

Part One

Is The Greatest Economic Crash Of All Time Just Around The Corner?

**And if it is, what actions will you take in order to protect
yourself?**

**The Increasing Importance of Residual Income as the New Pathway to
Financial Freedom.**

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In essence I am simply a person who has created wealth for myself and it is this journey that I am willing to share with you. It is important you understand this and take 100% responsibility for your own learning and your present financial circumstances.

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Currently, there are many threats to our personal safety as we travel, work, live, learn and play in a world of political, social and religious instability. Such threats grab the media's attention and are then compounded through endless reruns of terrorist activities because, not only is it profitable to do so, it serves a number of political and economic agendas. Increasingly, however, there is an even greater threat looming, the threat to our economic futures. The irony is that we are not as exposed to this economic time bomb as we should be because it also serves a number of political and economic agendas.

The threat of the greatest economic collapse of all time is mostly hidden from the mainstream because if it were to be continually reported in the media, it would create an unprecedented stampede of panic throughout many of the world's leading economies. While not in the same vein as the potential 'loss of life' terrorist threats, the threat to our economic security is going to impact more people. The end of economic life as we know it, could soon be upon us. What you do from here will dramatically impact your future.

The extent of this impending threat is what interests me at present because if you are aware of what is coming you can take measures now and get financial strategies in place that will not only protect you from economic disaster, but place you in a position where you can take advantage of the downturn.

Make no mistake about it, if it hasn't already begun, the greatest economic decline of all time is just around the corner. If you do nothing then, with all due respect to those who went through the hardships of The Great Depression, you *will* suffer economic pain to such an extent that it will make the magnitude of the Great Depression seem mild by comparison. If you are passionate about your economic future, this information is a *must read*. What follows are my thoughts about why an economic downturn is as certain as it is unavoidable. It's also about what you can do now in order to survive and thrive in the 'greatest economic collapse of all time'.

My strategies are based on creating passive, leveraged, residual income, or in other words, a continual stream of positive cash flow. But in order to understand why cash flow is becoming so critical to living a life of financial security and time freedom, we have to gather some information and perhaps gaze into our respective crystal balls. Then you need to make a few decisions. These decisions will be crucial as to whether you live a life of financial independence and time freedom or struggle to make ends meet while attempting to survive untold economic hardships over the next two decades.

What you decide now, and over the coming years, is critical and perhaps the most important decision you will ever make. As they say in the movies, "The clock is ticking and the deck chairs are being reshuffled on the Titanic". Don't hold your economic breath until the message 'all hands on deck' is called because by that time it may be too late. The time to act is *NOW!*

Why the greatest economic collapse of all time is just around the corner

Before we get to the decision making stage, let's consider the wisdom of some of the world's leading financial, historical and economic scholars in order to gain clear perspective on the matter of residual income. That way you'll be able to make decisions based on content and context and not purely on denial and disbelief.

Over the past few years I have been researching the work of a group of authors writing about an economic collapse, the likes of which has never been seen or felt before in history. While the list of works is increasing, for ease of this exercise, I'll concentrate on the following authors. Robert Prechter Jr. *Conquer the Crash: You can survive and prosper in a deflationary depression*. William Strauss and Neil Howe, *The Fourth Turning: What the cycles of history tell us about America's next rendezvous with Destiny*. Gary Shilling, *How to Survive and Thrive in the Coming Wave of Deflation*. Robert Kiyosaki, *Rich Dad's Prophecy: Why the biggest stock market crash in history is still coming... and How you can prepare yourself and profit from it!* Morris Berman, *The Twilight of American Culture*, and finally the work of Harry S Dent Jr., *The Roaring 2000's: Building the wealth and lifestyle you desire in the greatest boom in history* and *The Roaring 2000's Investor: Strategies for the life you want*.

Individually, these authors have pieced together compelling arguments for their respective positions. Collectively, they produce irrefutable evidence to which we must direct our full attention if we are to survive the greatest deflationary and economic depression of all time. The authors are extremely well researched and have hundreds, if not thousands of years of historical and economic data to call upon to support their respective arguments. On the face of it, they appear to be saying slightly different things but on close examination, they are saying exactly the same thing. Their respective arguments can be reduced simply to a difference in timing. And it's this timing that particularly interests me, but not in the normal sense of getting the timing right so that I can employ the 'next successful strategy'.

The timing I am interested in is what age I will be in respect to their various forecasts and the quality of life I will be enjoying. If you know what is coming, and you plan well, you'll still be able to enjoy all the economic and time freedom benefits that you've probably dreamed of. However, to achieve this, you must plan well and take immediate action. You must skill yourself with strategies that allow you to successfully realise your ambitions because if you don't you will face untold economic hardships for many years to come.

In respect of their economic forecasts, I am not intending to favour the timing suggested by any particular author. I do not want to take a position based on a bias resulting from my research, my emotions, my needs, or my particular beliefs. As you will see later, this is why I believe that setting up vehicles that have the capacity to provide passive, leveraged and residual income now... are of critical importance.

What these authors are saying.

Robert Prechter

So as to not make this paper any longer than it already is, I wish to present a brief introduction to each of their writings so that you have some understanding of where they are coming from. If you require greater detail you can get their books from most good book stores or through www.amazon.com

In *Conquer the Crash*, Robert Prechter, a member of Mensa and President of Elliot Wave International, provides a compelling argument for why we are currently in the biggest economic collapse of all time any why it will continue well into the late 2020's. He admits that during this economic decline, there might be short rallies to the upside but basically he argues that the American economy is heading down and is dragging some of the world's

leading economies with it. With respect to financial history, he describes the current economic conditions as the most crucial period that we have ever witnessed and argues that the major part of the economic cataclysm, unfortunately, still lies ahead of us.

In reality, Prechter is going against the grain in calling events that few economic or political experts expect. However, with the present economic decline which, he maintains, began in 1999, there is increasing support for his premise. As I write, (September 2003) the OPEC oil debacle is adding increasing pressure on businesses around the world and stock markets are responding in a negative fashion. *(Update: It's now the end of October 2004 and the oil price has continued to shoot through the roof and is now at all time highs. The Dow Jones has fallen by several hundred points and is now clearly trending down.)*

Although Prechter admits he has been wrong before, in the matter of the coming economic depression and deflation he is resolute and describes conventional economists as having a perfect record of failing to predict economic contractions. And they are wrong again, he says, in terms of predicting that the American economy is in a rising trend of continuous and lasting prosperity. If they are wrong, "You will lose everything you have worked so hard to obtain."

He describes the world's so called 'new economy', the broadening 'service economy' and the expanding growth attributed to the 'information age', as a lie of epic proportions and sets out to prove that the mooted economic expansion is based on a false premise. He also highlights why the economic expansion of the past decade was less impressive than we are being led to believe.

The upshot of Prechter's arguments mean that we're possibly at the beginning of the greatest economic decline of all time; that it began sometime during 1999; that there might be some short-term rallies to the upside but basically we're heading down to a point that will make the Great Depression of the early 1930's seem mild by comparison.

To give you some idea of the impact of Prechter's anticipated decline, at the bottom of the trough in around twenty years time, real estate and similar assets, will have lost 90% of their value. In other words, a \$400,000 house will eventually sell for \$40,000. Now I know you are probably thinking that this is not possible in modern times but as you continue to read on, you'll find considerable support for Prechter's views, especially when you read what Daniel A. Arnold has to say about the extent of the economic collapse.

Gary Shilling

In union with Prechter's deflation and depression argument is Gary Shilling who has been writing about the looming deflation for a number of years now. Shilling is a consulting economist and columnist for Forbes Magazine. He was the first of the US economists to see the possibilities for the winding down of inflation during the 1990's in America and Australia. At the same time he was a lone voice in predicting that many of the strongest economic nations would slip into a worldwide recession during the same period. In 1988, Shilling predicted that Japan would be an economic cot case during the 1990's with their economic contraction being worse than that of the American depression of the 30's. He was correct on all accounts.

In part one of his book, Shilling lays out the case behind the major deflationary forces that are currently at work. Among many topics he highlights why government spending is shrinking, why high tech is deflationary, why the role of the central bank is adding to the forces of deflation, why global deregulation is not conducive to expansion and why US savings triggered by a bear market, will ensure deflation.

In part two, Shilling looks at why the world economy itself is under deflationary pressures, why Western Central Banks and Governments can't stop it and why deflation is self-feeding. His research is compelling and it really adds to Prechter's predictions of economic devastation. Basically Shilling's premise is that we are either at, or close to, the start of a deflationary period that will dramatically change the face of economic activity throughout the developed world.

Strauss and Howe

In their book, *The Fourth Turning*, Strauss and Howe look at evidence of a looming economic crisis from a different angle. Much of their research is based on historical, sociological and economic cycles dating back thousands of years. They describe these cycles as 'turnings' that come in cycles of four. Each turning of four cycles lasts for approximately 100 years and is called a 'saeculum', a unit of time coined by ancient cultures.

