

Inflation, How Bad Can it Get?

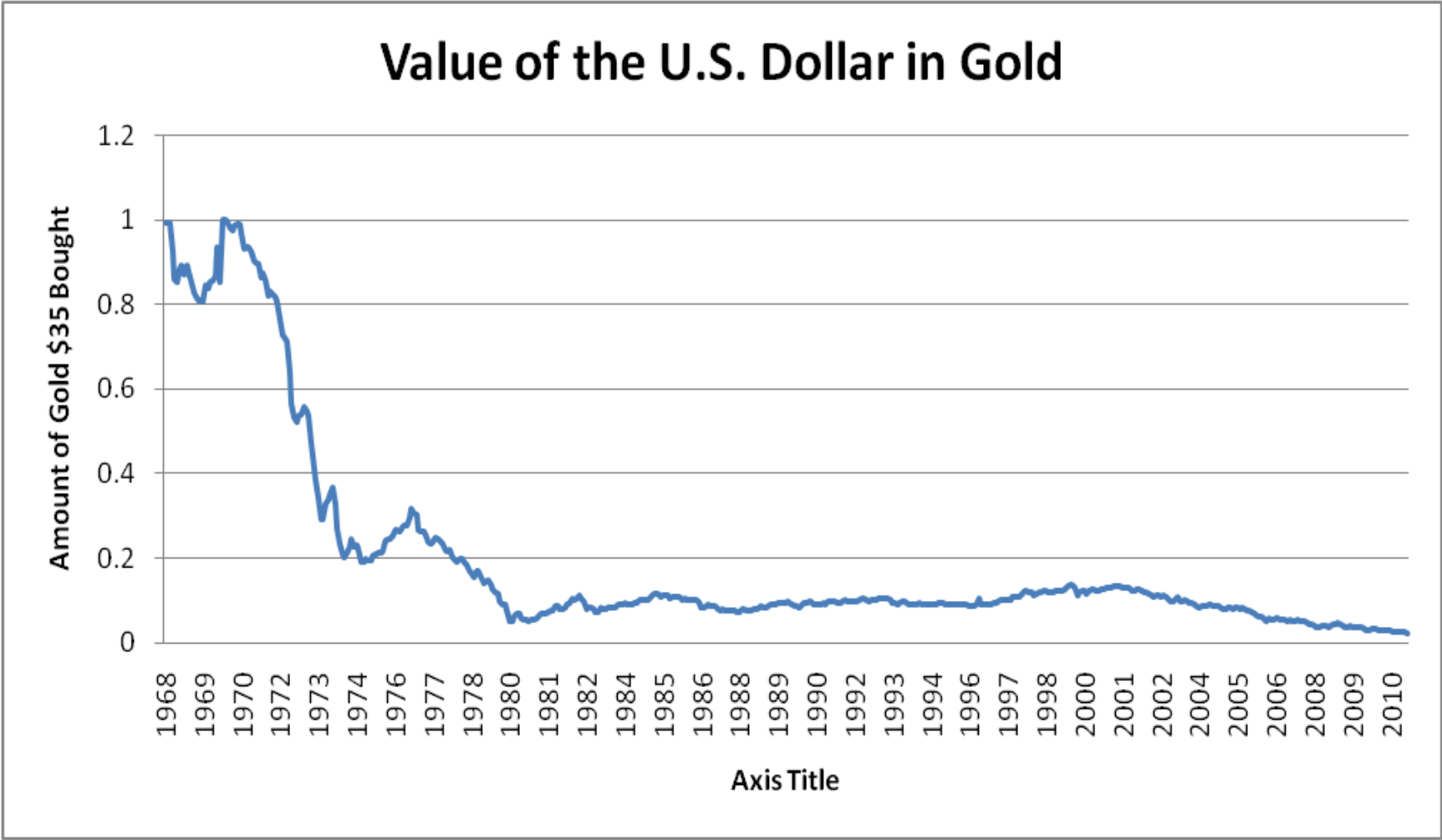
Inflation takes place when a
currency loses its value.

A falling dollar means higher prices.

When a country expands its money supply at a faster rate than the economy is growing, it devalues its currency.

When more 'money' exists each unit of money is worth less.

