. To put this into context, if diamonds could be found anywhere, just like any other rock, how valuable would they be? The less of something there is, the more it is worth.

**The Money GPS Hot Point**

Do yourself a favor: get out of cash and cash-related investments and into real assets. Depending on the economic conditions, precious metals, real estate, business, and stocks will be your path to success. With government policies designed to erode the value of the dollars they are printing, it is essential to maintain the value of your hard-earned savings. Owning the right assets will allow you to prosper in any economic environment.
Inflation

"Inflation is when you pay fifteen dollars for the ten-dollar haircut you used to get for five dollars when you had hair."
Sam Ewing

Inflation's True Face

When you hear the current inflation rate, it is actually the Consumer Price Index or CPI. This calculation has a basket of different items which supposedly show the cost of living. The problem is that the government can modify the criteria at any given time which allows them to make it seem lower than it really is. This is very obvious when you read the official statistics. The rate of inflation in the U.S. for 2011 is sitting around 3%. If you can tell me that your current cost of living has only increased 3% over the last year, you would be part of a very small minority. The real rate of inflation is certainly much higher. The Fed uses what they call “core inflation” which excludes energy and food prices. By definition, that is intentional propaganda.

Despite the governments’ claims that inflation is low, the UN stated in 2011 that "global food prices are at an all time high." Food is an excellent indicator of inflation because everyone is constantly "in the market" (pun intended).

As stated, the actual rate of inflation is much higher than what is reported. John Williams' Shadow Statistics provide the most reliable source for inflation and other figures that can be found. He calculates the rate of inflation using the method from 1980 which is more accurate in showing the cost of living needed to maintain a constant standard of living. As shown in the following chart, the true inflation rate is above 10% as indicated by the "SGS Alternate". The CPI numbers are continuously relatively low and the real truth is shown here.
Inflation
(In %, Sources: BLS, Shadow Stats)


Inflation Made Easy

While the actual rate of inflation isn't too important for The Money GPS Formula, it is essential that you understand that the true rate of inflation is much higher than what is published.

Simply think of it in practical terms. The cost of a loaf of bread may have only cost a few pennies a couple generations ago, but now it's a few dollars. It's the same loaf of bread, yet it costs many more dollars to buy it. The same inflation levels apply not just to food, but to home prices, energy prices, transportation costs, and all other services we use. If you want a quick test, ask your parents or grandparents what a certain item cost when they were your age. I can assure you that it has since increased by many multiples.

A loaf of bread has not really changed in 50, 75, or 100 years. However, the cost to buy it in dollar terms has risen significantly. This is a devaluation of dollars in relation to real goods.

Take the following diagram as a visual representation of the loss in value of a $100 bill over time.
The Money GPS Hot Point

Rearrange your thinking. It's not the number printed on the bills in your wallet that matters; it's what that cash will buy you. If asset prices are rising, you can invest in those assets and have your wealth increase, too. Governments are pursuing policies that devalue their currencies in relation to real goods; so, get rid of your cash and buy those goods that will make you wealthy.

Trading Gold For Copper

Governments of the past have debased and devalued their coinage by adding copper to their gold and silver coins. They continue this process until they contain little or none of the original metal, eventually driving people not to accept it. Our paper dollars today are debased by simply printing more money.
Interest Rates

"Given the Federal Reserve system and its absolute power over the nation's money, the federal government, since 1913, must bear the complete responsibility for any inflation."
Murray N. Rothbard

Bottom Line

Interest rates are at all-time lows. Ask around and see if you can find someone who remembers a time when interest rates were lower. Good luck! If you believe that the issues facing the U.S. are not subject to contagion and can't affect your country, don't be so naive. The future holds some interesting potential scenarios in terms of interest rates.

The Money GPS Hot Point

Mortgages with variable rates of interest will present a big problem in the near future. A significant percentage of people have been buying their homes with a variable mortgage. The trouble is that once interest rates rise from historically low levels, people will not be able to make their monthly payments.

30-Year Mortgage Rate
(In %, Source: St. Louis Fed)

[Graph showing mortgage rates falling from 20% to 3% over 30 years]

Mortgage rates have been falling for 30 years in a virtually straight line.
Put Out That Fire With Interest

The current interest rates are closely linked with the rate of inflation. If interest rates are low as they are now, credit is easy and inflation will result. If interest rates go high or as in the case of 1980, historically high, inflation can be squashed, resulting in the drying up of credit. Of course, despite the fact that this is a major component to the solution of high inflation, this causes recessions and depressions so it must be balanced properly.