Together, they argue, each saeculum, or four turnings, comprise history's seasonal rhythm of growth, maturation, entropy and eventual destruction. As these turnings unravel, they follow a specific pattern that can be traced back literally thousands of years. Each turning has a specific name which is indicative of its meaning. In any new saeculum, the first turning is described as a *High*, an upbeat era of growth that witnesses the strengthening of institutions and the weakening of individualism. It's a period of revival and renewal. Focus is directed towards the embracement of culture, the learning of new skills and a return to community life. With the new civic order in place, people want to put previous troubles behind them and feel content about what they have collectively achieved. There are new energies for investment, growth and strength, which, in turn, produce an era of commercial prosperity, institutional solidarity and political stability.

As this cycle completes itself, a new civic order is established and the old order slowly decays. The second turning, an *Awakening*, witnesses the birth of a passionate era of spiritual disturbance. It's a time where the previous civic order comes under attack from the values and ideals of a new and emerging regime. Among the growing restlessness with the old order new spiritual agendas and social ideals proliferate. It's a time where utopian experiments in love, life and community seek to reconcile total fellowship with total autonomy. We'll do it our way is a catch cry.

The prosperity and security attained during a *High* are overtly disdained but covertly taken for granted. A large percentage of society searches for soul over science and meanings over things. "Youth-fired attacks break out against the established institutional order. As these attacks take their toll, society has difficulty coalescing around common goals. People stop believing that social progress requires social discipline. Any public effort that requires collective discipline encounters withering controversy." During an *Awakening*, "Wars are awkwardly fought and badly remembered afterward. A euphoric enthusiasm over spiritual needs eclipses concern over secular problems, contributing to a high tolerance for risk-prone lifestyles."

The third turning, an *Unraveling*, describes a downcast era of strengthening individualism and weakening institutions. “An *Unraveling* begins as a society-wide embrace of the liberating cultural forces set loose by the *Awakening*. People have had their fill of spiritual rebirth, moral protest and lifestyle experimentation. Content with what they have become individually, they vigorously assert an ethos of pragmatism, self-reliance, laissez faire and national (or sectional or ethnic) chauvinism”

While personal satisfaction is high during an *Unraveling*, public trust begins to ebb amid a fragmenting culture, harsh debates over values, and weakening civic habits. “The sense of guilt (which rewards principle and individuality) reaches its zenith. As moral debates brew, the big public arguments are over ends, not means. Decisive public action becomes very difficult, as community problems are deferred. Wars are fought with moral fervor but without consensus or follow-through. Eventually, cynical alienation hardens into a brooding pessimism.” Strauss and Howe maintain that we are now nearing the end of the third turning and the fourth turning is just around the corner.

America, they say, was once more than the sum of its parts. But, since World War 2, it has become less than the sum of its parts. During the war years, Strauss and Howe observed that Americans were proud as a people, but modest as individuals. When asked, “Are you a very important person?” less than two in ten said ‘yes’. But now, in the time of spiralling individualism and weakening institutions, greater than six in ten answer ‘yes’ to the same question. Where Americans once thought of themselves as collectively strong, they now see themselves as individually entitled.

Seen from this standpoint, it is not difficult to understand why the recent U.S. elections turned out the way they did. Underpinning the policies and rhetoric of the incumbent President was the notion of individualism and entitlement. Individualism and entitlement for the nation itself, as it interacts with other nations, and for its people – unless you happen to be a minority group as seen from a particular religious perspective.

The *Unraveling* period witnesses the collapsing of economic empires and the decay of self interested institutions. Such collapses seem abundant in today’s economic and political climate. Among the ensuing chaos, individuals look after themselves and scramble for what they can get. In the corporate arena individual salaries and packages spiral into the stratosphere while stock prices tumble and shareholders suffer. In *Unraveling* conditions, interest rates increase, business becomes increasingly hard nosed and we witness many forms of account massaging and accounting corruption within institutions that were once held to be pillars of economic and moral virtue. It seems that almost every day we hear another story of high executive salaries, under performing stock prices and accounting scandals. According to the ‘experts’, there is more to come and we haven’t seen the end of such unraveling yet.

The fourth of these turnings is termed a *Crisis*, a critical era of secular upheaval. Here a new values’ regime hastens the replacement of the old civic order and the establishment of a new one. The *Crisis* turning is an event of mammoth proportions that both Strauss and Howe say we are about to enter. “A *Crisis* arises in response to sudden threats that previously would have been ignored or deferred, but which are now perceived as dire. Great worldly perils boil off the clutter and complexity of life, leaving behind one simple imperative: The society must prevail. This requires a solid public consensus, aggressive institutions and personal

sacrifice.”

During the beginnings of a *Crisis*, people support new efforts to wield public authority, whose perceived successes soon justify more of the same. “Government governs, community obstacles are removed, and laws and customs that resisted change for decades are swiftly shunted aside. A grim preoccupation with civic peril causes spiritual curiosity to decline. A sense of public urgency contributes to a clampdown on ‘bad’ conduct or ‘anti-social’ lifestyles.” As the *Crisis* deepens, unemployment increases, asset values fall, people default on loans, debt collection activities expand, repossessions increase and more people start living on the streets or in cramped and squalid conditions.

Strauss and Howe published their book in 1997 and, from that perspective, said the fourth turning could be triggered by a major event such as a war or terrorist act or a collapse of economic conditions. Equally, they said, a trigger for the fourth turning could simply be a minor or unforeseen event that acts as a catalyst for the *Crisis*.

In terms of potential triggers, we only have to think of the current acts of terrorism, the war in Iraq, instability between India and Pakistan, South Korea and North Korea, and Palestine and Israel. There is now more political and social unrest in the world than there has been at any other time in history. Over the past fifteen years or so multiple millions of people have been killed in the name of ‘ethnic cleansing’, or racial and political violence.

There are those who suggest the recent OPEC squeeze on oil production and the associated record prices could trigger the beginning of the *Crisis*. Equally, the beginning of interest rate increases could act as a trigger.

Nearly everyday in Australia, (it’s currently the 11-11-04) we hear of new record highs on the stock market. It’s setting new benchmarks and the euphoria of these highs is blinding people to the fact that stock markets only ever crash when they have reached new record highs. It’s this euphoria that draws amateur investors in droves to the stock market. Like the last crash, when amateurs became day traders, and the crashes before that, it’s when an influx of investors and traders enter the market with the belief that easy money can be made that markets are most vulnerable. They seem to forget that the only way the peak of an all time high can be defined is by a crash. High and a low are two sides of the same thing; they need each other to define what they are.

In the past 150 years of stock market activity around the world, there has never been a crash after record lows or after mediocre gains. A crash only comes after a high and that’s where we are at the moment in the Australian market place. The American market is already off its record high and is now in a downtrend exactly as Prechter has predicted. The Australian market may well go on making new highs for some time to come, but one thing is certain – it will **crash** – it’s a must and just a matter of when!

Whatever the trigger turns out to be, Strauss and Howe suggest the *Crisis* will begin around 2005 give or take a few years. As each ‘turning’ tends to last for 20 to 25 years their predictions of a bleak economic winter continuing until the middle or late 2020’s, are also commensurate with the views of Prechter and Shilling.

Robert Kiyosaki

This brings us to the work of Robert Kiyosaki and his book *Rich Dad's Prophecy: Why the Biggest Stock Market Crash in History is Still Coming...* Kiyosaki's predictions are more general in nature than the authors mentioned above. Much of his research is based on what is currently happening to the American Social Security System, to National and Individual Savings and to Company Pension Plans.

Apart from the Social Security issue, most of the savings and pension plans offered through companies and investment organisations bank on increasing profits and capital growth coming from the stock market. However, with the collapse of the stock market in 2000, savings and capital returns went backwards and continue to do so. Kiyosaki maintains that by the time most people will want their money, there simply isn't going to be any left.

With the baby boomers about to 'retire' on mass, Kiyosaki says there will be few workers left to pay the taxes and generate the income needed to support the Social Security system. When you add to this the billions and billions of dollars being spent on supporting the war in Iraq, a war which many say they cannot win, and the record blow out in the American Current Account Deficit which stands at 5.4% of GDP or approximately \$US600 billion a year, it is not difficult to see a mounting economic pressure wave slowly building.

The main thrust of Kiyosaki's argument relates to the Employee Retirement Income Security Act (ERISA) which was set up at the beginning of the *Unraveling* period twenty years ago. According to his research, the ERISA has huge flaws, which, are only just starting to come to light as increasing pressure is placed on the 'retirement' system. With the additional pressure that is about to be applied in the near term, Kiyosaki argues that the end is nigh and the storm clouds are gathering. In terms of timing, Kiyosaki is not specific and says the collapse will happen anywhere from now to about 2012. He also indicates that the downturn will last well into the 2020's before any signs of relief will be evident.