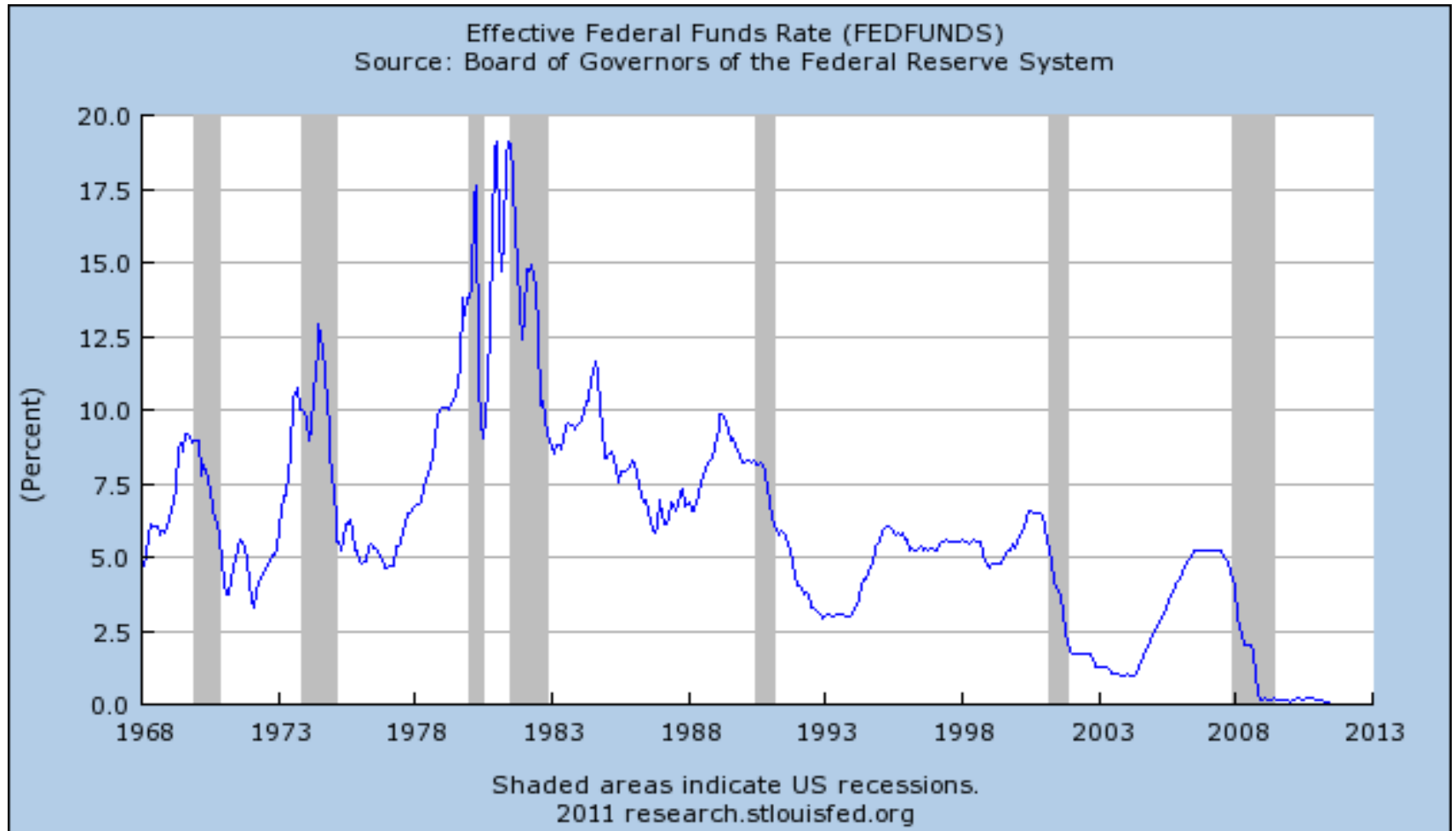
U.S. Dollar Has Been Losing Its Value for a Long Time



Low interest rates expand the money supply by increasing lending – this lending can be for speculation and not real economic activity.

The Federal Reserve has kept interest rates around ZERO since late 2008.

