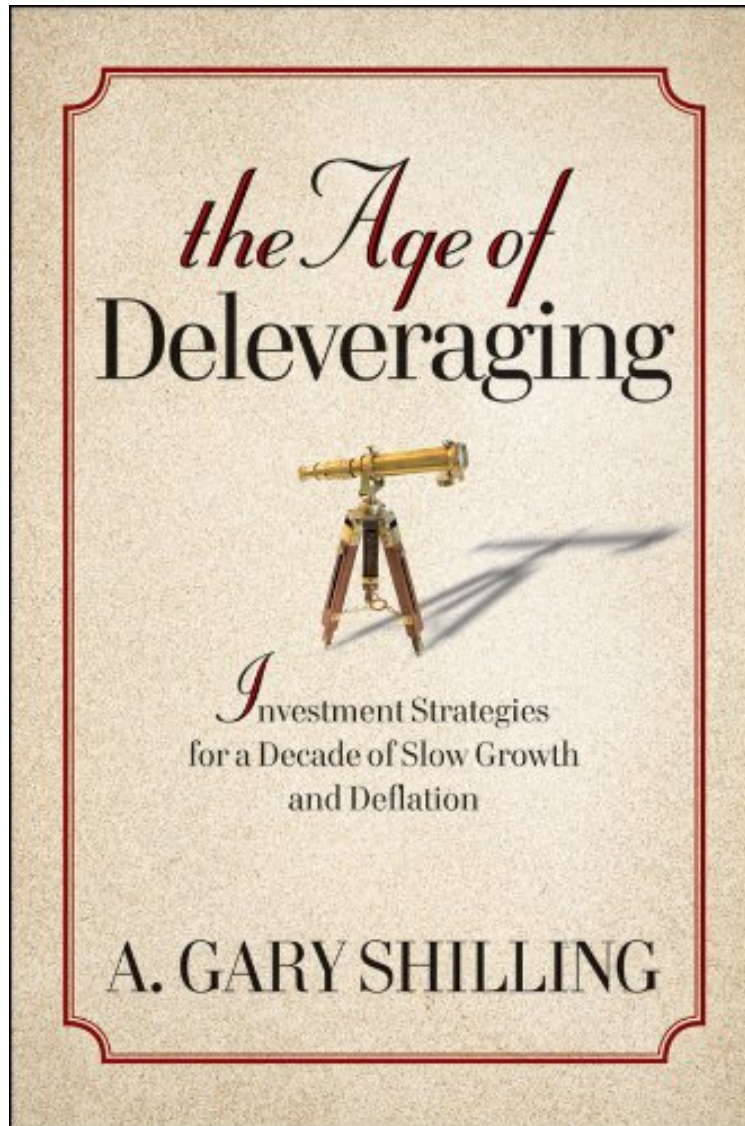


# The Age of Deleveraging: Investment Strategies for a Decade of Slow Growth and Deflation

A. Gary Shilling

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## A. Gary Shilling : The Age of Deleveraging: Investment Strategies for a Decade of Slow Growth and Deflation

before purchasing it in order to gauge whether or not it would be worth my time, and all praised The Age of Deleveraging: Investment Strategies for a Decade of Slow Growth and Deflation:

3 of 3 people found the following review helpful. Rich historical reading By Stephen G. Ramirez First off, this book won't give you any easy ways to make money in today's markets although it will warn you off some dangerous choices in the current environment of deleveraging and, yes, deflation. This book does a very good job of presenting US

