

PROTECT YOUR WEALTH FROM THE RAVAGES OF INFLATION

Paul M. King

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*For my son, Josh,
the inspiration for everything I do*

Contents

About the Author	vii
Acknowledgments	viii
Acronyms, Abbreviations, and Symbols	ix
Introduction	xiii
Chapter 1: Financial Fitness.....	1
Chapter 2: Inflation: What's the Problem?	13
Chapter 3: Step 1: Set Up an Emergency Fund.....	39
Chapter 4: Step 2: Make Savings and Working Capital Work for You.....	51
Chapter 5: Step 3: Generate a Good Risk-Adjusted Return on Investments	69
Chapter 6: Taking Control.....	107
Appendix A: Recommended Reading	117
Appendix B: Useful Resources	121
Index	123

About the Author

Paul M. King is owner, head trader, trading coach, and financial consultant at PMKing Trading, LLC. His background is in information systems, but he moved from technology to the business side as a consultant to Wall Street companies. King is passionate about trading and helping traders improve their performance through his international mentoring program. He has trading clients all over the world, including in the United States, Canada, South America, and Australia. As well as sharing his insights on his blog, mini-eBooks about trading, and articles published in *Futures* magazine and elsewhere, King is very interested in personal finance and helping his clients become wealthier. Author of *The Complete Guide to Building a Successful Trading Business*, King's philosophy on trading and life in general is summed up by this old Chinese proverb: "Those who say a thing is impossible should not interrupt the people doing it."

Acknowledgments

First, I'd like to thank the governments of the world and their wonderful fiat currencies and interesting monetary and fiscal policies—without which this book would not be useful or required.

On a less facetious note, I'd also sincerely like to thank Jeff Olson, the lead editor of this book, without whom I would never, ever, have gotten around to doing a brain dump of all the information I've accumulated by helping various financial advice clients over the years. Jeff, many thanks for your initial gentle prodding to consider writing this book in the first place, your tireless editorial improvements, and your unique ability to let me know when I was assuming my readers would know what the heck I was talking about when it was obvious to you they wouldn't (because you didn't). This book is much, much better than it would have been if I'd ever bothered to self-publish it (which is doubtful). Thank you.

Acronyms, Abbreviations, and Symbols

ADV	Average daily volume
AMEX	American Stock Exchange
ATR	Average true range
AUD	Australian dollar
CAD	Canadian dollar
CAGR	Compound annual growth rate
CD	Certificate of deposit
CHF	Swiss franc
CPI	Consumer Price Index
CPI-U	Consumer Price Index for All Urban Consumers
DD	Drawdown
EEM	iShares MSCI Emerging Markets Index Fund ETF
EFA	iShares Trust MSCI EAFE Index
EPI	WisdomTree India Earnings ETF

ETF	Exchange-traded fund
EUM	ProShares Short MSCI Emerging Markets ETF
EUR	Euro
EWA	iShares MSCI Australia Index ETF
EWC	iShares MSCI Canada Index ETF
EWG	iShares MSCI Germany Index ETF
EWH	iShares MSCI Hong Kong Index ETF
EWJ	iShares MSCI Japan Index ETF
EWT	iShares MSCI Taiwan Index ETF
EWV	ProShares UltraShort MSCI Japan ETF
EWZ	iShares MSCI Brazil Index ETF
FARCE	Faithful annual rebalancing of common ETFs
FTSE	Financial Times and London Stock Exchange
FX	Foreign exchange
FXI	iShares FTSE China 25 Index Fund ETF
FXP	ProShares UltraShort FTSE China 25 ETF
GBP	British pound
GLD	SPDR Gold Trust ETF
GTC	Good until cancelled
HELOC	Home equity line of credit
HKD	Hong Kong dollar
IB	Interactive Brokers
IRA	Individual Retirement Account

IWM	iShares Russell 2000 Index ETF
JO	iPath DJ-UBS Coffee TR Sub-Idx ETN
JPY	Japanese yen
MAR	Managed Account Reports
MOO	Market Vectors Agribusiness ETF
MSCI	Morgan Stanley Capital International
NASDAQ	National Association of Securities Dealers Automated Quotation System
NLV	Net Liquidation Value
NYSE	New York Stock Exchange
NZD	New Zealand dollar
PALL	Physical Palladium Shares ETF
PPLT	Physical Platinum Shares ETF
PSQ	ProShares Short QQQ ETF
QID	ProShares UltraShort QQQ ETF
QQQ	PowerShares QQQ ETF
RSX	Market Vectors Russia ETF
RWM	ProShares Short Russell2000 ETF
SEK	Swedish krona
SH	ProShares Short S&P500 ETF
SKF	ProShares UltraShort Financials ETF
SLV	iShares Silver Trust ETF
SPY	SPDR S&P 500 ETF
TBT	ProShares UltraShort 20+ Year Treasury ETF

TIP	iShares Barclays TIPS Bond ETF
TIPS	Treasury inflation-protected securities
TLT	iShares Barclays 20+ Year Treasury Bond ETF
TWS	Trader Workstation
UGL	ProShares Ultra Gold ETF
UNG	United States Natural Gas ETF
US	United States
USD	US dollar
USO	United States Oil ETF
UUP	PowerShares DB US Dollar Index Bullish ETF
XLE	Energy Select Sector SPDR ETF
XLF	Financial Select Sector SPDR ETF

Introduction

Paper money eventually returns to its intrinsic value—zero.