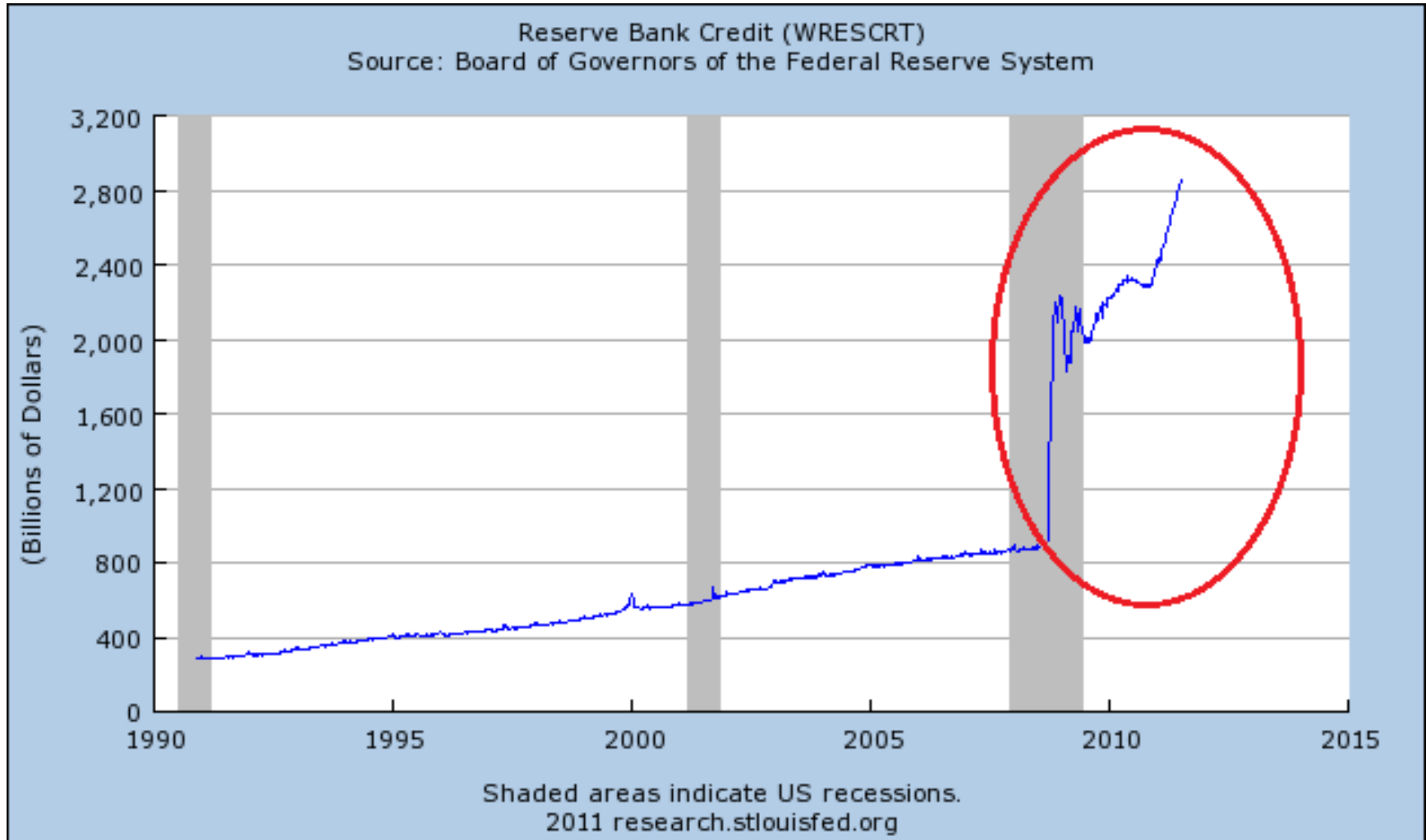
History of Fed Funds Rate



The Fed has also printed money since 2008. This is referred to as quantitative easing.

Money Printing is rocket fuel for inflation.

Fed Money Printing



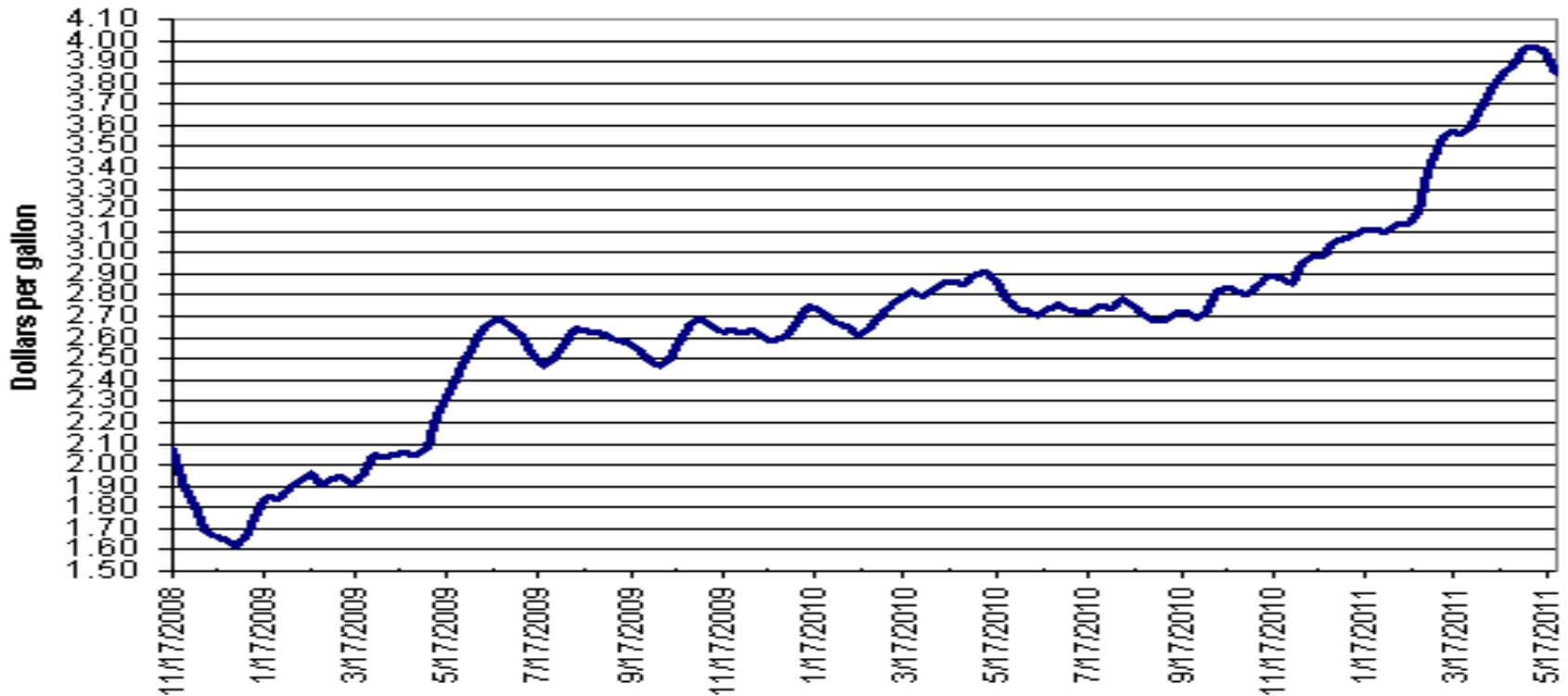
The area in red circle is money printing during and after the Credit Crisis

Fed money printing since 2008
has already driven prices for a
number of commodities way up.

This includes many everyday
necessities such as food and gas.