Fed Funds Rate
(In %, Source: St. Louis Fed)

Interest rates are at an all time low, fuelling asset bubbles.
Unemployment

"The success or failure of any government must be measured by the well-being of its citizens."
Franklin Roosevelt

The Numbers Tell It All

In the U.S., the unemployment problem is, quite frankly, a disaster. As discussed in the previous chapter, this doesn't apply just to the U.S., but Canada, European countries, and many others. Much of the world is suffering from high unemployment which ultimately drags down economic growth because people can't spend.

The official statistics show that in 2011, unemployment was somewhere around 9%, however, if you look a little deeper, you can find a different story.

Deception

The numbers that the governments around the world have provided are not accurate. Their deceptive measures are done by simply not including certain criteria in their calculations which show the real level of employment. Economist John Williams has explained that though these criteria were included prior to 1994, the government "defined them out of existence" in order to decrease the unemployment rate.

Higher

According to The Washington Post, individuals who have stopped looking for new jobs are not included in these figures. When you add them into the calculation, the unemployment rate becomes 13 per cent.

Pile It On

But it doesn't stop there. As reported in The New York Times, when you include people who are "underemployed", meaning their hours have been reduced, the unemployment rate jumps to 17.5%. 
China - U.S. Relationship

"A nation sinking deeper into debt enters into an adverse power relationship with its creditors—greater and greater dependency."
William Greider

I.O.U.

A trade deficit is the difference between a country's imports and exports. Countries with a large deficit are in financial trouble because they are not producing enough goods that the world needs or wants.

Debt For Sale

According to official U.S. government statistics, the trade deficit with China in 2010 was over $270 billion. This is the largest deficit of any two countries and it's really not surprising.

China has bought U.S. Treasuries for their reserves; these Treasuries support the value of the dollar. This keeps the dollar floating higher than where it actually should be. At the same time, in relative terms, this keeps the Chinese Yuan lower than what it should be. This strategy by China has allowed it to become the largest lender to the U.S. government.²
1920

Ghost Crash

“Gross expansion of currency and credit have depreciated the dollar just as expansion and inflation have discredited the coins of the world. We inflated in haste, we must deflate in deliberation. We debased the dollar in reckless finance; we must restore in honesty.”
Warren G. Harding

1920? Is That A Typo?

Ask most people about the crash of 1920 and they won't know what you're talking about. Sure, they've heard about the crash of 1929 and the Great Depression. But that's a different downturn with different results. The crash of 1920 was actually a depression. The only difference was that it ended very quickly simply because the government did not intervene. The market was allowed to restore its previous levels.

The reason you haven’t heard of it isn’t an accident.

A Lesson For The "Professionals"

The crash of 1920 started because the federal debt had risen dramatically due to the wartime spending of World War I. The Federal Reserve was up to its usual tactics of increasing the money supply, inevitably bringing about an economic crisis. The unemployment rate peaked at 11.7 per cent in 1921 which is quite comparable to the current unemployment rate. It then dropped all the way down to 2.4 per cent by 1923—all without the need of a government handout. This can be compared to the present economic crisis where the effects of the crash of 2008 are still present in the system due to the government acting as the crutch to the economy.

Author Robert P. Murphy points out that the crisis was solved simply by cutting costs and expenditures of the government. And as many economists and scholars would like to ignore, the economy began its upward trend in 1921. All without the massive bailout packages and other means of government intervention. The government slashed the budget tremendously. Federal spending was reduced by 65% in a single year which is a substantial decrease especially in such a short timeframe.
A key point to mention is that the Federal Reserve did not intervene. Kenneth Weiher, an economic historian, states that “despite the severity of the contraction, the Fed did not move to use its powers to turn the money supply around and fight the contraction.”

In a bull market, the Federal Reserve will expand the money supply to keep banks lending and people spending. In all of the other crashes which generally lasted many years, the Federal Reserve expanded the money supply even further, only amplifying the issue in the first place.