A similar set of circumstances is unfolding in Australia at present and it seems that never before in history has there been a more pressing need for people to take control of their financial future. "Educate yourself or perish" is now a common thread among many newspaper articles, magazine editorials and mass media news reports.

According to the National Centre for Social and Economic Modelling in Australia, the average 45 to 54 year old had super savings of approximately \$40,305 in 1998. In 2002 the average super for people aged between 50 and 65 was \$54,000, which, in investment terms, had lost 4.5% in the year ending June 2002. Fiscal year 2003 produced similar negative results. Not only are people losing money they are losing valuable time, which cannot be replaced.

"Retiring boomers face black hole", an August 11–12, *Financial Review*, 2001 headline read. The subtext said, *"What politicians won't tell you about super."* Few people understand super and even fewer realise that their contributions are taxed on the way in, taxed on the way out and earnings in the super fund are taxed at a rate between 8–10% after dividend imputation. Add to this the huge management fees that are charged and the whole process is a nightmare.

The most terrifying thing about superannuation funds has to do with whether or not they are actually safe. Graham Bradley, Head of Funds Management Business Perpetual Trustees for the past six years, doesn't think so! The week after the *Financial Review* article above

Bradley, speaking about the most recent collapse of the Corrections Corporation of Australia Staff Superannuation Fund, stated that, “There is every risk of a major collapse in the superannuation and managed funds industry.”

In a *Financial Review*, article *August 18-19, 2001*, Morgan Mellish described Bradley as, “One of the country’s most respected chief executives.” According to Mellish, Bradley maintains serious doubts about the regulation of Australia’s \$650 billion of retirement savings. He believes the laws are too lax and people’s superannuation is being put at risk. Bradley’s most scary prediction is that, “It is only a matter of time before a major managed fund collapses, wiping out hundreds of millions of dollars in retirement savings.”

Despite the consistency of the ‘lack of wealth’ message, it appears that the majority of Australians were still not responding in a positive way by taking control of their future. So financial journalist Alan Kohler dropped a wakeup bombshell. In an article titled ‘*FEE\$ FEE\$ FEE\$, The Vultures Feeding On Your Super*’, *Financial Review August 25-26th, 2001*, he launched into territory that the Government, the powerful super industry and the new Financial Services Reform Bill were at pains to hide from the general public.

At issue is whether or not the super industry should be made to fully disclose all the fees they suck out of super funds and the extent to which they deplete savings over time. Those involved are refusing to disclose the ways in which fees drain the life blood out of super funds because, as Alan Kohler points out, “Even the least sophisticated saver would balk at giving his or her money to someone who says they take a third of the retirement benefit in administration charges. Or to eventually charge \$500 per month to look after the money – more than the amount being contributed each month to the fund.” At the moment they are charging huge fees for the privilege of making negative returns. It’s the financial systems’ version of Mad Cow disease.

In his article, Kohler highlighted a new study which revealed Australia’s high management fees as having the potential to swallow up to a third of retirement benefits and end up costing people more each year than their annual savings contributions. The report, prepared for the Australian Institute of Superannuation Trustees (AIST) by Dr Hazel Bateman, found that when you add all the various fees involved in the management and administration of super – apart from trailing commissions to financial advisors – you find that the average is 1.72% of assets – one of the highest in the world. Where there is an advisor’s commission as well, the total is more than 2%... clearly the highest administrative charges in the world.

These figures may not seem alarming just yet but, as Alan Kohler pointed out, “As good as the system is for the superannuation industry, it is bad for the punters.” Dr Bateman suggests that these figures do not mean much until you express them in a different way.

For example, a person paying 9% of wages into super, a management charge of 2% of assets becomes a quarter of the annual contribution after 10 years and more than \$5,000 a year after 35 years, at which point the fee exceeds the annual contribution. Even a 1% asset charge takes half the person’s super contributions after 30 years. If the asset-based charges are expressed as a percentage of final retirement benefit, the result is even more alarming. A 1% asset charge ends up taking 22% of a person’s retirement benefit and a 2% charge takes a whopping 39% of the final benefit.

“Consumers just do not understand what 1% of assets means. It sounds like a small amount, but over someone’s working life it can take more than a fifth of his or her savings. The only reason the super industry is able to look forward to a 20 fold increase in profits over the next decade is because consumers do not understand what 1% of assets really means when those assets are compounding.” This is exactly why Perpetual’s General Manager, Gerard Doherty, describes things as a ‘time bomb’ waiting to go off. If you do not do something now, the only time you will find out how bad things are is when it is too late to do anything about them.

In the *Financial Review*, November 3-4, 2001, Alan Kohler expressed another warning. This time the headlines were bigger, the article was longer, with more depth, and he had been given a prominent position in the newspaper in ‘*Perspective*’. “*Super No Longer Safe*”, read the headline. “*The US economy is jittery. Japan is mired and the markets are looking bearish. This new world could punish investors and decimate a baby boomer’s wealth. Into this grim picture, factor in the predators who vastly overcharge for managing superannuation and it is clear that Australians’ financial security is threatened.*”

Kohler stated that, “Super funds and their members may be in for a miserable time over the next few years. The only consolation is that because of woeful disclosure standards in the super industry, most members won’t know how much they are paying for the privilege of losing money”. “... the oldest baby boomers begin to turn 55 next month. The long-dreaded retirement boom is upon us. The bulge of retirements will build over the next decade and is expected to peak around 2010 with huge numbers of people cashing in their benefits from the nation’s super funds. If, as it now seems likely, this bulge in retirements coincides with declining investment returns, super funds will be straining to pay investments.”

Complacency will rob you of your future

Further, Kohler points out that, “When they (the baby boomers) look behind their dwindling nest eggs, retirees will find that – gain or lose – the funds and the managers are skimming about 1.5% off the top and have been, on the whole, simply investing the money to maximise short term risk aversion, rather than long term investment gains. What’s more they will have to look closely to work this out: disclosure of expenses and fees is haphazard and confusing at best and deceitful at worst, even among non-profit industry and corporate funds. And that doesn’t include what happens when retirees receive their benefits. In some ways that is the worst situation of all because there are no statutory trustees to protect the savings.”

“Retirees who depart their super funds, lump sum in hand, are entirely at the mercy of a rapacious financial advice industry that charges a bewildering variety of entry fees, hourly rates and half disclosed trailing commissions and which then basically place the money back with the same fund managers who had it before – minus the skim, of course. Financial planning is an industry that has been riddled with conflicts of interest, half-secret commissions and malpractice.”

As I see things, you only have two choices. One is to remain with the status quo and watch as your financial freedom is stolen from under your uneducated eyes. The other is to re-skill yourself, become financially literate and enjoy the freedom that financially literate people enjoy. One option will guarantee that you never live the life of your dreams for which you have worked so hard. Instead it will be a life of financial hardship. In fact you will join the long queue of those who wish they could have their life all over again so that they could make better choices along the way.

The other option is to leave conventional wisdom behind and open doors to the possibilities of enjoying a lifestyle of absolute choice. Which would you prefer? If you read on I'll explain how I am preparing to increase my cash flow now so as to not be caught short when the rapid decline begins.

But perhaps your scepticism is far too strong. Perhaps you number among those who say that, "It'll never happen, the Government will protect us and it won't allow things to unfold the way the authors have described them." If you hold this attitude, ask yourself if you can afford to be wrong? What will the consequences be for you if you are wrong and the authors are right? If you can afford to be wrong, then like most Australians, you'll choose to do nothing about your learning.

The sad fact of the matter is that most Australians will choose to go into denial and do nothing about their financial future. Rather than take control by making a few simple but effective decisions, they'll begin to panic when the pressure is on. When the panic sets in, it's already too late and they'll continue to make ineffective financial choices as a result. The most effective way to achieve financial freedom is to change the wisdom by which you live and do it *NOW!*

Figures released by the Australian Bureau of Statistics for the quarter ending September 2002 showed that the 8.8 million Australians with superannuation accounts collectively lost \$11,000,000,000 over the September quarter. This equates to approximately \$1250 for each investor however some individuals lost much more. These losses mean that the national savings rate was negative for the second year in succession.

To quote Alan Kohler again, "As Australian super funds under management increase from \$500 billion to \$2 trillion and fees quadruple to \$35 billion, the profits on these fees will increase twelve fold – to \$25 billion, the Australian super industry is a gold rush." It's the crooks that will find a way to get at this *gold* and the unsuspecting who place their faith in governments will be the ones that suffer.

Sadly most Australians will continue to express an inability or refusal to admit that something might be wrong about their financial futures and simply let the status quo roll on. When so much more could be done to ensure their financial future now, they will continue to chance their futures to crooks and/or to beliefs that the 'system' will not let them down.

Morris Berman

An American academic, Morris Berman supports the previous authors' observations in a book titled, *The Twilight of American Culture*. Berman says that the end is near for America and among the precursors to the decline, he cites accelerating social and economic inequality, the current crisis in social security and health entitlements, rapidly falling levels of literacy and intellectual awareness, and spiritual death as the forerunners.