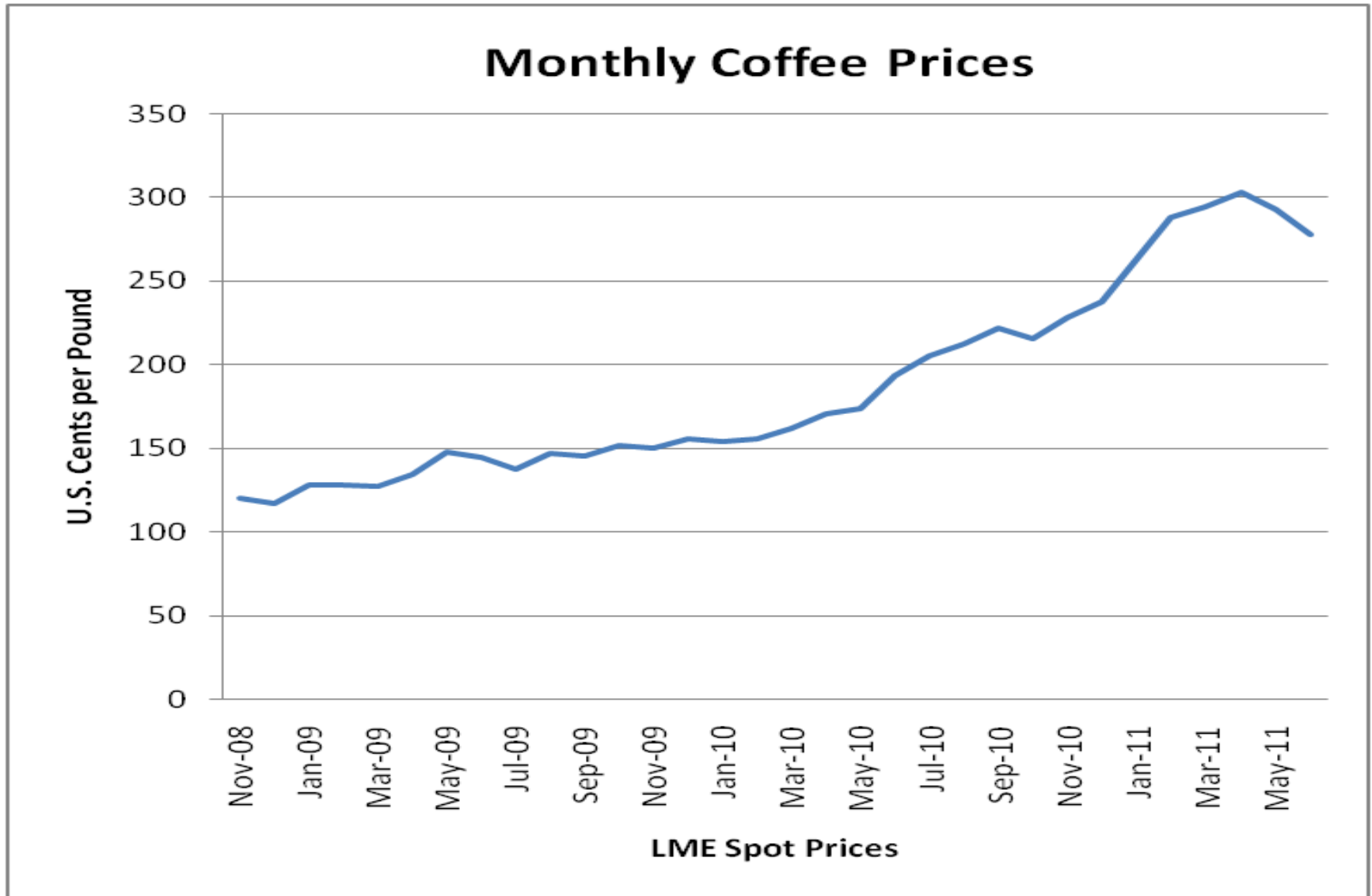
Money Printing's Impact on U.S. Gasoline Prices