**Forgotten Model**

The Depression of 1920 and its results should be a model for the restoration of all future crashes. Unfortunately, this period of time lies in the shadow of the Great Depression—a crisis marked by massive government intervention. As Thomas E. Woods Jr. states, "It is not mere coincidence that the economy returned to health relatively quickly following the downturn of 1920, while on the other hand depression conditions persisted throughout the 1930s, a decade of government activism. It is precisely because monetary and fiscal stimulus measures were avoided that sound economic progress was possible."  

What Woods is suggesting is that the 1920 depression was painful but quick because the proper measures were taken to overcome it. The government reduced its spending considerably which quickly boosted the economy. This is the opposite of all other crashes where government spending increases and never decreases for fear of slipping back into the downturn.

**The Money GPS Hot Point**

The solution to a crash is to not allow the government to intervene. Unfortunately, as you will learn, the government always intervenes. The good news is that financial education prepares you to profit from this oversight.
2008

Financial Crisis

"By a continuing process of inflation, government can confiscate, secretly and unobserved, an important part of the wealth of their citizens."
John Maynard Keynes

Housing Bubble Disaster

It seems that everyone has the impression that housing prices always go up in value. But if you ask The Economist, they argue that "The worldwide rise in house prices is the biggest bubble in history."¹

Alphabet Soup Of Trash

Houses were purchased with a wide range of mortgage types which should all be considered literally garbage. Some of the names are: subprime, interest-only, ARM (Adjustable Rate Mortgages), and NINJA (No Income, No Job, or Assets).

As described in a London Telegraph article: "Just like clockwork: three years go by, then the teaser rates go" and they are forced to sell.² The people were never able to pay for the loan unless it was given away practically for free. As soon as the rates began to increase, people began handing in their keys.

Ghost Town

A massive glut of homes were built during the boom. In fact, it got so bad that as of 2008, there were 19 million empty homes in the U.S. alone.³

Recent statistics show that over 11% of all U.S. homes remain vacant. It's no question that this will continue to apply "downward pressure on home prices". In states such as Florida for example, the vacancy rate is nearly 20%.⁵
Volcanic Truth

The following is a brief explanation the foolishness created by bankers.

Breakdown

A derivative is a completely fraudulent scheme which allows bankers to gamble large amounts of money with a fractional amount of underlying assets. Think of a dollar bill in a Hall of Mirrors. There is only one dollar, yet there appears to be hundreds more. Bankers can then use these hundreds of dollar bills, even though they are not really there.

In *Meltdown*, Thomas E. Woods Jr. states that "traditionally, a home owner took out a mortgage at the local bank and made his monthly mortgage payments to that institution. More recently, banks have been able to sell these mortgages on what is called the secondary mortgage market to institutions like Fannie Mae." He goes on to say that Fannie bundles up mortgages and sells them off to institutions for investors to buy.\(^8\)
Vehicles

As in all other bubbles, a bunch of new instruments were created but MBS and CDO's will get the spotlight here. A CDO was an incredibly ridiculous concept which should have never caught steam but unfortunately has. Its full name is Collateralized Debt Obligation. Translation: various types of debt—home mortgages, car loans, credit card debt—all combined into one "investment" for investment firms to make bets on.

Ratings

A CDO was generally rated as a AAA product, meaning it was rated as the same quality as the top first world countries’ debt. They were able to give it this rating because it was allegedly well diversified even though it contained nothing but subprime debt. The joke is that they packaged up a bunch of garbage and blended it all together and called it a spectacular "investment vehicle".
The Money GPS Hot Point

The world is drowning in a sea of debt and the derivatives are the centerpiece or the pinnacle. The official statistics are shocking and almost unbelievable, but $1.5 quadrillion ($1,500,000,000,000,000) worth of derivatives exist and are traded on the exchanges. This number is absolutely ridiculous when you consider that the total GDP, the total value of all countries combined, is only about $60 trillion according to The World Bank. That means that on top of already existing fractional reserve banking, there is 25 times more derivatives than there is real value in the world.

Derivatives are behind the entire financial system. They sit on top of the fractional banking scheme, weighing it down even further.

Irresponsible Behaviour And Its Results

In the first ever audit of the Federal Reserve, it was found that they gave "$16 trillion in secret loans to bail out American and foreign banks and businesses during the worst economic crisis since the Great Depression." The Fed printed "trillions of dollars in financial assistance to foreign banks and corporations from South Korea to Scotland." It is evident that the Fed is essentially the world's central bank and the center of the financial world.
Deflation Or Inflation?