Berman' book is a fascinating read. Apart from being an academic, he is a visiting scholar in sociology at the Catholic University of America in Washington DC. He hypothesizes that America is dumbing down into oblivion in much the same way the Roman Empire did when it collapsed.

His premise is that Americans are basically stupid, illiterate and ignorant and he places his crosshairs on the Bush administration for facilitating the current decline. He likens the \$138 billion spending program to fight wars in Afghanistan and Iraq that they cannot win, to the Roman Empire's imperial overstretch in response to their invaders. Because of this overstretch; the Romans depleted their financial reserves, which resulted in them being unable to further resist their attackers. Berman argues that ultimately, this overstretch will bring down the American Empire as surely as it did the Roman Empire and maintains that it doesn't take an Einstein or Emerson to recognise that the American system has, "Lost its moorings and is drifting into an increasingly dysfunctional situation."

Harry Dent

Harry S Dent Jr., is one of the world's leading economic forecasters and President of H.S. Dent Advisors. As a forecaster, he almost stood alone in predicting the economic boom of the 1990's. In the emerging prosperity of the 90's Dent foresaw the lowering of mortgage rates, a booming stock market and the resurgence of America as the global economic superpower.

In June 2002, I witnessed a lively debate between Robert Prechter and Harry Dent. It was conducted at Skibo Castle in Scotland, the former home of the then wealthiest man in the world, Andrew Carnegie. The debate was organised by Tony Robbins who wanted to bring together some of the world's finest economic minds under the same roof. By way of phone link up, the gathering included Neil Howe of *The Fourth Turning*.

The reason for organising the debate between Prechter, Dent and Howe was that they had differing views on where the American economy was presently situated. The case espoused by Dent was that economic conditions of 2000-02 reflected a shakeout period where weak companies are wound up. After this shakeout period, Dent argued, we are in for the greatest economic boom in history, a boom that will last until 2009 in America and around 2011 in Australia.

Dent brought to the table hundreds of years of charts and history to support his case, as did Prechter. According to Dent, research proves that the impending boom would bring with it unprecedented opportunities for investors who can get onto the correct type of dwellings and localities in real estate, source the emerging powerhouses in the stock market and who can take advantage of the way different technologies will improve our lifestyles.

Dent presented information peppered throughout his books and explained how savvy people, who can anticipate the changes that are before us, can take advantage of them as they unfold. These changes will be so stunning he said, that we have not witnessed anything of their likeness since the introduction of the productivity revolution and the assembly line, which unleashed dazzling changes in the Roaring Twenties. This is one of the reasons I'm so focused on creating cash flow now. In the event that Dent is correct, I want to have massive cash reserves in order to take advantage of situations as they occur.

Dent's evidence was compelling, but so too was Prechter's, whom I managed to spend an hour with at the airport on the way home from Scotland. During the debate, both Prechter and Dent produced tens of graphs about the emotions and psychology of people, consumer spending patterns, historic economic cycles, and Elliot Waves charts. Though their arguments seemed to differ about current economic events and future trends, their differing predictions

were based on one factor – the start of the long-term economic growth trend we have enjoyed over the past few decades.

Dent argued that this economic growth started after a date suggested by Prechter. If indeed Dent is correct, then we are in for an economic upturn over the next five years or so. However if Prechter is correct, we are in the middle of the decline phase, which might have short-term economic reversals, but in the long-term we are heading down into extreme economic hardship.

As I was witnessing the debate, enthralling as it was, I couldn't help but pull back a little and realise that they were actually arguing about the same thing. It was just a matter of timing. Prechter was arguing for economic collapse now while Dent maintained, "No, we're in the middle of a shakeout period where weak companies go under. After this the economy will boom until about 2009 then we'll enter the greatest depression and deflationary period of all time until the late 2020's."

Coming away from the debate I was left with the question, "Who's right?" And after all the books I have read I am still left with the same question, "Who's right?" I must admit, I simply do not know because my crystal ball has given up the ghost.

Given this, it is now nearing the end of 2004, two years after the debate. Many things have come to pass. Basically Dent has continued to argue about the economic boom and every six months or so, he has said we are now at the bottom of this shakeout period and we're in for a dramatic rise over the next few years. He said it would happen by the end of 2002, and then he said it would happen by the end of 2003, and then he said it would happen towards the end of 2004. Perhaps the US market still has time to reach levels of 25,000 to 30,000 on the Dow Jones Index as predicted by Dent. At the moment the Dow Jones Index is hovering around the 10,000 mark after coming off its high of around 11,700 in 2000.

Over the past two years, it seems that Prechter, and those who support his economic view, have a more accurate assessment of things. It's a view that's been validated by many political, social and economic events and it increasingly appears that we might now be approaching the brink of a full-blown decline.

Be aware of your bias and psychological set

Given this, I am still struggling with my position in respect to their arguments. Basically I am an optimistic bull by nature. As such, my bias and my psychological set mean that I actively look for and filter in things that support my bias. This is the normal tendency for most people including traders and investors. That most traders and investors are not aware of this process is one of the central reasons why the majority fail over time.

We all have a built-in mechanism, called our Reticular Activating System (RAS) that is designed to filter in the things we want to see and filter out things we don't want to see. Our RAS is actually hot-wired into the Reptilian part of our brains and is part of our primitive survival mechanism. It's so powerful yet most people are unaware of its existence and how it affects them on a daily basis.

Our RAS causes our attention to be directed towards what we want to see or hear. Because, in the normal course of events, we have to process enormous amounts of visual information in

order to find what we are actively looking for, nature has provided us with a short-cut mechanism. So that we don't have to process any more information than we need to, our RAS creates an inability to perceive what else might actually be there. In essence it directs our attention to that for which we are actively or passively searching and away from what we're not looking for. In certain situations, sighted people can be every bit as blind as unsighted people.

One of the reasons for this 'sighted blindness' is that under instruction, we follow preordained pathways carved out by the wisdom of convention. Such pathways numb us to any sense of feeling that we can make a difference. They diminish our powers of perception and destroy our ability to decode what is actually happening as we live our daily lives. As a result we lack critical reflection and seldom reflect on the purpose of our existence and why we do the things we do.

Have you ever asked yourself why, after a lifetime of hard work, most people retire financially unable to support themselves, have not realised many of their dreams, are likely to be unhappy and divorced and suffering from some form of chronic degenerative disease? Although things are happening right under our noses, so to speak, we've misplaced our ability to connect the dots and allow such pictures to emerge. Why are the nations' freeways, highways and roads in and out of capital cities jammed in the mornings and evenings with commuters going about the process of work and existence without ever really progressing to where they actually want to be? I remember Napoleon Hill saying that, "Most people live their lives like goldfish in a bowl, going round and round in circles and always ending up back where they started from yet were no better off". Unfortunately for most, the only thing that is progressing in life is their age.

Our inability to perceive what we are not looking for, our 'sighted blindness', is caused by the fact that we are inclined not to look for differences so much as we are inclined to focus on what we want to see. As a result we can only see what we are searching for and what we are prepared to see. Psychologists Arien Mack and Irvin Rock labelled this phenomenon *inattentional blindness*. It's vitally important that you understand this process as you begin to digest what you are reading. *Inattentional blindness* is one of the central reasons why most people ultimately fail to achieve in life and end up with results based on the wisdom of convention. (To understand more about this phenomenon, do a Google search for *inattentional blindness* and study the work of Mack and Rock)

As I reflect on the economic predictions of Dent, Prechter, Shilling, Kiyosaki, Berman, Strauss and Howe, I have to admit that Harry Dent is pretty much a lone voice in the wilderness of optimism regarding an American economic boom. Given this, there is a fast disappearing glimmer of hope on the horizon. It's a report released by BIS Shrapnel, leaders in economic forecasting in Australia. According to their report, Sept 2003, Australia is in for strong economic growth over the next few years leading to a boom around 2006. This report supports Dent's position by stating that we are currently moving through a 'cyclical upswing' with a strong housing market, low interest rates and increases in consumer spending which is expected to continue to late 2004.

From there, BIS Shrapnel expect that business investment and spending will lead the economy into boom times with annual growth figures expected to reach 5.4% in 2004/5 and 4.4% in 2005/6. Such growth will cause interest rates to rise and this boom phase is expected to last until 2008 where upon we will enter a recession that will at least match the 'recession

we had to have' in the early 1990's. (*I find it hard to come to terms with the notion of boom times ahead with growth rates of 5.4% and 4.4% respectively especially when inflation is running at 3% which means a real rate of return of 2.4% in 2004/5 and 1.4% in 2005/6.*)

A year later, BIS Shrapnel released another report. In an article, which appeared in *The West Australian*, Monday, October 18, 2004, they gave a bleak assessment of the economic outlook for Australia. While they haven't necessarily reversed their previous position of 2003, events have transpired to cause them to be less optimistic about the economic outlook. Their senior economist suggested that the Reserve Bank would have to increase interest rates by three percentage points over the next three years, which would... "Spell disaster for many people paying off their home mortgages... the booming economy will crash by 2007 or 2008."