Weekly U.S. Retail Gasoline Prices, Regular Grade

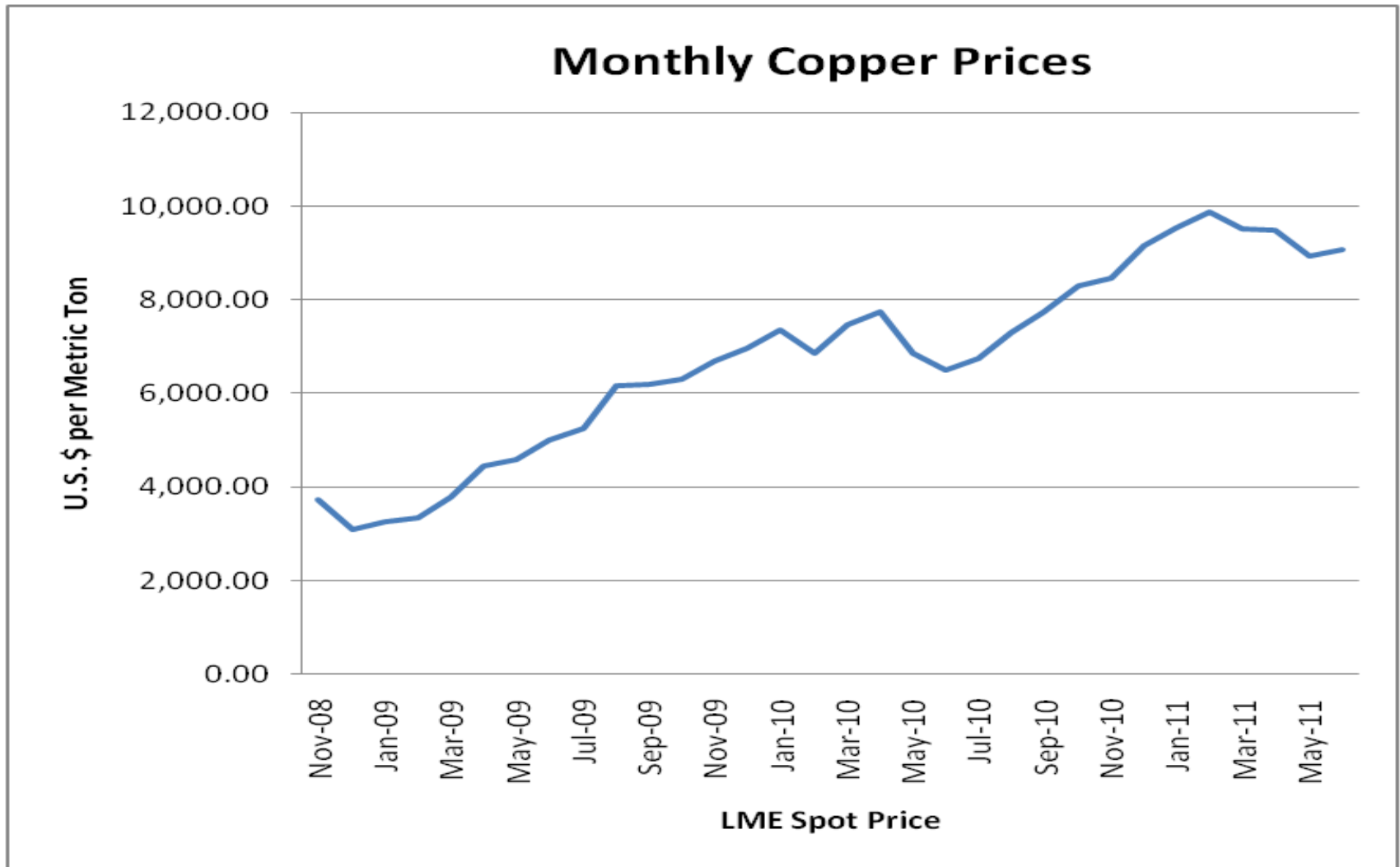


Source: Energy Information Administration

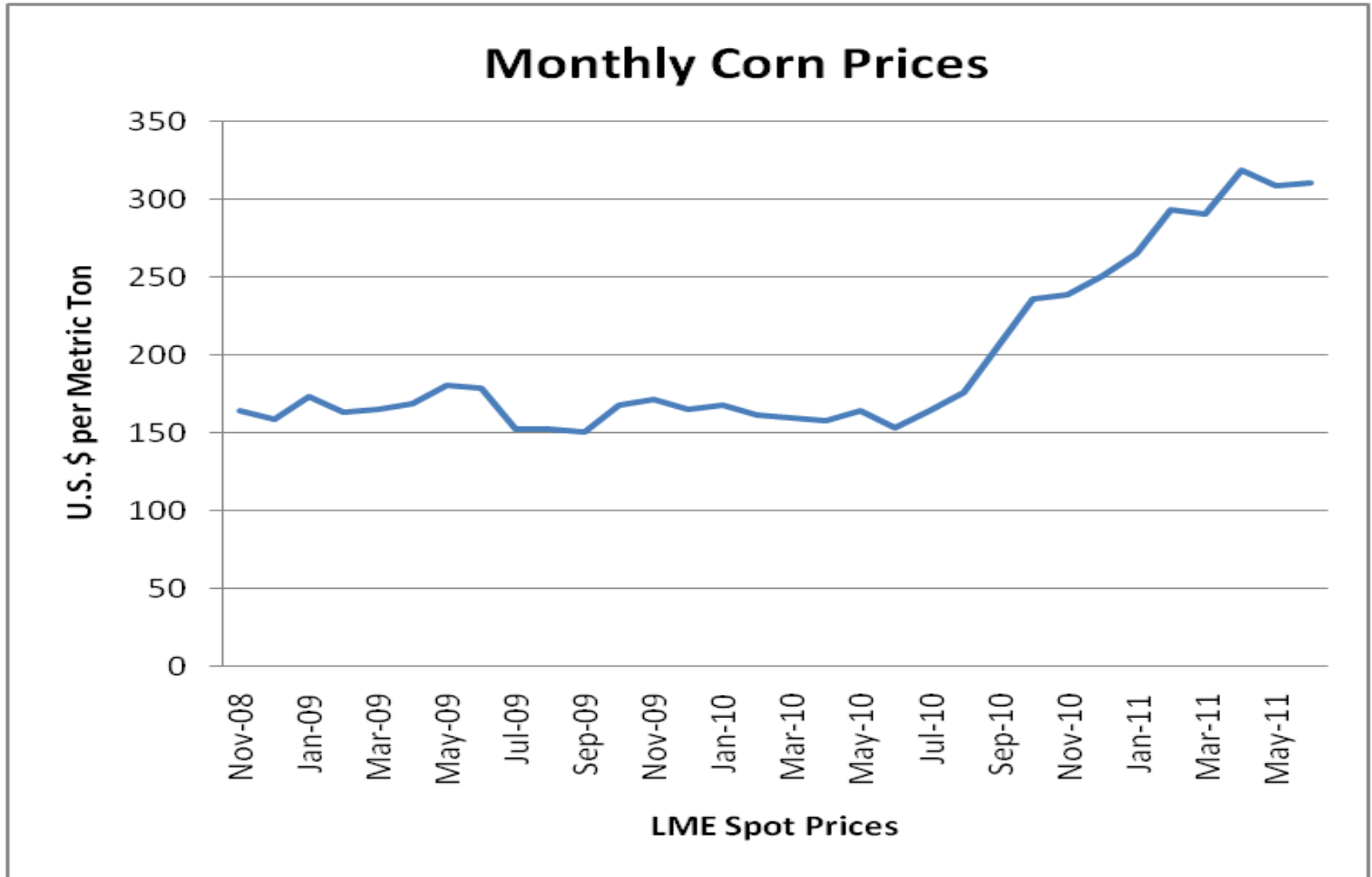
Money Printing's Impact on Coffee Prices