“Governments are not there to solve problems. They are there to create problems and to take more and more power and freedom from individuals.”
Marc Faber

Two Sides Of The Coin

Regardless of what you believe, in either scenario, you don't want to own cash. You simply can't win with cash. You need to own assets in order to hold value, not just to make profit.

Inflation increases the nominal value of assets; therefore, you must take advantage of this. Said differently, it takes more dollars to buy the same amount of something at a later date. For example, in 1970, the average price for a gallon of gas in the U.S. was 36 cents. About 40 years later that same gallon of gas has exceeded $3.5

What must be understood is that these are the exact same items they were 40 years ago, yet they cost many more dollars to purchase. This is paper money being debased slowly over time. This is similar to the empires of the past adding copper to their gold coins.

The Case For Inflation

Historically, there is a growing disparity between wages and the cost of goods and services. Rising asset prices give the owners of assets more wealth.8 If you don't own these assets, you can't take advantage of their ability to preserve wealth.

The Federal Reserve has announced that they will leave the interest rates at zero until at least mid-2013 in order to keep the economy alive.9 This is yet another case for further inflation by constant intervention. The Fed has two bullets in their gun: interest rates and money printing. Now that interest rates are all the way at the bottom, they don't have any other options.

Back To The Basics

Some books by "experts" make claims that they have the "secret" to making money.
Others claim that there is no secret and you just have to save a portion of your income and use compound interest to make your wealth over decades. *The Money GPS* is different because it is a formula, guiding you to wealth. It is completely diversified and allows wealth to be passed on to further generations. It is not a secret and doesn't rely on anything. *The Money GPS Formula* works in an inflationary or deflationary environment. The only requirement is maintenance of financial education to understand when it's time to buy more assets.
The Asset Classes

"An asset puts money in your pocket and a liability takes money from your pocket. The rich understand the difference and buy assets, not liabilities."
Robert Kiyosaki

The Money GPS Formula

With such uncertain conditions ahead, it is more important than ever to be prepared. True diversification allows you to weather any storm. As usual, we need to ignore the incentive-based financial advisors and understand reality.

In order to be completely diversified, all four of the elements in The Money GPS Formula must be part of your portfolio. The four components are: business, commodities, paper assets and real estate.

Show Me Your Assets

Eventually, it is required to have all four parts of the formula in order to weather any storm. Primarily, most investors and financial experts have one or two components, but rarely ever all four. They can be spotted driving a Ferrari in a boom and then taking the bus in a recession.

Cash Flow

Having assets that provide cash flow is the objective. The goal is to have enough income from your assets to pay off all your expenses. When this goal is reached, you can hand in your resignation letter, say goodbye to your co-workers, and head to the airport. A full time job is no longer required because the assets are paying for your house, car, and food instead of trading hours for dollars. It's a change in your normal thought process.

Investing according to The Money GPS Formula means throwing away what your financial advisor told you.
The Money GPS Hot Point

That is essentially what *The Money GPS Formula* is: Using all four asset classes to provide continuous cash flow exceeding all expenses, regardless of what is occurring in the economy.
Paper Assets

"Eventually the interest payments on the debt will be so huge that they will just have to print money. Then they repay in essentially worthless confetti."
Marc Faber

Popular Paper

Paper is the most common investment made by individuals and financial institutions by far. In most cases, they exclusively own paper investments due to their liquidity and ease of use. Paper investments include stocks, GIC's/CD's, bonds, mutual funds, RRSP's/401k's, and others.

Share The Wealth

A share is simply a divided unit of the value of the company. Every company issues a certain amount of shares at any given time. The current value of the company—known as the market cap—divided by this number equals the current share price. For example, if a company is worth $100 and it issues 10 shares, its current stock price is $10.
Show Me The Money

Investing in stocks can provide income in two separate ways: appreciation and dividends.

Appreciation

All stocks can provide the chance of appreciation in its price. If you buy that stock for $1 per share today, it could be $2 tomorrow and you've just doubled your money. Although you don't want to rely solely on appreciation, if the price happens to rise, you can make a hefty profit in the event you need to sell.