As you read this, you get a feeling that all economic news is heading in the same direction and that it's just a matter of timing. This view was supported by a *Four Corners* programme which expressed alarm at the amount of debt currently being carried by households in Australia. In a programme titled *Till Debt Us Do Part*, screened September 2004, concern was expressed at Australia's rapidly increasing household debt, which currently stands at \$650 billion. In a population of 20 million people, this debt is staggering and represents \$32,500 for every man, woman and child.

"We owe more than we earn. We borrow to buy and we borrow to invest. Our level of personal debt against income is now one of the highest in the world. It's so different from our parents' or grandparents' days when debt was a dirty word... Everywhere they turn Australians are now being confronted by a financial industry that is throwing credit at them in every single guise... Collectively, we use credit cards 90 million times each month", said Consumer Advocate Catherine Wolthuizen. "Many Australians maintain an unshakeable belief that property prices will track in one direction only... upwards. So what happens if the borrowing binge continues unabated, interest rates rise as predicted, and house prices tumble?" Once again I ask you, if you are sceptical about the imminent economic collapse, can you afford to be wrong?

Our Reserve Bank Governor, Ian Macfarlane, gave one of the most important speeches of his career to date. On the 18-11-04, he warned the big banks not to continue relaxing lending standards in order to make up for diminishing returns in real estate lending. He was concerned that the banks were taking big risks and putting into jeopardy Australia's economic stability by taking huge credit risks to achieve short-term profit boosts. This is especially the case with the increasing popularity of so-called 'low doc' loans, which require minimal proof of asset backing and loan serviceability. In fact these loans are usually given to people who have impaired credit ratings or do not meet traditional lending criteria. The banks rely solely on the ability of the borrower to service debt and the borrowers normally rely on property prices and rents continuing to increase. It appears that the loonies have taken over!

In an article titled, *Crash warning in an economy flying blind*, *The Weekend Australian*, November 20-21, 2004, Robert Gottliebse maintained that the policies of banks and state governments were threatening our economic stability. "If Macfarlane is right and the banks ignore him", argued Gottliebse, "They will not only endanger the economy but ultimately send their share prices into a spiral, which will wreak havoc with our superannuation

retirement savings.” On the next page, Alan Wood wrote, “If the banks fail, queue up and hope.”

The Australian Prudential Regulation Authority has expressed concerns over declining credit standards along with the current lending and valuation practices of the big banks. “According to APRA Chairman, John Laker, property valuations have become an, “Area of complacency... We are seeing cases where valuations that would otherwise have been done formally are being replaced by drive-by or desk valuations.” Such practices reinforce the lowering of credit concerns of Ian Macfarlane, the Reserve Bank Governor. *The Australian Financial Review*, December 21, 2004,

In terms of my natural bullish bias, I have come to the conclusion that my future, and those nearest to me, is simply too important to travel in the direction of my bias. Because, if Prechter, Shilling, Kiyosaki, Berman, Strauss and Howe, Four Corners and BIS Shrapnel are correct, I and many with the same bullish view, am heading for an economic disaster.

If I was looking for further confirmation of the impending economic collapse of the world’s largest economies, I need look no further than Daniel A. Arnold’s new book: *The Great Bust Ahead: Why the Greatest Depression in American and UK History Is Just Several Short Years Away*.

The central message is clear; Arnold is on a mission to warn as many people as possible, from the man on the street to large corporations, of the greatest economic collapse that will be experienced in just a few years from now. By Arnold’s estimates, it will be 7 times more severe than the Great Depression of the 1930’s. According to Arnold, there are no “ifs, buts, maybes or might’s”, it is as certain as it is unavoidable. It’s cast in stone! It will be as catastrophic as it is predictable because, as Arnold maintains, his data, sourced from publicly available Government files, Bureau of Labour Statistics, CIA and INS files, is unchallengeable.

Nobody has to have a degree in economics to understand Arnold’s convincing research. If, as it has often been stated, that 60% to 70% of GDP figures are created directly from the likes of domestic spending, with the other 30% being government spending, business investment and net exports minus net imports, the mass retirement of baby boomers over a period of time will dramatically cut domestic spending and massively affect the economy. The more spending power there is in any economy, the greater the economic benefit to that nation. Conversely, the less people spending money, the greater the adverse impact on any nation’s economy. As America and England are perhaps the world’s leading economic powers, any depletion in their economic spending patterns will be felt around the world.

An update of Arnold’s logic as to why we should be preparing for the biggest depression in history appeared in the *February 2004 edition of Professional Investor*. In an article titled *Heading for a Meltdown*, Arnold explains that according to US Bureau of Labor Statistics, research demonstrates that consumers with the greatest spending power are aged between 45 to 54. As there are over 100,000,000 in this age range in America alone, (a figure that represents nearly the entire population of Japan and five times the population of Australia) their spending power not only has an enormous impact on America’s economy, but many other economies around the world.

As this group fast approaches their peak earnings capacity, it's important to keep in mind that they also have huge expenditures to match. With economic expansion come the highest ever real estate mortgages, education expenses for teenage children, medical insurance, car loans and living costs. While you're in the workforce, these drivers add significantly to economic growth, but any depletion in the spending power has a dramatic opposite effect on the long-term trend of an economy. Beginning no later than 2012, Arnold argues that, "An economic decline of terrible proportions begins and lasts until around 2025."

The inescapable catastrophic depression will simply be the result of an enormous slump in Gross Domestic Product figures (the sum total of a nation's goods and services produced and consumed annually) for America and England. This will come about as the 100,000,000 baby boomers in America suffer from severely restricted cash flows as they enter retirement.

As you continue to read on, there may well be a sinking feeling in the pit of your stomach and a mild case of depression setting in. But don't let these feelings paralyse you into inactivity because this is the absolute worst thing you could do. There are ways to take advantage of such declines and there are always new and exciting opportunities that open up as a result.

In any generation that ever went through an economic decline, those with flexibility, sufficient foresight and open-mindedness, quickly re-skilled themselves and gained tremendous advantage out of new ways of doing things. Opportunities are already starting to emerge that will allow you to create all the wealth you've ever wanted. Not only are these opportunities already here, the speed at which you can create your wealth is doubling that of the last fifteen years.

I see nothing but positive news on the horizon and I'm just so excited about the opportunities that lie ahead. It's just that you first have to get used to the idea that the old ways of creating wealth will not be relevant for the next twenty years or so. They will come around again, but if you are like me, I don't want to wait another 20 years for traditional wealth assets to begin their recovery. If you stay with me on this journey, I'll teach you everything you need to know in order to create the financial freedom of your dreams. If you're really serious about making a few changes in your life, and are teachable, motivated and enthusiastic about financial freedom, I'll mentor you for as long as it takes to achieve the results you want. I'll share with you what I'm doing in Part Two of this document, but for now let's continue on our journey of information gathering.

Writing in *The Australian*, 8th and 9th of November 2003, Terry McCrann, one of the most respected financial journalists in Australia, explains that America has a desperate need to increase their interest rates by a whopping 3 to 4% at some point in the future. Forget about the .25% increases in Australia as these pale into insignificance by comparison. It is not a question of if; it is only a question of when. And when Alan Greenspan, Chairman of the Federal Reserve, lifts interest rates, he will create an economic Tsunami wave that will generate economic chaos as it travels around the world. He argues that Greenspan is playing a deadly waiting game and timing is crucial. The longer Greenspan leaves it, the worse the impact will be, however he can't move too soon because it will stifle current economic glimmerings.

Exactly one year after McCrann's article appeared, Alan Greenspan, Chairman of the Federal Reserve started lifting interest rates. News came through on the morning of 11-11-2004 that

interest rates in America rose by .25% with more increases to come in the near future. With that move, and the anticipated moves to come, Greenspan scared off investors and sent the financial markets into a tailspin as share prices tumbled. It's strange that such news should come through on Remembrance Day in Australia. Is this coincidence or is the universe trying to tell us something?

In conjunction with the interest rate move, Greenspan voiced strong concerns for America's rapidly ballooning Current Account Deficit, and the surging price of crude oil, saying that many of the world's nations would soon tire of putting money into US assets in order to continue funding America's trade deficit. When this eventually happens the end is near, as the value of the American dollar will come under strong selling pressure and/or interest rates will rise. Such an environment creates uncertainty for investors. The more investors are spooked, the more markets and asset values fall. The fear at present amongst currency traders is that the orderly decline in the value of the \$US may soon turn into a rout.

In *Business Review Weekly*, (*BRW*, Volume 27, Number 3, Jan 27 – Feb 2, 2005), investment banker Gerry Van Wyngen states that, "The core of the US current account problem, and Australia's current account problem for that matter, is that lots of cheap money has provided the fuel for an asset boom, culminating in absurd residential property prices that give owners the illusion of wealth. This, in turn, has financed a household spending spree that has sucked in huge quantities of imported goods."

