UPDATED AND EXPANDED

BULL MOVES

How to Keep Your Portfolio Up When the Market Is Up, Down, or Sideways

PETER D. SCHIFF

New York Times bestselling author

Praise for

The Little Book of Bull Moves in Bear Markets

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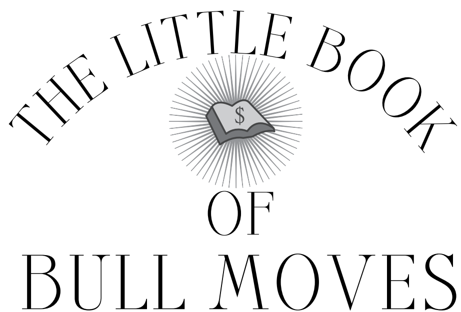

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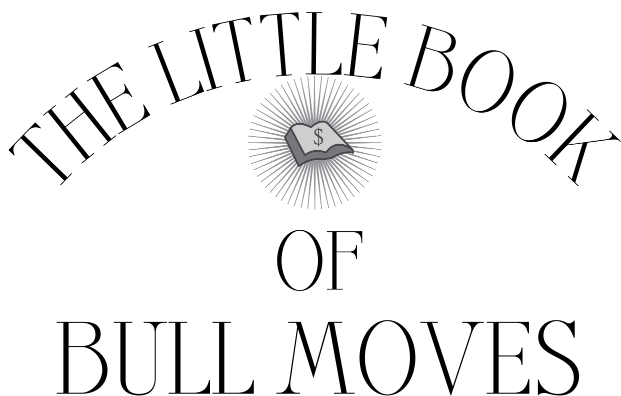

THE LITTLE BOOK OF BULL MOVES

Updated and Expanded

How to Keep Your Portfolio Up When the Market Is Up, Down, or Sideways

PETER D. SCHIFF

A Lynn Sonberg Book

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To my brother Andrew Schiff, whose help has been instrumental in getting my message out, more recently as a valuable member of the Euro Pacific team, and to our parents, Irwin and Ellen Schiff, who, though divorced early on in our lives, nevertheless managed to maintain a sense of family that ultimately allowed this business relationship to flourish. I also want to especially thank my father, for his knowledge and passion, and for the personal sacrifice that he has made for his country. I hope that his grandchildren, including my son Spencer, my niece Eliza, and my nephew Ethan, will one day benefit from his courage.

I also want to thank John Downes for his invaluable help in crafting the text of this book.

Disclosure

DATA FROM VARIOUS sources was used in the preparation of this book. The information is believed to be reliable, accurate, and appropriate, but it is not guaranteed in any way. The forecasts and strategies contained herein are statements of opinion, and therefore may prove to be inaccurate. They are in fact the author's own opinions, and payment was not received in any form that influenced his opinions. Peter Schiff and the employees of Euro Pacific Capital implement many of the strategies described. This book contains the names of some companies used as examples of the strategies described, as well as a mutual

fund that can be sold only by prospectus; but none can be deemed recommendations to the book's readers. These strategies will be inappropriate for some investors, and we urge you to speak with a financial professional and carefully review any pertinent disclosures before implementing any investment strategy.

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Foreword

Once in a great while, the world undergoes big changes. The great discovery voyages at the end of the fifteenth century led to a huge enlargement of the world's economic sphere. Venice—master of the previously important Mediterranean trade routes, and the world's richest and most powerful city—was thrown into a corner of the world, as Voltaire later observed.

The breakdown of the socialist/communist ideology at the end of the twentieth century and the end of policies of self-reliance and isolation on the Indian subcontinent were other big changes. Suddenly, three billion ambitious

and motivated people joined the world's free market economy and the capitalistic system. These new citizens of the global economy are striving mightily to raise themselves to the level of affluence they see in their Western counterparts. Simply put, the free world has been joined by more than three billion people who have a similar frame of mind as the American pioneers of the nineteenth century.