Dividends

The best reason to own a stock is the cash flow from its dividend. A dividend is a payout every quarter to each shareholder. You make money whether the stock goes up or down, boom or recession. The percentages are generally small (less than 5%), but if you find a good company, you can leave the money there long term and have it produce income without you doing a single thing. Your money, making money—this is a key goal!

Tips And Tricks

• Stocks can be highly volatile, meaning they can drop to near 0 in seconds. It's very important to buy with a Stop Loss. This is a value that you set so that it will automatically sell if the stock reaches that point. It does cost more per trade, but it's worth a few extra dollars for the peace of mind.
• Pay attention to the current interest rates. As stated earlier, the stock market can't perform well unless interest rates are low. If rates are headed significantly higher, stocks will have trouble making new highs.
Commodities/Precious Metals

"People of the nation do not understand our banking and monetary system, for if they did, I believe there would be a revolution before tomorrow morning.”

Henry Ford

Commodity Truths

A major disruption in any commodity will cause its price to skyrocket. Keep an eye out for price moves after an oil spill, an earthquake, or some other event as a teaching tool.

The Obvious Truth

The tar sands in Canada are a perfect example of oil in shortage around the world. Tonnes of dirt need to be sifted through to get hold of small amounts of oil. This is a desperate attempt at replenishing the world's thirst for crude oil. Oil is becoming more expensive to extract when extreme measures such as this need to be taken. The world is running out of oil that's easy to access. As a result, the cost of each barrel of oil needs to be significantly greater for it to be worth digging for it.

Destination: Higher Prices

Based on the data presented here, we can expect oil and other commodity prices to rise dramatically over time.

It is important to note that commodities are priced in U.S. dollars. Due to the devaluation of dollars, all commodities will increase at least nominally. This is another reason to invest in assets such as commodities because regardless of the shortages, the dollar is losing value; therefore, it will require more cash to purchase the same amount of goods.

Investing in commodities such as oil may prove to be an asset which appreciates far greater than any investment the bank can offer. Also, it provides a hedge against the rising costs that you will encounter over the years. As fuel for your car rises, the appreciation in your oil-related assets can offset this. Having oil's price reach very high levels isn't all bad news if you are positioned properly.
Running On Fumes

According to the Silver Institute and GFMS Limited, in 2010, supply and demand for silver was equal.\textsuperscript{6}

The skyrocketing demand for silver’s use in fabrication, solar panel usage, and so many other technological processes puts pressure on the supply and demand factors involving this commodity.\textsuperscript{7} China's four-fold increase in silver consumption in one year is putting pressure on silver-exporting countries due to the surge in demand.\textsuperscript{8}

Gold Versus Real Estate

The bull market in real estate over the last two decades in Vancouver and to a lesser degree, Toronto, has been steady and practically unshakeable. Despite this, Canada's real estate still takes a back seat to gold over the past decade. When we price our homes in gold instead of dollars, we find that it takes significantly less gold to buy a home now, then it did a few years ago.

Take the example of Toronto: in 2002, it took about 700 oz of gold to buy an average single detached home. In 2011, it took about 350 oz. of gold to buy that same house.\textsuperscript{13} That means when you price it in gold instead of dollars, it is actually worth 50% less than it was less than a decade ago.

Don't Sell The Farm Just Yet

The actual price of the metal doesn't actually matter. What's important to note is how much could an ounce of metal buy you in the real world. Remember to think of it in terms of purchasing every day items.

Stocks

There have been multiple times when the Dow Jones and gold were the same value. For example, in 1980, the Dow and gold were both 850, at which point gold became overvalued and stocks were undervalued. Even now that gold has risen significantly and the Dow hasn't been doing well, they are still many multiples apart from each other. There will be a day when they meet again, only replaying what has happened in history.
Real Estate

“‘Cash flow’ is the most important word in the world of money...The second most important word is ‘leverage’. Leverage is the reason some people become rich, and others do not.”
Robert Kiyosaki

Your Great Grandchildren Will Thank You

Real estate is arguably the best way to pass wealth on, generation-to-generation. There is a misconception, however, that real estate values never drop. Ask an American citizen today if he believes that statement.

Owning an asset such as real estate provides an asset class that can't go out of business, is relatively slow in market swings (unlike a stock that could crash in minutes), having the unparalleled ability to pass wealth on, major tax incentives, cash flow, and maximum leverage.

