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For the better part of the last 25 years, debt has become engrained in the American culture. It was in the 1980s that we began to transition from a savings-based society to a debt-based society. The now-outdated "savings consumption model" was best summed up by the phrase "if you want something, you have to save for it." The new "debt consumption model" is best described by the phrase "if you want something, just take out a loan or charge it on the credit card."

## UNTIL DEBT DO US PART

The fact is that the United States fast became a nation of debt jockeys. This gave birth to a new breed of economic thoroughbred and launched what *DocOnomics* refers to as the Triple Crown of economic illusions, often confused with financial prosperity:

**The Kentucky Derby.** This was the mass proliferation of homes and rising energy consumption made possible by the socialization of mortgage lending. Seemingly, everyone could obtain a mortgage loan with little or no down payment, even non-creditworthy borrowers. End result: overproduction of homes and burdensome imports of energy.

**The Preakness.** This was the mass proliferation of retail establishments made possible by the socialization of consumer credit. Seemingly, everyone could obtain multiple credit cards and installment loans, even non-creditworthy customers. End result: overproduction of malls, franchised stores and Internet retailing and burdensome imports of consumer goods.

**The Belmont.** This was the mass proliferation of automobiles and rising energy consumption made possible by the socialization of vehicle financing. Seemingly, everyone could borrow on multiple vehicles with little or no money down, even non-creditworthy individuals. End result: overproduction of automobiles and burdensome imports of energy.

At *DocOnomics*, we do our best to call the races as we see them. What we see is that the growth of the US economy and improvement in living standards was a direct function of the shift from the savings consumption model to the debt consumption model. Few if any of the enhancements were real. It was the miracle of cosmetic surgery. This is being proven today as we experience an excruciatingly painful cycle of job losses, loan defaults, home foreclosures, declining incomes, credit curtailment and bailouts on a scale not witnessed since the 1930s. Clearly, the redundancies in the US economy that have been building since the 1980s are enormous. At long last, we appear to have reached a point where we don't require one more house, store or automobile to be produced in this country for at least the next 5 years. We are maxed out. The racing season is over.

In previous *DocOnomics* commentaries, we have stressed that personal wealth management endeavors will be best served by quickly letting go of the theories, benchmarks and expectations that have proliferated during the past 25 years. This old financial ball of wax is best characterized by catch phrases such as "investing for retirement" and "stocks will outperform bonds." Seeing as how the debt consumption model has proven to be unsustainable, we must give serious consideration to a return of the savings consumption model. This will usher in catch phrases like "saving for retirement" and "bonds can outperform stocks."

For our sake and for the sake of our children and grandchildren, we should pray that the government handiappers do not favor the preservation of the debt consumption model. This model has proven itself to be inherently unstable and hazardous to our long-term financial health. At present, Washington's iron lung machines are attempting to revive the debt patient by pumping oxygen into the near-comatose financial institutions and companies that encouraged and then gorged off the debt-enabled consumer. This is laying the groundwork for severe cycles of deflation and inflation that will take their toll on the unsuspecting.

We at ***DocOnomics*** do not wish for you to be one of the unsuspecting. Therefore, it is recommended that you make a concerted effort to detach from past thinking and pursue these steps to insulate your assets from the potential ravages of deflation and inflation:

### Deflation

1. Cash equivalents
2. Indexed annuities (offering a guaranteed return with complete protection of principal)

### Inflation

1. Diversified commodities and natural resources, including countries that export these items
2. Foreign currencies (i.e., likely to benefit from a devalued US Dollar)
3. Infrastructure and clean technology (i.e., sectors likely to benefit from government stimulus)
4. Precious metals

Please feel free to contact us with questions on how to implement these steps. We also invite you to become a regular visitor to our new blog site, which will be in operation shortly.