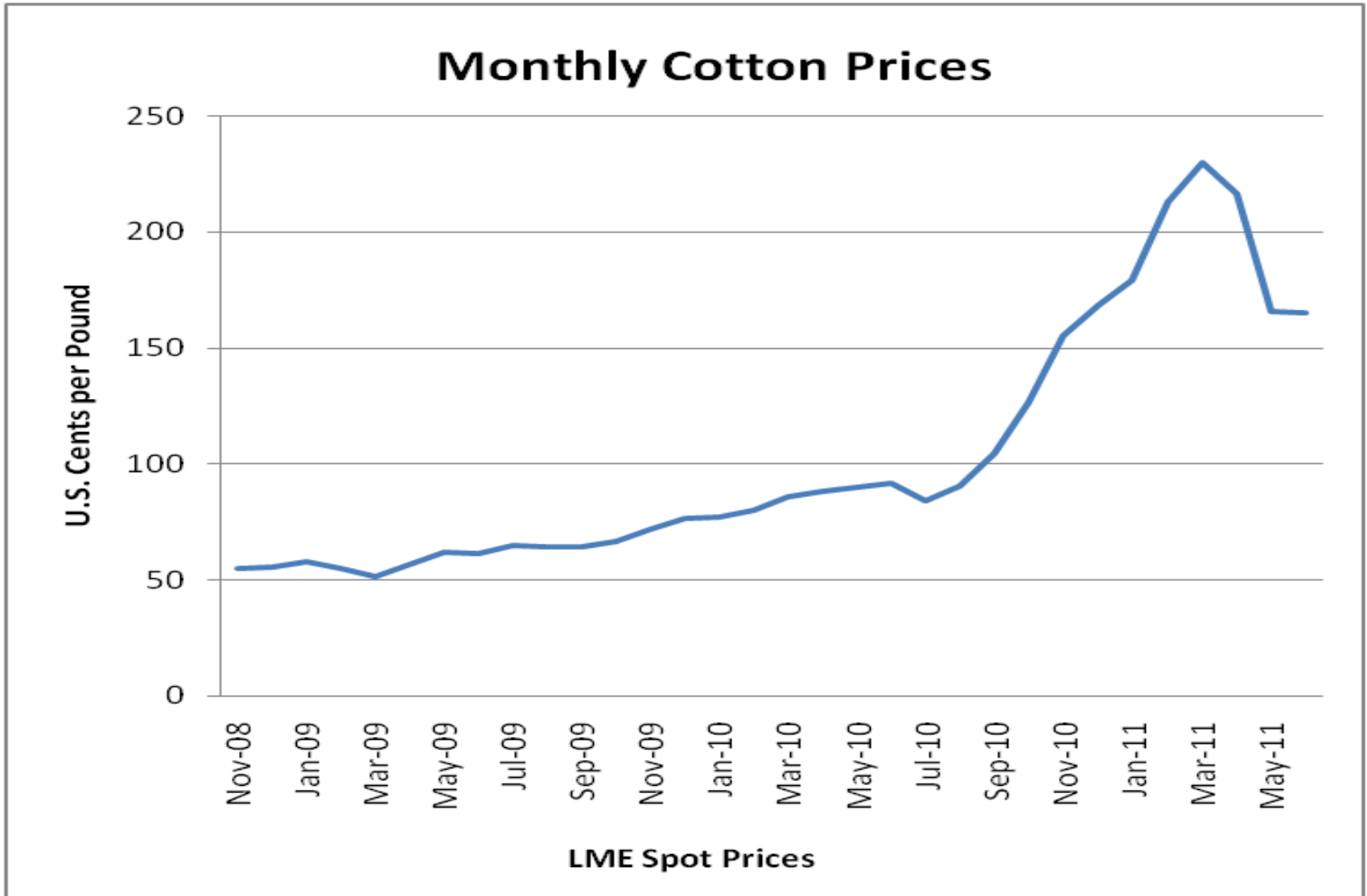
Money Printing's Impact on Copper Prices



Money Printing's Impact on Corn Prices



Money Printing's Impact on Cotton Prices



Even though inflation already started,
how come it's not showing up in the
CPI inflation figures?

Since 1983, the government has made changes to how inflation is calculated. Each change made reported inflation lower.