Multiple Streams

A real estate property provides you with four different ways to make money, making real estate investing the most beneficial investment of all asset classes. Those four are Appreciation, Depreciation/Taxes, Amortization, and Passive Income.

Appreciation can be beneficial in two ways. When it comes time to sell (which isn't recommended), you will have the capital gains during that period. There is also the chance that you can use the equity built up on the appreciation of the home, then refinance the house at its new value. You can pull out the equity you have earned and use it towards another investment. This is a risky proposition, however.

Depreciation/Taxes

Owning a real estate investment property allows you to write off certain expenses, ultimately leading to increased profits. "You recover the cost of income producing property through yearly tax deductions. You do this by depreciating the property; that is, by deducting some of the cost each year on your tax return."
As for taxes, once you own a rental property, you are able to write off the expenses you run up. "You can deduct gross salaries and other benefits you pay to employees."\(^5\)

Mortgage interest can be deductible on your income taxes. "In most cases, you can deduct all of your home mortgage interest."\(^6\) Alternatively, if you bought a home with cash, you wouldn't be able to make any tax deductions.

Amortization

No asset class other than real estate has someone else paying off the debt you owe. The renter of the property is paying off the mortgage and once paid off, it will put even more money into your pocket.

Passive Income

Cash flow. This is the best way to make money long term! If you purchase your homes properly, you can receive a paycheque every single month without having to work for that money. The key is that the rental income must exceed the monthly expenses.

Leverage

One of the best things about real estate is the amount of leverage you can use.

Case Study: $50,000 Investment

If the property you are purchasing is $100,000 and you put $50,000 down, you will get a bigger return on your money every month than if you put $25,000 down. However, if you buy two homes, putting down $25,000 on each instead, you will receive two smaller paycheques which may equate to the same total monthly. The benefits are clear, however. The home only has to appreciate $25,000 to have a 100% return on your investment, as opposed to 50%. Plus, you now control $200,000 in assets.
Making Debt Profitable

In the real estate investment world, debt can make you very rich if used properly. Here is a shotgun blast of ideas:

• It is best to buy older homes (1975-1985), rehab them, then charge more accordingly. When it comes time to refinance the property, you can have the property reappraised at its new value which will give you more equity. If the reappraised value exceeds the amount you personally invested, your investment is now paying entirely for itself.

• Buy a washer and dryer for the property, allowing you to charge more rent. Let's say an additional $40 more per month. You then finance the purchase of them for example $5 per month. Your profit is now an additional $35 per month. You are able to use loaned money to increase profits while having the tenant pay off the debt.

• Add a garage to a home that doesn't have one. It may cost up to $20,000 to add a two-car garage, but it will add value to the home and will increase the number of potential buyers. You can increase the monthly rent by allowing the tenant to use the garage, adding to your monthly cash flow. This can add another 20% in value for the property.11

• Adding an extra bathroom into the house is a one-time fee that will pay for itself and more. As with a garage, it also adds more potential renters and, therefore, less chance of vacancy. According to Nationwide, an additional bathroom can add 10% to the home’s value.

• On that same note, adding an additional bedroom can add another 10% to the home’s value.12
Business

"There’s only one reason to be in business: to create profit."
Brad Sugars

The Idea Fairy

If you want to have more freedom and money, you need to own your own business. As Seth Godin wrote, "When exactly were you brainwashed into believing that the best way to earn a living is to have a job?" By changing your thought process to understand that trading hours for dollars is futile, you can begin to learn how to have your ideas make money.

Create Scarcity

Google's Gmail is a great example of a product that sells itself. When Gmail first opened, new users could sign up by invitation only. Those who had an account could invite a select number of people. Those people could invite a select number of people, and so on. They created an exclusive club based around scarcity. There were only so many email accounts and if you were lucky enough, you could have one. It spread fast.

Times A Changin'

Marketing has changed over the years. The old strategy will no longer be a profitable method of creating awareness to your business. As Seth Godin points out, "marketing by interrupting people isn’t cost-effective anymore. You can’t afford to seek out people and send them unwanted marketing messages, in large groups, and hope that some will send you money. Instead, the future belongs to marketers who establish a foundation and process where interested people can market to each other. Ignite consumer networks and then get out of the way and let them talk." What he means is that handing out 10,000 flyers or sending mass emails to people just doesn't work. People are programmed to hit the delete button on spam, throw away the flyers, and ignore the salesman.