At the same time, as Peter Schiff so vividly shows in this book, economic policy makers in the United States have totally lost their way. No wonder that in recent years a new economic and financial anxiety has taken hold among those public citizens who try to understand the world around them. This confusion is largely a function of the increasingly incomprehensible explanations offered by the most powerful figures in government, academia, and commerce. Anyone who has recently listened to the 2008 speeches of Ben Bernanke, the chairman of the Federal Reserve Board, is familiar with the feeling. The large words flow, but the concepts never coalesce into anything that is meaningful even to those, like myself, who have studied economics.

As a result, many regular folks may be tempted to look at economics much as they look at quantum physics: concepts that lie beyond the reach of casual understanding. When the policies of the Federal Reserve seem to be counterintuitive, who can blame them? As an example,

currently the Fed is obsessed with solving economic and financial problems with artificially low interest rates at a time when, because of the entry into the global economy of the three billion people I referred to earlier, inflationary pressures, especially on raw materials, are very high.

In fact, it would appear that academia has found a gold mine in transforming basic economics and the art of investment based on common sense into a science of finance, filling entire libraries with pages and pages of indecipherable equations. Government leaders have seized upon these theories as a means to deploy a smoke screen between their own actions and the impact those moves make on the economy.

However, we are fortunate to have someone like Peter Schiff, who shows us, with common sense and in a highly readable and focused account of economic and financial trends over the past few years, not only how to avoid costly investment mistakes, but how to capitalize on opportunities that will preserve and enhance our wealth.

Whereas many experts view the greed and irresponsibility of subprime lenders as the underlying cause of the current credit market turmoil, Peter vividly shows how the Fed, through irresponsible monetary policies, not only caused the credit crisis, but also destroyed the value of the dollar and fueled the staggering price increases in food and energy.

Why is this book so good? Because Peter Schiff has common sense and does not mince his words. With admirable clarity, sarcasm, and hard-hitting criticism of the Fed and other policy makers, he explains the causes and consequences of the current financial crisis and how you can find ways to preserve your capital. Schiff clearly understands that a big change in the world's economic and political equilibrium is under way and that such a change requires unconventional thinking and new investment strategies.

My advice is this: Listen to another incomprehensible speech by the chairman of Federal Reserve Board, and then read this book written by a businessman with common sense! You will then know why the U.S. economy is in so much trouble, what caused the financial crisis, and how you can prepare for the future. You will also lose all respect for the financial leaders in Washington and Wall Street who claimed wisdom but delivered only folly. Peter Schiff has written a true masterpiece.

—MARC FABER
Editor of the
Gloom Boom & Doom Report

Prologue to the 2010 Edition

When I was writing *The Little Book of Bull Moves in Bear Markets* in late 2007 and early 2008, the gloomy forecasts I had made in my first book, *Crash Proof: How to Profit from the Coming Economic Collapse*, had only just begun to play out. The real estate bubble had been pricked as predicted, but instead of exploding it was leaking air slowly. The recession was clearly underway, although not yet officially recognized as such.

In a free market system, recessions, however painful, serve the salutary purpose of wringing out the excesses of the preceding boom and restoring fundamental economic balance. Unfortunately, the outgoing Bush administration

and, less surprisingly, the incoming Obama administration had no stomach for free market remedies involving recession. Instead, the government and the Federal Reserve have used every gimmick possible in an effort to reverse the downward trend of real estate prices, to prevent more foreclosures, and to prevent toxic assets from restraining bank lending. While they have so far failed in their efforts to blow the bubble back up, they have succeeded in preventing it from fully deflating. Government economic stimulus is thus adding inflation to inflation. As a result, our economy is now perched on a precipice even higher than before, making the advice in *The Little Book of Bull Moves* all the more relevant and vital to your financial survival.

My investment strategy has always focused on understanding longer-term trends, where my track record has been extraordinary, and has discouraged efforts at short-term market timing. That the book I'm updating is an example of short-term market timing carried to perfection is as ironic, therefore, as it was accidental. That's because of what happened between the time I finished writing the first edition in the spring of 2008 and the time it was published that October.