economic history, mainly from the mid-70s when Shilling's career really got going, but also for the previous couple of centuries. I think it is a huge handicap for investors to know a lot about events during their own investing careers but remain ignorant about what happened before that. Shilling is now in his late 70s so he has lived through enough history to make the events during his own career of considerable interest to anyone trying to figure out where we are going from here. Shilling is a bit eccentric in some ways. He is a top-down money manager and does not purchase individual equity issues but instead uses sector ETFs to get his desired asset allocations. This is anathema to value investing devotees such as myself, but it is refreshing to read so much thoughtful and well-researched analysis from someone who approaches investing from the completely opposite direction. Shilling made his family fortune starting in the early 80s with leveraged purchases of 30 year Treasury bonds that he rolled over each year to maintain their profit potential as Treasuries had their greatest and longest-ever bull market. His was a highly sophisticated and leveraged road to riches that would have been difficult to accomplish by anyone other than a very good economist. If you need some historical context to help you understand what is happening today this book is highly recommended. 13 of 13 people found the following review helpful. Thought-provoking look at where the economy is likely heading. By SCJ Dr. Shilling quotes Mark Twain in Chapter 1: "History doesn't repeat itself, but it does rhyme." He explains that he believes human nature changes slowly, if at all, over time which leads him to be able to make great economic calls. (Some reviewers have been troubled by his description, "great calls." I viewed them as I would a hallway of accolades leading me to a conversation with a wise economic thinker). As Sir John Templeton noted, "The four most dangerous words in investing are, "this time it's different." So while the majority believe that an increase in the money supply will lend itself to an inflationary challenge, Dr. Shilling believes that money velocity will continue to be muted and the supply of goods, not money, will dictate the direction of prices. He espoused this belief in two of his previous books in the nineties and believes that the global recession of 2007/2008 is the tipping point. To those who disagree, he presents a strong case. His research indicates that, in general, war is a precursor for inflation because it saps up the excess productive capacity. When the nation(s) are at peace, deflation reigns. While acknowledging that the United States has been in a war of sorts, the War on Terror, he believes that it may wind down before reaching Cold War proportions. If that happens and no other wars rise up in its place, he is confident that capacity will dictate our economic path. Too much of a good thing with too few buyers putting them (the buyers) in command. And these buyers are not buying like they once were. The savings rate in the US is climbing again for the first time since it began its steady decline in the early eighties. He believes that over the next decade we will again see the savings rate reach double digits here. That implies a steady increase in the savings rate of about 1 percent per year (it had fallen to 1 percent from 12 percent before it began to reverse course). Incidentally, he notes that we have a long way to go to get back to the debt to after-tax income ratio we had in the early 1980s. We were at 122 percent in 2010 -- almost double where it was back then! In addition to foretelling a significant rise in the savings rate, he also notes that credit will be much tighter in the years ahead. His logic for this is that the bankers of yesterday's excess will become the bankers of tomorrow's thoughtfulness. There will be no more "no-doc" (liar) loans. Only the best credit risks will be extended the courtesy of borrowing and they will graciously decline since they are reeling from setbacks in the values of their homes and the uncertainty surrounding their investment portfolios. We will become a nation of risk managers! How important will this turnabout of the American buyer of first and last resort be for the rest of the world? Dr. Shilling points out that just a 1 percent decline in US consumer spending whacks nearly three times that much off of our imports, their exports. With US moms and pops a full one-sixth of global GDP, the rest of the world will feel the change in thinking and spending. So with exports from around the globe adversely affected, will that open an opportunity for the US to ride the back of a weak dollar and become a stronger exporter? Not according to the good doctor. He actually sees a strong dollar (the best of a bad lot and still no other option for a global reserve currency) and a very limited link between the value of the buck and real imports/exports. On the other hand, his statistical evidence points to a very strong correlation between GDP and imports/exports. For those that believe deflation is impossible in a fiat currency system, he points to Japan as an outstanding example. Their economic output has been among the top two or three for decades and yet they have experienced a domestic demand problem tied to the deleveraging that began there in 1989. So while we fret about the threat of rising prices, Dr. Shilling believes that we will start to see falling prices in the years ahead. Little by little, the reality of deflation will set in and people will start to expect to pay less in the future and not view today's purchase as a store of value. He points to the likes of Wal-Mart lowering the prices on thousands of items in April 2010 as a US example and Ireland, Spain, and Portugal price declines in 2009 as an international one. So while the monetarists under the spell of Milton Friedman continue to wax poetically on the dangers of a pumped up money supply, Dr. Shilling continues to croon his tune of money in the vaults doesn't matter. Show me the M2 to reserves (was 70 to 1 in early 2007 but less than 1 to 1 for the \$1 trillion in new reserves as of March 2010) and I'll show you a picture of a bunch of fat-cat bankers sitting around the table smoking their stogies and counting their Bennies (Franklins, that is). There's no business like show business as bankers have learned the hard way. Their exotic Italian and British cars have been replaced with Volvos and SUVs as they have gotten back to the business of banking. They now actually read the crash tests before they buy (or loan) now. The next wreck they get into may find Uncle Sam's body shop closed. That's a chance they would rather not take -- especially since Uncle Sam bought into the businesses

and will now be lending a hand in deciding what cars little Johnnie and Susie should be driving on the dangerous highways and by-ways of an international economy teetering on the brink of failure. So with the US consumer pulling back, the banks pulling back, and Uncle Sam pulling back, how are prices going to push ahead? Dr. Shilling concludes that they won't. After reading his book carefully you may not agree but I wouldn't bet on it. 3 of 3 people found the following review helpful. Another smart Wall Street apologist writes a book about investing By SoberMoney As a professional money manager, I am forced to watch CNBC, as there are currently no financial cable channels out there that provide objective investment information for the general public. Unfortunately CNBC is not much more than a promo channel for big money management firms - as well as a cable outlet promoting and rationalizing the global corporotocracy and their bad behavior. Shilling, the author of this book, when I saw him on CNBC, seemed different. But after reading the book, I found little valuable information for investors. Although Shilling is smart, he also falls into the category of corporate apologist for what happened in 2008-2009. For that, he loses credibility in my view. Shilling touches on the massive corporate welfare state that really runs Wall Street, but he is also probably well off financially as a result of the Wall Street corporate welfare state. Hence he cannot analyze the situation with any real hard truth insider illumination.