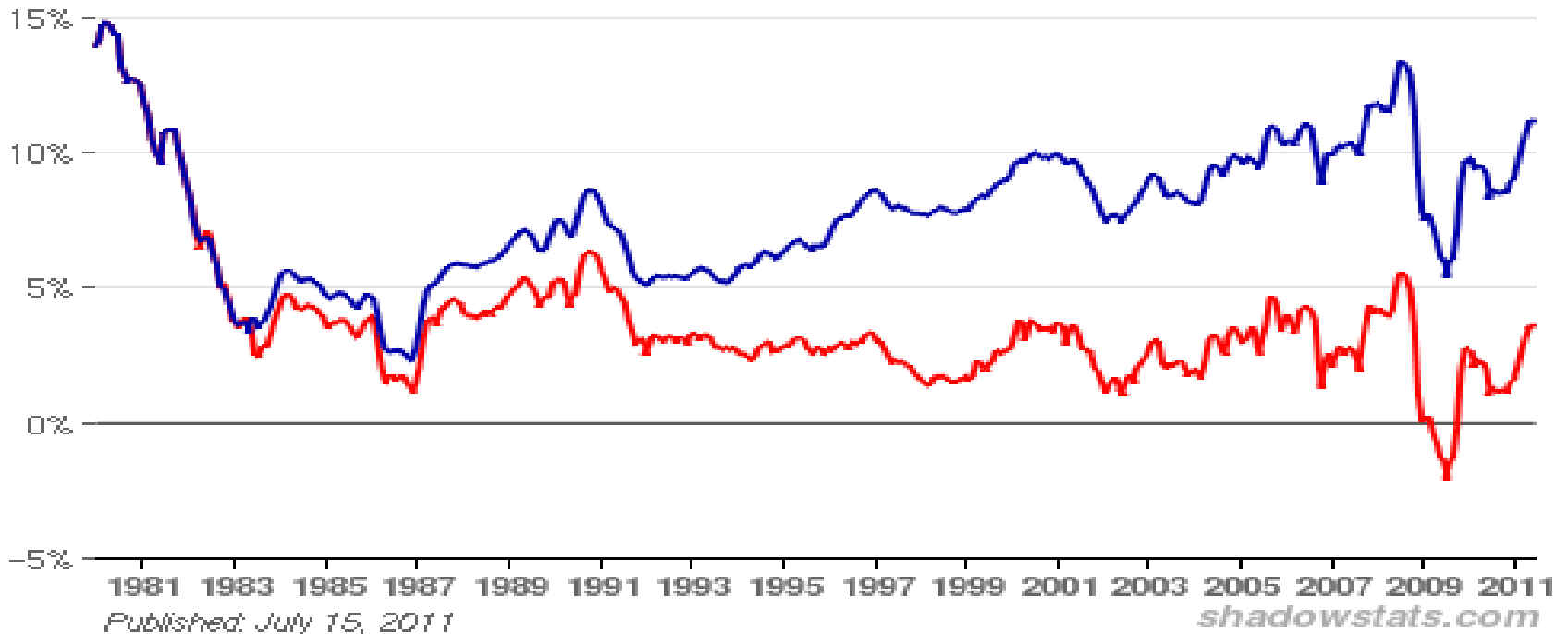
The actual Inflation Rate is much higher than the CPI claims.

Actual Inflation Versus the Government Reported Rate

Annual Consumer Inflation - CPI vs SGS Alternate

Year to Year Change. Through June 2011. (BLS, SGS)

— SGS Alternate CPI — CPI-U



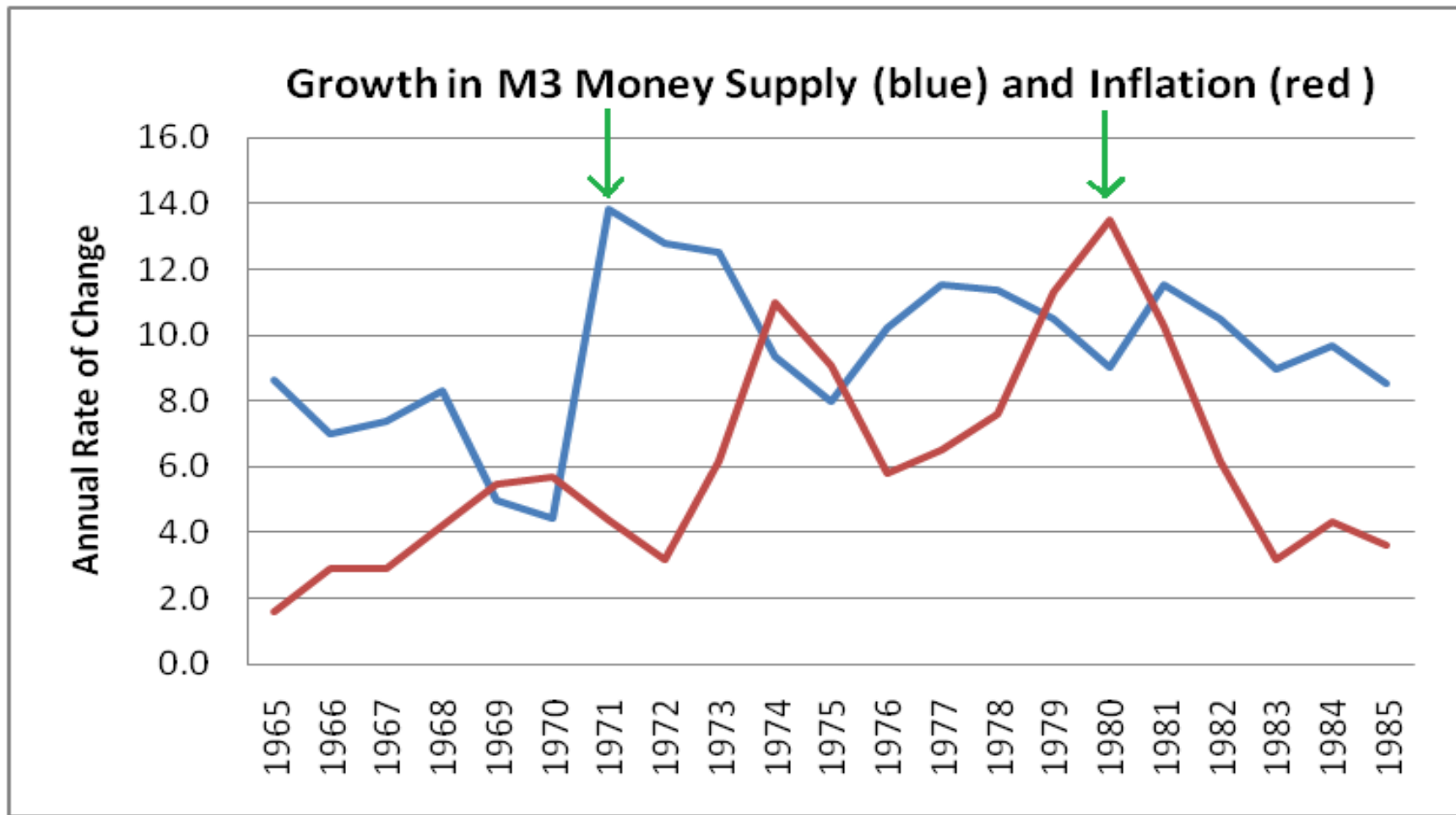
Top line is the actual rate, the bottom line is the rate the government reports.