When I was writing, the long-term bull market trends in foreign currencies, gold, oil, and other commodities were going strong, and I recommended that readers get

out of dollar-denominated investments and invest accordingly. But once the manuscript was wrapped and off to the printer, all those long-term trends suddenly reversed, hitting bottoms just as the book was coming out in October. So anybody who followed my advice and bought in October is sitting on huge profits now that long-term trends have resumed. The question that comes to mind now is: Should investors take profits and expect a similar reversal to happen again?

My answer to that question is "no." Although I was surprised by the strength of the dollar's countertrend rally and its effects on gold, other commodities, and foreign stocks, I think a repeat of 2008 is highly unlikely and that a second economic collapse even more devastating than the first is coming. That will be the collapse of the dollar, and I'd want to be sure I was out of it when that collapse occurs.

What happened in October 2008 after the bankruptcy of Lehman Brothers was a global credit freeze and massive deleveraging—in effect a global margin call—and a flight to perceived quality (emphasis on *perceived*). Institutional investors holding gold, such as mutual funds and the big hedge funds, sold it to meet margin calls or redemptions because it was the most liquid asset they had. Foreign stocks sold off because economies abroad were presumed to be more vulnerable than they were to what was happening to their best customer.

With regard to foreign stocks, given the rapidity and strength of the rebound following the 2008 collapse, current holders, far less leveraged than those who were caught off guard in 2008, are far less likely to sell at fire sale prices. I also expect that many buyers who missed the rally will eagerly buy during any meaningful pullbacks, making them self-limiting.

The reason the flight to "quality" dollar rally that occurred as the world deleveraged is not likely to repeat is simply that there is no quality associated with the dollar, as many who rushed to buy it will soon find out. Remember how Wile E. Coyote would run off the edge of a cliff yet not fall into the canyon below until he actually looked down. Once dollar holders take a closer look at the dollars they own, they will realize they are in the same precarious position as the coyote. Of course, like the coyote, by then it will be too late, and the value of their holdings will disappear in a puff of smoke—beep, beep.

Unfortunately, the economic collapse that I was publicly predicting in the early 2000s, which I wrote about in *Crash Proof*, expanded on in the *Little Book*, updated in *Crash Proof 2.0*, and demystified whimsically in *How an Economy Grows and Why It Crashes*, has yet to fully play out.

The architect of the policies that created the real estate bubble, former Federal Reserve Chairman Alan

Greenspan, is now saying that the hedge fund managers who bet against subprime merely got lucky, and that only four or five of the world's most brilliant economic forecasters, whom he knows personally, correctly forecast the bursting of the housing bubble and ensuing crisis.

Well, I forecast it, chapter and verse, and have books to prove it. And let me assure you there is absolutely no way in the world Greenspan could have failed to foresee the consequences of drastically lowering rates when he should have been raising them. That action brought us teaser rates, and his advocacy of adjustable rate mortgages (ARMs) made the bait and switch complete. Four or five economic forecasters? I personally got literally hundreds of e-mails from people who shared my view that the crisis was coming. It did not take a rocket scientist, as Greenspan suggests, to see that a security backed by mortgage loans having no down payment, made to people with no income and no jobs and no assets (NINJA loans), and financed with teaser rates on ARMs on houses that had tripled in price would end in disaster.

