

# Safe Money Advisory



## *Is the Economic Cycle Dead?*

**Houston, Texas**  
**Safe Money Advisory**  
**For Immediate Release**

I've written in this space several times recently that America is entering economic stagflation. When the economy goes into a slump (stagnation) but prices rise faster than normal (inflation), that's stagflation. We're there! Stagflation is much worse than a mere recession because inflation is robbing you of purchasing power at the very time your income is dropping. The latest unemployment rate jumped to 5.5% from 5.0%, the highest level since 1985, and the consensus forecast is for higher joblessness. If you've visited the grocery store or gas pump recently, you're an expert on inflation. The only important question remaining is "how much" and "how long" will the markets react to the new economic climate, and how will your retirement be affected? Have you thought about the consequences?



The problems in housing are not improving as the government pundits and Federal Reserve were forecasting. In fact, foreclosures are now over a million and continue rising, housing-related jobs are disappearing rapidly, and all businesses connected to housing (plumbing, appliances, carpet, lumber, lighting, etc.) have skidded to a halt. The investment banks of Wall Street are searching for new capital to stay afloat as are several name-brand banks: all because of the meltdown in housing. The housing problems will deepen, plus more credit card, auto and boat loans will soar as higher prices and fewer jobs take their toll. Markets will react negatively.

The stimulus package designed to bail out the economy will have a short-lived and anemic effect. In fact, inflation has already eaten away the extra cash most families will receive. Nothing short of massive new money infusion will move economic activity higher. But, more money circulating in a depressed economy only heightens inflationary pressures. The Federal Reserve sits on the horns of a dilemma: lower interest rates are needed to boost economic activity, but lower rates will further weaken the dollar and boost import prices. Higher priced imports allow American firms to raise their prices without fear of losing business. Of course, the biggest import of all – oil – has forced up prices of everything. Get ready for even higher energy prices because while U.S. demand is falling, it is rising rapidly in China, Asia and the Middle East. No amount of political rhetoric and finger pointing will provide a short-term solution. Higher energy prices are here to stay and no amount of jaw-boning will change this fact.

All these "symptoms" cause a highly volatile stock market. And, if you're like most Americans, your retirement money is in mutual funds in the market. Far too many who can ill afford to take risk have been assured that "in the long term" the market will give them above-average returns. The assurances of Wall Street beg the question: does a retiree have a "long term"? In a market meltdown like 2000-02, many prospective retirees will have to delay or scale-down retirement.

If you're unable to "handle the worse case outcome," you might want to consider heading for safer harbors. The consensus is that market volatility will continue in the face of geopolitical unrest, inflation will persist, the weak dollar continue, taxes will rise and economic growth will remain undernourished. Your best strategy is to meet soon with your safe money advisor to shelter you from the winds of an ill economy. Timing is everything in uncertainty – so if you can't afford the risk; do not procrastinate, because the situation could worsen.

**Shelby J. Smith, Ph.D.**  
**June 2008**