Top economist Gary Shilling shows you how to prosper in the slow-growing and deflationary times that lie ahead. While many investors fear a rapid rise in inflation, author Gary Shilling, an award-winning economic forecaster, argues that the global economy is going through a long period of de-leveraging and weak growth, which makes deflation far more likely and a far greater threat to investors than inflation. Shilling explains in clear language and compelling logic why the world economy will struggle for several more years and what investors can do to protect and grow their wealth in the difficult times ahead. The investment strategies that worked for last 25 years will not work in the next 10 years. Shilling advises readers to avoid broad exposure to stocks, real estate, and commodities and to focus on high-quality bonds, high-dividend stocks, and consumer staple and food stocks. Written by one of today's best forecasters of economic trends—twice voted by Institutional Investor as Wall Street's top economist—Clearly explains what to invest in, what to avoid, and how to cope with a deflationary, slow-growth economy. Demonstrates how Shilling has been consistently right about major economic trends since he began forecasting in the early 1980s. Filled with in-depth insights and practical advice, this timely guide lays out a convincing case for why investors need to be prepared for a long period of weak growth and deflation—not inflation—and what you can do to prosper in the difficult times ahead.

[a] warning against complacency ( Financial Times Weekend, January 2011). excellent book Shilling lists the ten investment ideas to buy into in a deflating, low-growth Anglo-Saxon world. (Investment Week.co.uk, February 2011). Anyone looking for an inflationary resolution to this global mess should ponder the wisdom of Shilling's reasoning and the many decades of experience and accurate forecasting. Market Oracle From the Inside Flap While many investors fear a rapid rise in inflation, author A. Gary Shilling, an award-winning economic forecaster, argues that the global economy is going through a long period of deleveraging and weak growth—which makes deflation far more likely and a far greater threat to investors than inflation. In *The Age of Deleveraging*, Shilling explains in clear terms why the United States and world economy will struggle for several more years and what you can do to protect and grow your wealth in the difficult times ahead. Opening with an informative look at Shilling's incredible forecasting track record—including the recent housing and financial bubbles—as well as his philosophy behind forecasting and analyzing the economy and financial markets, *The Age of Deleveraging* moves on to discuss his outlook for slow growth and deflation in the next decade, and how you can cope with it. The fact is, investment strategies that have worked for the last twenty-five years will not work in the next ten. Nobody understands this better than Shilling, and with *The Age of Deleveraging*, he offers expert advice on what it will take for investors to navigate such treacherous terrain, including avoiding commercial real estate and commodities and focusing on high-quality bonds, consumer staple and food stocks, and investments related to North American energy sources. Along the way, Shilling also: Examines the effects of increased government regulation and involvement in the economy as well as six other factors that will hamper economic growth in the next decade. Outlines various strategies for investing in appropriate sectors and avoiding others. Provides a practical perspective of how stocks will fare in the long run. And much more. Filled with in-depth insights and detailed advice, this timely guide lays out a convincing case for why investors need to be prepared for a long period of weak growth and deflation—not inflation—and what you can do to prosper during this time. From the Back Cover Praise for *The Age of Deleveraging* "Gary Shilling brilliantly exposes the delusions of the bullish consensus and the deadly dangers of debt accumulation, deflation, deleveraging, debt defaults, and double-dip and near-depression risks. He is one of the sharpest thinkers on economic issues and their market implications. This is a must-read book for all." —Nouriel Roubini, Professor of Economics and International Business, Stern School of Business, New York University "Watch as the world Gary paints in this book comes to pass. And it is a very different world than the usual suspects want you to see. Ignore Gary at the peril of your investment portfolio. So instead of buying their funds, why not read Gary and let him show you alternatives that will

work in a world of deleveraging, deflation, and slower growth." mdash;John Mauldin, President, Millennium Wave Advisors, LLC (MWA), a three-time N.Y. Times bestselling author, and editor of Thoughts from the Frontline e-letter "Gary Shilling is rarer than a black swan; he's an economist who foresaw deflation. While central bankers were promising endless prosperity through managed inflation and influential economists were celebrating the 'New Economy,' Gary's followers were holding treasury bonds and preparing for the big shift. Shilling has predicted the 'impossible' several times in his career, so his colleagues should no longer be surprised when he turns out to be right." mdash;Robert R. Prechter Jr., author of Conquer the Crash "This highly readable book, written by an accomplished economist, is certainly worth your attention. I have known Gary since 1973 and have always been impressed by his ability to recognize long-term trends. The Age of Deleveraging is the book you should definitely read." mdash;Dr. Marc Faber, Marc Faber Limited "Lots of unconventional insights of analyses. But remember the acid test of advice: those who followed Gary's not-always-popular advice during these turbulent times made money. This man is an originalmdash;and well worth listening to." mdash;Steve Forbes, President and Chief Executive Officer, Forbes, and Editor in Chief, Forbes magazine