As early as February 2004, in a weekly commentary titled "There He Goes Again," I wrote:

> In recent months the statements of Fed Chairman Alan Greenspan have become increasingly confusing and self-contradictory. So much so, that an impartial observer must conclude that his motives are less than honest. This

week, the Chairman was true to form as he continued misleading the public with respect to the enormous risks facing the U.S. economy. Rather than expressing an obvious concern over the increasing use of adjustable rate mortgages (ARMs) he instead praised them, encouraged greater use, and expressed regret that too many homeowners were wasting money on fixed-rate mortgages. In the same speech he declared that the high levels of consumer debt did not concern him because the cost of servicing that debt was so low. Given that reality, one would assume he would hope most borrowers would [want fixed-rate mortgages to] lock in those low rates. . . . Rather than reflecting the sophistication of American homeowners, as Greenspan suggests, the reality is that most homeowners are choosing ARMs because it is either the only way they can afford to buy a home, or . . . the only way they can afford to make ends meet. The average ARM is 50% larger than the average fixed-rate, suggesting that the larger the mortgage, the more likely it is that the borrower needs the lower payments to qualify. Also, financially distressed homeowners typically refinance fixed-rate mortgages into ARMs to save money. In so doing, they trade the benefits of lower current payments for the risks of higher future payments. Given that interest rates and domestic savings are at historic lows, the budget and current account deficits are surging, commodity prices are soaring, and the dollar is collapsing, this is perhaps the worst time in history to make such a tradeoff. . . . [Greenspan] says whatever he thinks he has to say to sustain the bubble economy, regardless of his personal beliefs. Everything he says is designed to postpone the day

> of reckoning as long as possible, no matter how much worse that day will become as a result.

Greenspan's betrayal of free market economics for the sake of political expediency caused the Great Recession in 2007, and the policies now being used in the name of stimulation, if continued, can only result in disaster on a grander scale. His friend and mentor, Ayn Rand, must be turning in her grave.

Because policies that produced the inevitable bubble are still being pursued, the losses our economy and most investors will suffer will be that much larger as a result. For all the hype that the great recession has ended and that U.S. stocks are in a new bull market, I am convinced that neither is the case. Any short-term boost to U.S. gross domestic product (GDP) that may result from additional debt-financed consumption or government spending will not last. Such supposed growth merely borrows from the future and guarantees a larger downturn once the bills come due.

In addition, as long as government and Fed policy prevent market forces from rebalancing our economy, it will not recover, and a string of worsening recessions will ultimately be seen as a single depression. In other words, because the government will not allow the pain of a real recession, we will never experience the gain of a genuine recovery.

I therefore caution investors to remain vigilant. I expect any upward moves in U.S. stocks, real estate, bonds, or the dollar to remain bull moves in bear markets, and any downturns in foreign currencies, gold, oil, commodities, or many foreign stock markets to be bear moves in bull markets. In my Author's Note, I fully explain the semantics of bull and bear market trends and temporary countertrends.

Of course a U.S. dollar collapse will be likely to cause nominal U.S. stock prices to rise sharply. However, investors must not be fooled by the illusion. Prices are relative. If the dollar collapses, the U.S economy will implode as well. While such an event will be very bearish for stocks, most stocks will lose less value than the dollars in which they are priced. Their real value will be what they are worth in terms of other currencies or gold.

A Note on the Format and Title

I chose a format for this updated edition that keeps the original text intact and intersperses appropriate new information and commentary clearly identified with the heading "2010 Update." I did it this way to demonstrate that my economic thinking as set forth in the original book and in my earlier book, *Crash Proof*, has been borne out by subsequent events. I hope this will give readers

confidence in the longer-term predictions that are the basis for my investment recommendations.

This book was originally published with the title *The Little Book of Bull Moves in Bear Markets* in October 2008. We decided to omit the reference to bear markets in the title of the current edition simply because most people, quite incorrectly, believe the bear market has ended and might therefore conclude that my book is out of date. Trust me, it is not.

I believe that U.S. stocks are in a long-term secular bear market that began in 2000 and will likely continue well into the decade that is beginning in 2010. To understand my reasoning, however, you have to read the book. You have to understand that stocks can be rising in dollar terms but losing value in real terms because the purchasing power of the dollar is falling at a faster rate. The dollar's loss of value is mainly due to inflation that is not officially reported, and as a result many people, pundits included, focus on nominal values and believe we are in a bull market. They are mistaken. Hence the practical decision to shorten the title of my book so that people can continue to profit from the excellent and still current investment advice that it contains.