Think Small!

The most important thing about business is to understand your niche. You don't have to
sell your product to the whole world, your entire country, or even your city. Pick something that people want. A small group of people is all you need. "No one is going to eagerly adapt to your product. The vast majority of consumers are happy. Stuck. Sold on what they've got. They're looking for a replacement, and they don't like adapting to anything new…The only chance you have is to sell to people who like change, who like new stuff, who are actively looking for what it is you sell…After the early adopters embrace what you're selling, they are the ones who will sell it to the early majority—not you." Now you have a team of volunteer salespeople doing your work for you.

Future Outlook

"The financial system went bust but it was bailed out by the government. The next time the train stops is when the governments go bankrupt. And that day I really look forward [to] because that is what they deserve."
Marc Faber

Europe Has The Virus

Europe’s debt crisis is falling victim to contagion. With the Euro's "one interest rate fits all" policy, the system is doomed to fail. Certain countries using the Euro are not justified and the results are brutal for some and a drag for others. They are heavily in debt and one by one, the weak countries are requiring bailouts and may eventually go bankrupt.\(^1\) The unfortunate truth is that it is not the people themselves that are in financial trouble. It is the governments and banks who have gambled away the money of the people.

Dollar Getting Dizzy

Pimco manages the largest mutual fund in the world with total investments of over $1 trillion. This kind of money has the power to move markets and as Bill Gross, the CIO has recently said "unless entitlements are substantially reformed, I am confident that this country will default on its debt."\(^7\) What he means is that unless they reduce the amount paid out for Social Security, Medicare, Medicaid, and other "off-balance sheet" figures, the U.S. is doomed.

China: Setting The Trend

China is the big news for the foreseeable future, partly due to simple demand of commodities. As more Chinese move out of the farms and into the cities, they stop growing their own food, thus forcing them to buy it. As a result, agriculture prices will go higher because of the demand. As these people start driving, oil demand will increase, resulting in prices to go higher. China is already the world's largest car market and it has only just begun.\(^{13}\) They are the most-populous country, the world’s biggest energy user,\(^{14}\) they have the most cell phones,\(^{15}\) the largest PC market,\(^{16}\) and are currently the
second largest economy in the world and on its way to the top spot. All the technology and energy usage is long-term bullish for commodities because of the utter demand.

*The Money GPS Hot Point*

As discussed, there have been countless cases throughout history of countries trying to print money and use deficit spending to get out of their problems. In the long-term, this has absolutely never worked. Why then, do the governments believe that somehow, this time is different and that they will be successful at preventing a collapse?

*Crystal Ball*

More bailouts, money printing, and government intervention will occur. Additional international organizations or funds will be created and existing ones will have their powers expanded, in order to save the economies around the world from collapse. These promises have been made many times before, starting with the introduction of the Federal Reserve in 1913, the World Bank in 1944, the establishment of the IMF in 1945, and more recently, the EFSF (European Financial Stability Fund) in 2010. Historically, none of these organizations were capable of preventing crashes and instead distort the market and burden the taxpayer further. The EFSF and any new organizations that are created will not defy what is laid out in the pages of history.

Brace yourselves for an uncertain future.
Section 4

This section is filled with words from the professionals themselves. I have asked Bob Chapman, James Turk, and David Morgan to add to this book and also to give you a place to go now that your financial education needs to be maintained.

_The Money GPS_ has Section 4 and so much more content than this _Lite_ version does.

If you would like to purchase _The Money GPS_, please go to TheMoneyGPS.com for further details.

If you would like to contact me directly, please email me at david@themoneygps.com.
References

Introduction

How A Bank Works

Increasing Levels Of Debt

Inflation

Unemployment

China – U.S. Relationship

1920 – Ghost Crash

2008 – Financial Crisis
The Money GPS

Future Outlook

Cover Page
Artwork originally from photoeverywhere.co.uk
The Money GPS is a formula for guaranteed wealth. With a solid foundation and minimal maintenance, anyone can understand exactly what’s going on in the world and how to profit from it. If you rely on the government or money managers who do not have your best interests in mind, you will not succeed. If you invest purely for your own good, you can stick to the principles, apply the formula, and achieve wealth, regardless of the economic conditions.