In simple terms, Van Wyngen states that if interest rates start to climb around the world, then the asset bubble will burst. Property prices will come down, as now evidenced in Australia and Britain, commodity prices such as steel and copper will fall as will retail and car sales. The effects will be far reaching. Just when will this happen is still anybody's guess but one thing is for certain, everyday it doesn't happen is one day closer to the time it will happen.

With the re-election of George Bush, experts are predicting another four-year term of increasing budget deficits, which lead to increases in spending and increases in the Current Account Deficit. Remember that Berman likens America's current spending pattern to the fiscal overstretch which ultimately brought down the Roman Empire.

As a matter of fact, two academics, Maurice Obstfeld from Berkeley University and Kenneth Rogoff from Harvard University, have calculated that, "On current trends, US net foreign debt will rise from close to 25 per cent of GDP to 40 percent by 2007. This would put the US in a similar category to countries such as Argentina in 2001 and Sweden in 1994 just before they experienced a debt crisis." (*The Weekend Australian*, November 20-21, 2004)

In New York, economists expressed concerns at the critically low savings levels of Americans. Recent figures suggest that American household savings rate is just 0.2 per cent (*The Australian Financial Review*, 3 December, 2004). This translates as saving only 20 cents in every \$100 of income. As interest rates are expected to increase economists fear that households will suffer cash-flow difficulties in the coming months. These cash-flow problems will be exacerbated, not only by the higher interest rates, but also by the need to pull back spending and pay for spiralling household and credit card debt.

In *The Weekend Australian Financial Review*, December 4-5, 2004, David Bassanese wrote, "The Australian economy, beautiful one day, cloudy the next. A bunch of economic indicators over the past week has thrown renewed doubt over our miracle economy. Maybe

it's time to stop pretending." Bassanese was referring to the release of economic data for the September quarter, 2004. On an annualised basis, the economy grew at a sub par 2 per cent – half the annualised average of the previous decade – which is not enough to absorb new workers, and at this pace, unemployment will surely rise.

The data also revealed that house prices had fallen and Australia's trade deficit had blown out to \$400 billion, which is back to the levels when former Labor treasurer, Paul Keating, made his infamous banana republic remarks of 1986. "At the heart of the economic weakness is the downturn in the once booming housing sector. We have too many houses, and too few which are affordable."

"Another feature of this late stage of the cycle is that households are more leveraged to housing than ever before. Household debt-to-income ratio has tripled in the past decade to 150 percent. Much of that debt has been poured into housing assets, whose values are now under pressure."

Official Australian Bureau of Statistic figures released in *The Australian Financial Review*, 3 December, 2004, indicated that the property bubble is deflating. House prices continued to fall in Sydney, Melbourne, Brisbane and Hobart with the overall fall in house prices being 0.7% of the September quarter, 2004.

Addressing an advertising industry conference, Access Economics Director, Chris Richardson, expressed his view that, "Australia is the only rich nation in the world where households are spending more than they earn. People are spending with their ears pinned back." (*The Weekend Financial Review*, November 27-28, 2004) On the positive side of things Mr Richardson indicated that some people are becoming concerned at the high debt levels they are carrying and are starting to turn their attention to savings and cash flow. Sadly though, as experienced in previous recessions, most people will get caught by the onset of the looming economic decline and will not have prepared themselves adequately by establishing and ensuring strong cash flows now.

With the release of the 2004 Productivity Commissioner's draft report on the effects of the ageing population, (*The Weekend Australian*, November 27-28, 2004), the Commissioner posed the thought that we might be a little crazy worrying about how to solve aging problems that might appear 20 and 30 years from now. "We have to get through 2005 (and 2006?) and the possibility of a catastrophic plunge in the US dollar first."

Part of the problem of the advancing catastrophic decline in economic conditions is not so much the imminent retirement of the greatest population of asset buyers over the past two decades, who will stop buying and start selling assets, it's more to do with the lack of buying pressure from trailing generations such as 'gen x and gen y'ers'. Of the 20 million people in Australia, approximately 4.7 million are baby boomers (the greatest bulge in asset buyers) but there are only approximately 1.1 million gen x'ers and less than a million gen y'ers. There will simply not be enough buying pressure behind the assets that boomers start selling to cause their prices to remain stable.

As the Productivity Commissioner intimated in his report, "Much of the change in the age structure reflects the slow growth of the population of younger ages in the coming decades. This is not a symptom of the baby boom but its opposite, the long-run decline in fertility in Australia since the 1960's."

Birth rates per 100,000 head of population have declined significantly since the last wave of boomer births in 1962. When you combine this with an increasing amount of boomers turning 65 after 2010 (estimated to double as a percentage of the existing population over the next few decades), the downside for investors is unavoidable. Without another wave of asset buyers replacing the boomers, the impact on the value of assets, such as shares, property and bonds, will be negative, some say in the extreme.

If you're still not convinced, then I encourage you to read what real estate expert, Neil Jenman, has to say about the current state of the real estate market. The following snippets are from an article titled *Game Over: Don't Follow Players, Follow Indicators*. (Read the full article at the following web address - <http://www.jenman.com.au/NewsNews1.php?id=249>).

“Many of those who invest in property today are going to find themselves in an awful bind in the future. They won't be able to afford to keep the property and they won't be able to afford to sell it. It's going to hurt.”

“Of course, one of the common clichés pushed by the players is that property is a long term investment. Yes, it is, but if you invest today, you are going to have to take the ride down in price before you take the ride back up – and that could be a long time coming”

“... profits from property are almost impossible, in the short to medium term, if you buy in today's market.”

“The only thing that keeps prices rising when yields are falling is the herd mentality. Irrational exuberance. When prices rise above the true value of a property, there is one thing you can count on – they'll fall back to their true value. This is what's happening now. It's the start of the fall.”

Remember that, whether or not you believe in the possibility of an impending crash in asset values, the worst thing you can do is get caught by your own bias. If you want to hang onto your bias, then at least have alternative strategies in place just in case prices do move against you. In the rest of this paper I will be outlining the protective measures I have taken.

A change in direction is required

The central question occupying my mind is not so much about who is right or wrong in the debate about future economic trends but what action *must* I take now to ensure my economic future and those nearest to me? This is why I believe that residual cash flow is so important.

It appears that I am not the only one who presently believes in cash, or cash flow. Some savvy Australian investors now appear to be awash with cash. It seems that there is now more cash around than there are traditional assets to invest in. In order for traditional assets to increase in value, they need buying pressure to push prices higher. As we will see later, this buying pressure has substantially stopped and the largest identifiable population of asset buyers is now either selling or preparing to sell. When this population stops buying, prices relax but when they start selling, we enter a period of asset value freefall which becomes self-feeding.

Those who know what is on the horizon are prepared. Research is indicating that some individual investors, self-managed superannuation funds and corporations appear to be carrying larger than normal amounts of cash. Reporting in the *Financial Review*, November 20-21, 2004, Alan Jury says that margin lending rates are down and savvy investors have been more cautious about getting back into the market place since the so called 'tech wreck' of 2000. Deposits into cash management trusts are rising and are now the highest since 2001. "Companies also have an embarrassing level of liquidity with cash as a percentage of market capitalisation at record levels... the cash seems to be accruing as a consequence of mounting caution following strong performances in most asset categories, as well as a resulting lack of attractive (read: undervalued) alternatives."

Much of this caution stems from the ups and downs of the past few years. Beginning with the 'tech wreck', further confidence was eroded with the SARS outbreak followed by the 9/11 terrorist attacks in America and then subsequent terrorist attacks around the world especially in Spain and Bali. Adding to this uncertainty was the war in Afghanistan followed by the war in Iraq. Add to these further attacks of terrorism and it's any wonder that savvy investors are in cash.

So why are markets in Australia currently going up and breaking new records highs, almost on a daily basis? As markets mature, it's the 'Johnny come latelies' that get carried away with the euphoria of record highs and jump in at the worst possible time. It's also one of the only places to invest the annual flow of \$56 billion in superannuation money. When market euphoria is driven by amateur investors/traders, and the blind belief in ever increasing returns by fund managers, something has to give and when it does, the speed of the descent is rapid and self-feeding. In order to take advantage of any opportunities that may arise out of falling asset values, you must be in cash. The more cash you have, the less economic pain you will feel.

A question that occupies my mind is what happens to the value of cash as asset values plummet in a depression? Now I am no economist and there are no doubt many variables I have not considered, but I like to keep things reasonably simple. Let's consider Prechter again. He maintains that assets such as housing have the potential to lose 90% of their value by the bottom of the depression. In other words, the value of a \$400,000 house now, ends up being \$40,000 by the mid 2020's. But what happens to the value of cash during this period. Let's say I had \$400,000 in cash before the decline, I could only buy one \$400,000 house, but if I had \$400,000 in cash at the end of the economic decline, I could buy ten \$40,000 houses. So the value of cash actually goes up.