—Voltaire

I've read a lot of trading, investing, and finance books over the years. One thing that really annoys me is reading the first third of the book and not learning anything new. Or realizing that the author has a completely different philosophy than I do on the subject, so I can't really get any benefit from the book. So I want to be sure with this book that you know exactly what you're getting before you spend time and money to understand my message.

For this reason it's easier to describe who this book is for, from a personal finance point of view, and let you decide whether you fit the profile. Then I'll briefly describe what the book is designed to help you with.

First, and most important, to benefit from the advice and techniques in this book, you need to be financially stable. I call this "financial fitness," and Chapter 1 deals with exactly what this means. Basically, you should have monthly net income that is greater than monthly fixed expenses (i.e., you should be cash flow positive). You also must have assets that are worth more than current liabilities (positive net worth).

If you're not financially fit (or close to it), then the three-step method this book describes will not be of much use to you. In this case I suggest you read some of the books on personal finances listed in Appendix A of this book, or check out the "Protect your Wealth from Inflation" page on my web site, at <http://pmkingtrading.com>. Only return to this book when you have achieved financial fitness.

Assuming that you do fit the description of financial fitness, then I'd like to explain what the rest of the book contains so you realize just how much you need this book! The book's title has three main words in it that should be big clues to what the book is about.

The words are:

- Protect
- Wealth
- Inflation

Let's deal with them in order.

Protect

Protection is not about generating a massive return really quickly. It's about the other side of the coin: preserving the assets that you already have and making sure you can more easily weather any financial storms that inevitably come along. For this reason, the first step in this book is about how to manage an emergency fund that can keep you afloat financially if you lose your primary income, have a large uninsured expense to deal with, or experience any other financial emergency. The important idea is that you need to manage your emergency fund in a way that will not be adversely affected by interest rates or other factors that are out of your control, like government monetary and fiscal policy.

A key concept in this book is that risk and return go hand in hand. It's very important that you think about the risk side of the equation first, and then make sure you're getting paid for that risk with a decent return. However, risk can be hidden in some unusual places. For example, if you put cash into a savings account paying an interest rate that is less than the current rate of inflation, then even though the dollar value of the account may be insured so it's "risk-free," you're still losing purchasing power every single day. Eventually, the money in the account that could, say, purchase six months worth of products and services when you put the cash in there, may only buy six weeks worth when you need it. How is that risk-free?

Chapter 2 explains the problem of inflation in detail. This is then followed up by Chapter 3, which outlines step one of my three-step method: how to protect the purchasing power of your emergency fund so it's still worth something when you need it.

Wealth

The second important word in the title is *wealth*, which is what you want to protect. Obviously, if you don't have any wealth to protect because your net worth (current assets minus current liabilities) is negative, then this book is not for you. If you do have a positive personal balance sheet because your monthly income is greater than your monthly expenses, then it's a good idea to have a plan for protecting and increasing the value of your working capital (funds that are not earmarked for emergencies but are not being used for investments).

Chapter 4 deals with how to effectively manage your savings and working capital regardless what the prevailing interest-rate and inflation environments are.

Once you are managing your emergency fund and working capital effectively, then further surplus income and assets can be put to use generating a satisfactory risk-adjusted return in investment accounts. Chapter 5 deals with how to manage investment accounts effectively by controlling risk, and then getting paid a decent return for the risk you are taking. Here's a small hint: traditional investment management techniques do not do this effectively at all. As you will learn, you must change your approach to avoid future disappointment. Buy-and-hold, dollar cost averaging, and other traditional financial management techniques just don't work very well. In this section of the book I'll describe in detail how to manage your investment account in a straightforward but sophisticated way to maximize your risk-adjusted return, and I'll also demonstrate how this approach provides a significantly better result than traditional portfolio management methods.

Inflation

Inflation is the last word in the title and is the main focus of the book. What does your wealth need protection from? Price inflation. As I mentioned earlier in this Introduction, Chapter 2 describes the problem of inflation in detail, but in terms that anyone can understand. Mitigating the effects of inflation forms the backdrop for each of the subsequent chapters.

I'm not formally trained in economics (thankfully) and I don't subscribe to any particular economic theory or policy. But I do have a great deal of experience helping people protect their portfolios from the losses that might

otherwise occur when they stand by and watch inflation eat away at cash and investments. I just want everyone to understand why inflation is inevitable, what practical effect this has on your wealth, and how to do something about it so it doesn't end up significantly hurting your personal finances.

Chapter 6 is a summary of everything covered in the book and can be used to jog your memory as you continue to implement the three-step plan—a plan that helps you to effectively manage your money in three key areas:

- Emergency fund
- Savings
- Investments

In Summary

To sum up, this book is for individuals or families that are financially fit, have some wealth to protect, and need to effectively manage an emergency fund, savings and working capital, and investment accounts. The book describes a comprehensive but easy-to-understand step-by-step process you can follow to maximize your chances of success and minimize risk, and also help protect your assets from being ravaged by price inflation.

I wish you all success with your endeavors to protect your wealth from the ravages of inflation with the help of this book. Please send questions and comments to me via the contact page on <http://pmkingtrading.com>.