Inflation has only just begun
however.

There is a time lag from when the growth in the money supply peaks and when inflation peaks.

In the high inflation 1970s, money supply increased by the most in 1971, but inflation peaked in 1980

Money Supply Versus Inflation in the 1970s



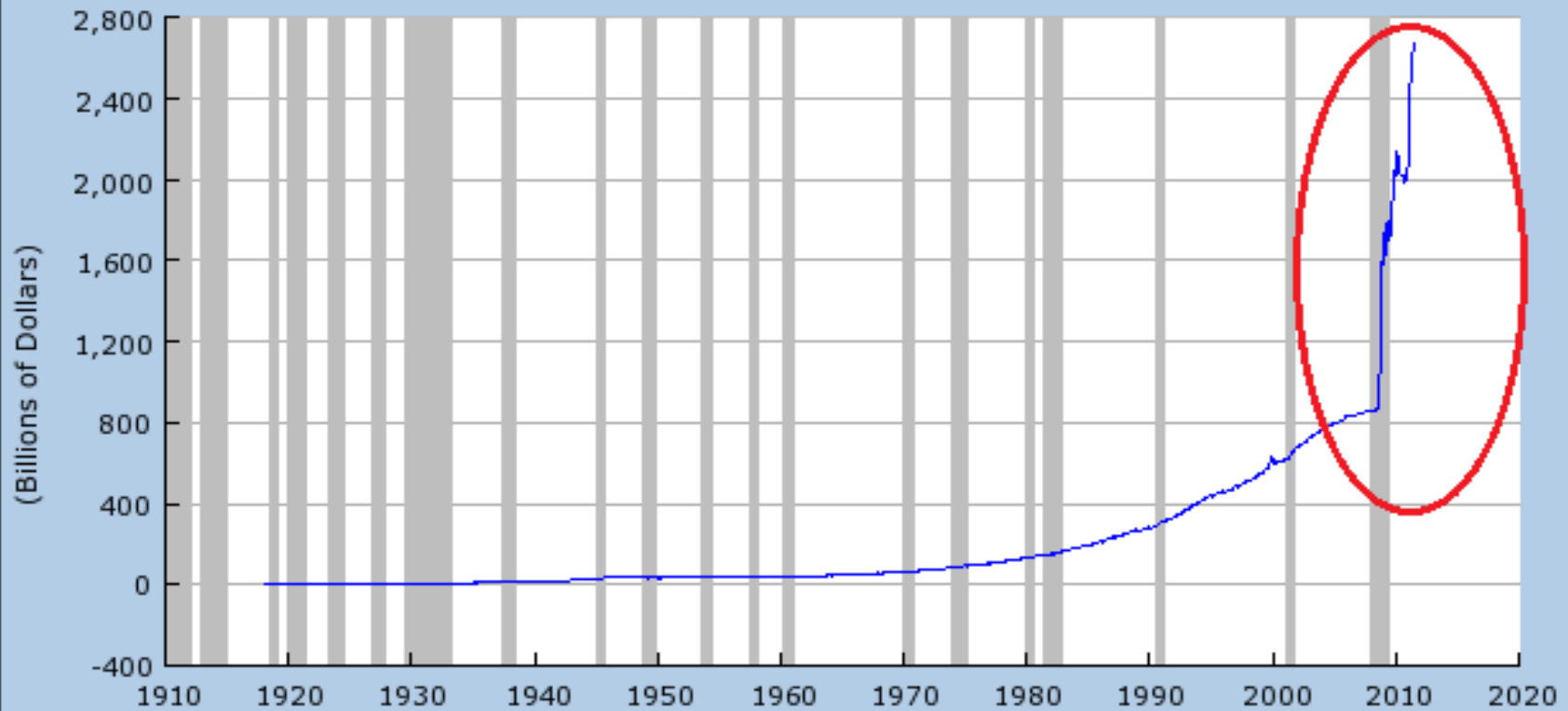
Green Arrows Indicate Highest Increases in Money Supply and Inflation

One measure of future inflation is the Adjusted Monetary Base.

Since 2008, the Adjusted Monetary Base has increased by over twice the amount that it did in the previous 90 years.

The Adjusted Monetary Base

St. Louis Adjusted Monetary Base (AMBNS)
Source: Federal Reserve Bank of St. Louis



Shaded areas indicate US recessions.
2011 research.stlouisfed.org

This implies more than 2000% inflation could take place in the next decade.

A loaf of bread and a gallon of milk could cost more as much as \$100 each by 2020.

You must protect your wealth with inflation-investing assets.

The include:

1. Gold and silver
2. Energy commodities and companies
3. Agricultural commodities and farmland
4. Arts, antiques and collectibles
5. Industrial metals – ex. copper, tin, lithium, rare earths
6. Strong currencies – ex. Swiss franc, Australian dollars
7. Shorting Bonds

Inflation Investing – A Guide for the 2010s

by Daryl Montgomery

Volume 1, Volume 2 and Volume 3

are now available at:

www.amazon.com