Now I understand that \$400,000 cash in the future might not be worth the equivalent of \$400,000 cash today, but to me everything is relative. Whatever value money has on it in the future, unless we turn into some sort of Banana Republic, at the bottom of the depression, those with ample supplies of cash win. As I said earlier, I am no economist and this may seem a little simplistic but it's simplicity I love. As a result, I have decided to become totally focused on building cash reserves because, on the one hand if Dent is correct, I will be cashed up and able to take advantage of opportunities that present themselves. On the other hand, if Prechter, Shilling, Berman, Arnold, Strauss, Howe and others are correct, I have the advantage of cash flow now.

To understand a little more about the potential of what could unfold over the next few years, let's go back to Prechter, and Strauss and Howe again. Prechter is a leading authority on what

he terms 'socioeconomics', the study of how social moods cause events rather than being the effects of events. Behind the theory of socioeconomics, explained in his book *Pioneering Studies in Socioeconomics*, is the notion that the human instinct to herd creates patterns of social mood, which, in turn, produce actions that cause events rather than what has traditionally been believed to be the results of events. In essence it's the study of how crowd psychology creates rather than results.

Prechter maintains that socioeconomics allows us to understand how the social moods of key populations cause markets and asset values to rise or fall, cause people to be at peace or war, cause swings to conservative or liberal politics, cause periods of hard core violent or soft core joyful entertainment and other significant social events. An upbeat social mood causes positive trends in the economy, in business, in consumption, in fashion, music, entertainment and lifestyles. In other words it causes expansion. A downcast social mood has a negative effect and causes contraction in business, causes conservatism and caution in investors, causes outbursts of violence, anger and frustration.

I see a strong marriage between the work of Prechter and Strauss and Howe. Remembering that the *Unraveling* period is described as a 'downcast period of strengthening individualism'. If this is so, then how are these downcast periods created? They are created by the crowd psychology and social mood of dominant populations. In turn, this causes a domino effect, which expresses itself through various indicators such as the arts, movies, contemporary songs, social and corporate behaviour, market sentiment, and racial, cultural and religious tension.

Prechter believes that social mood peaked in 2000 and is now in a long-term downtrend. Strauss and Howe believe the *Crisis* period will begin in 2005, give or take a few years. In an upbeat era we should be able to witness more wholesome movies, joyful songs, less violence and aggression, lower crime rates especially violent crimes of rape, bashing, home invasions and murder. We should be able to see more acceptance of difference, a greater sense of community and optimism and the positioning of positive social heroes and role models.

If we apply this lens to current conditions do we see such effects? Or do we see more torture; violence and horror in movies and in the way people behave towards each other. Look at the horror coming out of the war in Iraq and the violent crimes that children and adults are committing against each other. Witness the aggression and language in much contemporary music. Witness the demonising, of previously exalted but now fallen, corporate and social heroes. Witness much of the absolute horror and violence of computer-based games and TV programmes.

In the *Crisis* period, we can expect to witness more social unrest, more tension and conflict between political parties, religions, social and cultural groups. We can expect to witness more violent crimes, increasing tension between the haves and have nots, more riots, more protests, greater contraction and increased individual polarisation. We can expect to witness increasing amounts of negativity in news headlines and broadcasts, (if that's possible because it seems we are saturated with it now). We can expect to witness higher unemployment and the failure of social welfare safety nets and the failure of superannuation schemes pinning their hopes on asset value increases. If one were to stand back at a sufficient distance to their own bias and take an objective view, we can witness the beginnings of these indicators now.

Describing current market conditions, Prechter argues that market increases over the past few months reflect a retracement in a long-term down trend. The present risk to the values of stocks, bonds, real estate and other commodities is huge. Uneducated euphoria financially destroys people, as does uneducated fear. In his opinion, current market conditions reflect the equivalent of toxic waste on steroids that he wouldn't touch with a barge pole.

Now I understand that all this gloom and doom has the potential to paralyse you into inaction but remember that would be the worst thing you could do. In fact if you get yourself organised now there are a lot of positives about the future. What your particular future will be is largely determined by the thoughts and actions you take today. The most positive thing you can do right now is to take action and begin controlling the things you can control. You can control what things mean to you. You can control your interpretation of events. You can control your responses, your behaviours, your emotions and your thoughts. You can control your choices, you can control what you do next and you can control your economic future. If you need help with such control you can get all the help you want, it's just a matter of asking the right people.

This is the end of Part 1 of *Surviving the Greatest Economic Collapse of All Time*. If you would like to know what I am doing to ensure my economic future via *The Residual Wealth Effect*, then send an email to paul@wealtheducators.com.au and you'll receive a copy of *The Residual Wealth Effect: My solution to thriving in what could potentially turn out to be the greatest economic collapse of all time*.

Paul Counsel Ph.D.
www.thewealthtrilogies.com

Want to learn more from Paul Counsel? Then ...

**"Only 100 Copies Of The Digital Version Will Be Sold
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Amazing! Paul Counsel and Patric Chan truly have cracked the code to unlock your mind to allow you to make Quantum Leap breakthroughs to remove your financial barriers that have been holding you back your whole life and they guide you to build a solid foundation to build your own success empire!

Keith "The Teleseminar Expert" Schaffer
www.theteleseminarexpert.com

**Who Else Wants To Achieve Financial Freedom In Less Than 3
Years To Be In Control Of Their Time And Money?**

**"A Flat-Broke Man In Australia Took 3
Years and 8 months To Become A Self-Made
Millionaire. Could You Break His Record
If You Had Him As A Coach For 6 Weeks?"**

From Patric Chan, Author & CEO

Dear Friend,

What's the best strategy for becoming a millionaire?

Here's a simple and practical answer:

Learn what you need to learn directly from successful millionaires.

Last year I started searching for millionaires who could help me in my quest to become financially free. Now if you don't know me yet, my name is Patric Chan and I make a lot of money marketing on the internet. If you're not sure, just go to Google.com and search for 'Patric Chan'.

But I want to find **more income streams** to increase my financial wealth. I wasn't interested in just looking for people **who look like millionaires** because, quiet frankly, most

of them are NOT wealthy. You probably met some of those in your life.

And I wasn't interested in paying tens of thousands of dollars to people who then told me what I had to go and do. There are thousands of people on the Internet who claim to 'know' what to do but never really tell you the nuts and bolts of how they do things.

What I was looking for was a 'Millionaire-Next-Door' type of person that had never promoted himself online officially. 'Millionaires-next-door' are not the sort of people who flash their fancy cars, who look slick or who live in large empty mansions. 'Millionaire-Next-Door' types are actually quite conservative. Except for their **ability to make money**, they're ordinary people who are passionate about independence and time freedom.

Put it in this way -- They're the sort of people who have achieved financial freedom, are able to enjoy their time and can do what they like with their lives! ***But if you lived next door to them, you wouldn't know it.***

To cut a long story short, my search took me to Perth, Western Australia for 5 days to see a guy by the name of Paul Counsel. I'd heard a lot about him and I was encouraged to read his latest 'Infinite Wealth Trilogy'. After reading his books, I flew down to Perth to meet him because *I wanted to make sure that this guy was genuine*. Nowadays, many people on the Internet or newspaper claim to be millionaires but who knows what they actually do for a living. *So I have to be sure.*

([Click here](#) to see proof that I flew down to Australia to meet Paul in person.)

Did you know what I've found out when I was down there?

Paul Counsel is a genuine multimillionaire-next-door type of person who has one of the most generous souls I've ever met. The funny thing about him is that although he made his first million from trading/investing in stocks and real estate, most of his neighbors don't know it!

His story is just so incredible it's worth a book by itself. Born in the Tasmania bush and growing up with Deaf mute parents, Paul always found himself on the wrong side of the tracks.

Without going into too much detail, suffice to say that Paul found himself dead flat-broke at the age of 40. So determined

was he to turn his life around, by the age of 44 he was a millionaire.

I am deeply convinced that others could do exactly what Paul has done if only **THEY KNEW WHAT PAUL KNOWS**.

Starting from \$zero, it took him exactly 3 years and 8 months to become a self-made millionaire because he had to go through the hard-knock school of learning from failures.

I'm not sure about you, but it's not easy to learn from trial and error. And obviously, it's not fun when you see money flowing away from your pocket for each mistake you make. Trust me, that's painful.

When I met Paul in Perth, I was knocked over by his generosity and I almost jumped out of my skin when he said he would coach me in the many ways of wealth creation. I'm just so excited to be taking a wealth journey with him. But here's the best part ...

You can only imagine my surprise when he said he would share his wealth secrets with my family and friends and anyone else who was interested in the journey!

Imagine this:

If Paul was willing to coach you for the next 6 weeks, do you think you would save a lot of time and money on your journey to becoming a millionaire?

Most importantly, do you think he could 'save' you from the frustrations of not getting the consistent results you want?

Think about it, you could probably break his record in becoming a millionaire if... He revealed to you his strategies for building successful businesses, strategies for investing and trading in stocks and real estate, strategies on many other aspects of wealth creation and ways to get as much leverage on your journey as possible.

Wouldn't it save you a whole lot of money and time and protect you from the many mistakes people make, especially **if you could ask him questions personally?**

It took him nearly **four years of hard work** to unlock the secrets to wealth. Once you've unlocked the same secrets, *there's no telling how much money you could make and how quickly you could move.*

Ok. Let's do reality check:

There is a chance that you won't make a million in three years from Paul's 6 weeks of coaching. This is because everyone is an individual and everyone has different *variables in life to overcome*. **That's just fact.**

But if you knew how he made his first million and if you knew his secrets of continuously attracting wealth into his life, would it fair to say that *you are going to move forward with a greater degree of clarity and certainty than ever before?*

Maybe not a million dollars in your bank account by the next 3 years. Maybe *you'll only make an extra \$550,000.00* in three years instead. Or \$250,000.00 or \$150,000.00. I don't know how much you're going to make but get this:

"With Paul's Knowledge Of Achieving Financial Freedom, You're Going To Make More Money In A Shorter Period Of Time Regardless Of Whether You Make A Million Or Not."

But hey, if you *don't do anything now*, if you don't attend his coaching then *don't expect a miracle* to happen and don't expect to become a millionaire anytime soon.

The first session of the tele-seminar was held on the **29th June 2005** and the last one ends on **3rd August 2005**. Today's . That means, the tele-seminar had passed but ...

The good news is, the whole 6-week tele-seminar of over 8-hours of solid information was recorded!

Here is what you'll learn in the audio recorded 6-week coaching program:

- Preparing yourself for wealth attraction through your attitude and mindset. Corny and cheesy as it sounds, this is by far the most important 'ingredient' in becoming a millionaire. Don't believe me? Look at those people who win the lottery... how long does their money last before they end up back in debt? People who are successful are always on the lookout to improve their knowledge base. This is HOW they become MORE SUCCESSFUL.
- How to manage and eliminate debt. Don't expect to be a millionaire if you are not solving the root cause of financial underachievement. How is it possible to be rich if you don't deal with the very things that are holding you back? Use Paul's wisdom to speed up the process and

focus on the direction of becoming a millionaire ... *even if you are broke at the moment.*

- *How to successfully trade stock markets and begin making additional streams of income.* If you think you can open a trading account and begin making money tomorrow, it's wise to think again. Most people who do this, **simply gamble their money away.** Discover strategies on how to trade and invest in stocks by following successful methods.
- How to locate and buy profitable real estate in your locality. There are 2 basic ways to make money from real estate; rent or sell. By understanding how to maximize your income from real estate, you'll know when to rent or sell. Paul will reveal his real-life situations on how he makes passive income from real estate... from a property he bought outside of Australia itself!
- Do you have a business? If so, then you'll benefit from Paul's experience on how he sets up businesses from scratch and creates residual income from them. He's making a killing in Perth! If you don't have a business, here's your chance to make sure you are on the correct path.
- Passive income! Tom, Dick and Harry are talking about passive income. Well, sad to say that most of them don't understand the concept of it nor are they really enjoying the real power of passive income. While some people are boasting about their monthly 'passive income', Paul is laughing all the way to the bank with his REAL passive income generation methods. In fact, he doesn't even need to work anymore for the rest of his life with his current passive income strategies! He'll take you through his step by step methods.
- You'll also get his step-by-step action plan to earn your first million dollars. What good can it do if you know all the strategies BUT HAVE NO IDEA on how to get started? Paul will reveal the very processes he has undertaken to be where he is today... **A self-made multimillionaire**. Wouldn't it be fantastic to have *him* as a *mentor*?
- **Special One-On-One question** and answer sessions! At the end of each 60-minute tele-seminar, you're allowed to throw in as many questions you have on how to create wealth! If you were to hire a personal millionaire coach, be prepared to pay many thousands of dollars. When you

attend this tele-seminar, you get this rare opportunity to get your burning questions answered - *On the spot for FREE!* (Since it's over, you're no longer able to ask questions to Paul personally but all questions by participants were recorded for you to listen!)

- As an extra-ordinary special bonus, I'll teach you the 5-step system I use to make money from the Internet like clockwork! I make a full-time income by marketing information products online. I also teach people what I do and I've made many people rich by showing them my Internet secrets. I'll be Paul's special guest speaker and I'll share all my closely-guarded Internet wealth creation techniques with you. *These alone are worth more than a year's salary.*

"Here's Your Chance To Be The Next Millionaire!"

The investment to access this recorded 6-week tele-seminar program is just \$497. And Paul and I believe that we're already under-pricing it because once you're *effectively coached by a multimillionaire, you'll be able to make many times more than that amount back.*

Look at this way ... What's \$497 if:

- 1) You know **where and how to find** real estate that you can buy and sell to earn \$10,000.00 plus? Or rent to give you passive income to ease the burden on job incomes?
- 2) You know on *how to pick stocks* to buy and sell without having to pay thousands of dollars for expensive courses?
- 3) You know how to build additional streams of income that can generate residual dollars *for the rest of your life*. When your income is at a peak, you won't have to lift a finger. One of the most incredible things that **Paul will teach you is how to build these income streams into assets** that you can sell for multiples of their earnings.
- 4) You can have the powerful attitude and mindset in your life that will propel you to **achieve many of your other dreams and goals.**
- 5) Get out of debt quicker and easier than you ever thought was possible.
- 6) *Build profitable businesses* that generate residual and leveraged income on a weekly basis.

- 7) Discover *the truth about making money* on the Internet and create another income stream in your life.
- 8) You can get a one-on-one question and answer session with Paul Counsel and pulverize any lingering doubts you might have on becoming financially free.
- 9) You are attending a 6-week coaching program by someone who walks the talk on wealth creation.

In a nutshell, \$497 is a tiny amount compared to the knowledge you will get in return. Similar seminars like this cost as much as \$3,000 to \$4,500. And you know that the 'Boot Camps' everyone seems to be selling these days can cost anywhere between \$5,000 and \$10,000.

Special Offer For A Limited Time Only!

Given all that I've said above, what would happen if I said that, *you could get your hands on the 8 hour ++ recorded tele-coaching for FREE?*

That's right, you'll be able to get everything I've mentioned above for \$497 **F*R*E*E.**

Here's how:

If you're the first 100 customers to order [The Infinite Wealth](#) ebook for \$97.00 today before 31st August 2005, you'll get Paul Counsel's 6-Week Millionaire Coaching Program recorded digital version for free.

(If you want to read the details of The Infinite Wealth Trilogy ebook, [click here](#))

Pay special attention to this offer because if you miss out on it, you're likely to create a repeating pattern that'll encourage you to continue missing out BIG TIME.

This is a limited offer. Once the 100 copies is sold out or after the date of 31st August, we won't be offering this coaching program for free as a bonus to The Infinite Wealth order anymore.

The reason is, we'll be launching the tangible CD package after this.

The ebook alone is worth more than the amount invested because the information and content in it is a compilation of a successful millionaire's knowledge and experience. Now that

you get to listen to the tele-seminar for free, it's a no-brainer to see why you should [order right now.](#)

Secondly, I can't promise you that we'll maintain this offer and price of the ebook.

[Click Here To Order The Infinite Wealth Trilogy](#)



Remember, don't procrastinate and waste time, because this unique offer is only good as long as we're able to accept 100 customers - [Click here](#) to accept the offer immediately.

100% Money Back 90-Day Guarantee!

It'll be impossible if you can't be financially richer after being 'coached' by Paul Counsel for the next 6 weeks. Hey, you're going to hear from the horse's mouth -- *Someone who became a multi-millionaire from scratch.*

That's why, we are confident that this coaching program will put you on the right path to make you a very wealthy person.

Listen to the 6-week coaching and read the 600-page Infinite Wealth ebook. Study the information and learn how these strategies work. I'm sure they will work for you like how it works for everyone. If somehow you don't become financially richer in 90 days or less, then just send me an email to request for a no-fuss 100% money refund. Put it this way -- I'm putting all the risk on ME. You simply can't lose if you sign up today. The only way you're going to lose is to miss this rare opportunity to be 'coached' by a self-made millionaire!

So what are you waiting for? [Click here](#) to be the first 100 people to purchase Paul's Infinite Wealth Trilogy.

To your success,

Patric Chan

**Paul Counsel's Internet Business Partner and
CEO, eSuccessMastery.com**

P.S: I can't stress how important for you to listen to these coaching sessions. This is your opportunity to learn from someone who walk the talk of becoming financially free and personally get his knowledge.

P.P.S: Once you have ordered The Infinite Wealth today, you'll be able to access the SIX recorded coaching session (a total of over 8 hours) of audio recording from 29th June until 3rd August 2005. Each of these sessions alone can be sold for \$97 each! [Click here to order.](#)

Questions?

patric@esuccessmastery.com