Don't Be Surprised:

How Business Owners and Investors can Understand - and Take Advantage of - Historical and Economic Cycles Part 1

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Don't Be Surprised

“Those who cannot remember the past are condemned to repeat it."
- George Santayana

“What has been will be again, what has been done will be done again; there is nothing new under the sun.”
- Ecclesiastes 1.9

Introduction

Diversify. Don’t put all of your eggs in one basket. This is what we’ve been told our whole lives. Buy a house, invest in a diversified stock market portfolio, buy some more real estate, and possibly buy some precious metals like gold or silver. But is this real diversification? Is it enough when the cycle shifts and leads to a bust?

The vast majority of investment strategies developed over the last 20 years have been developed under a false premise: that 88 years (1926-2014) of stock market data is enough evidence to "know" and "understand" the markets, relative to the hundreds and thousands of years of history of business and investing. The conventional wisdom that, "given a long enough time horizon," markets will be higher in the future is based on the fundamental belief that markets are both random and relatively efficient. (After the Crash of 1929, it took more than twelve years for the stock market just to get back to even.) There may be a valid argument to be made to use these theories based on the data from the 20th and early 21st centuries. Yet, if one looks at the hundreds and, in some cases, thousands of years of historical evidence, one should pause and consider the data, *especially* if they are a business owner or investor, as this is not an academic exercise.

Capital flows to where the expected return is greatest. And in times of crisis, capital flows to where the risk is the least, as investors try to preserve capital. There is a "flight to safety." (That is why at the depths of the crisis in late 2008 U.S. Treasuries were yielding 0.02%!) But in the coming crisis, the safety will not be there. The "risk free" investments that the U.S. government has offered for so many years was tested in 2008 and will likely be lost in the coming crisis. And if the risk free status will remain, something else will have to be given up by investors.

This paper is not investment advice, but observations of current economic conditions, based on hundreds of years of cycles. This paper looks at how economic cycles will have an impact on the decision-making of both business owners and investors both now and in the future. It is a paper written for *both* business owners *and* investors. A prudent business owner makes decisions and changes as circumstances require. As such, sometimes it is best for investors to make changes outside the realm of what may be seen as the wisdom of the day.

There is strong evidence of a coming economic and financial storm and it is going to hurt both business owners and investors. The "traditional" investments in stock and real estate markets are what would be affected first, then causing a ripple into banking, which will negatively impact businesses around the United States and the World. This will continue a negative downward spiral.

However, given any threat, there are always opportunities. And in this case, business owners and investors have the opportunity to work together to find success. Yet, most business owners are not used to dealing with, and are ill prepared, to attract investors. And while capable, the vast majority of investors are not prepared to invest in small, privately held businesses. If investors and business owners find ways to work together, they may be able to weather the coming storm and find success together.

Just as there is the seasonal cycle of Spring, Summer, Autumn, and Winter, there are also recurring cycles throughout science, business, economics, and history. These cycles occur naturally, and regardless of humans' desire to control, these cycles cannot be changed or altered. The world is full of cycles; this paper is written so you can first understand the cycles and then take advantage of them.

> *"…the forces of the market are just that: they are forces; they are like the wind and the tides. If you want to try to ignore them, you ignore them at your peril. If you find a way of ordering your life which harnesses these forces to the benefit of society, that's the way to go"*
> *– Arnold Harberger, Economist*

This paper is neither fear mongering nor a doom and gloom scare tactic. The purpose of this paper is to provide real, credible, historical, financial, economic, and social data so you can make sound, rational, and strategic decisions regarding the future of business, investing, and the American and global economy. This paper is about taking advantage of the truth that leads to finding and/or developing solutions for the future.

So, if it's about finding solutions, what are the solutions? What are businesses that are going to survive through this very difficult time going to do? How are investors going to ensure protection of their assets?

Before the answers, let's first identify the problems. Unfortunately, just like freshman algebra, we need to show our work.

Identifying the Root Causes or the Symptoms

When there are storm clouds on the horizon, a prudent person uses good judgment and proper planning to prepare for the coming storm. It may be as simple as lowering the umbrella on the deck furniture or bringing inside things that would be harmed if they were to be left outside during a storm. There is a general uneasiness amongst business owners and investors as they look at what's going on in the world. Yet many business owners and investors will be caught completely off guard when the coming financial and economic storms hit.

Certainly, there are plenty of risks out there that could disrupt capital markets, and the most prominent risk to global economic "recovery" seem to be the geopolitical risks, with current issues in places such as in the Ukraine, Iraq, Syria, Israel/Gaza, ISIS, and the tensions in the South China Sea between China and Japan, just to name a few.

For the past 6 years, Wall Street has been the beneficiary of the Federal Reserve's "easy money" programs such as low interest rates and Quantitative Easing ("QE"). It seems that both Wall Street and the Fed see that any more "stimulus" or "easing" would be counter-productive, as the Fed considers raising interest rates and many on Wall Street have begun to worry about inflation. Since Japan's "monetary expansion" is on hold and China is trying to reign in the massive amounts of credit from the last several years, it appears that the appetite for "easy money" and "stimulus" seems to be waning.

Make no mistake: a new crisis is coming. It is only a matter of time. But the issues that are in the headlines are not the primary drivers of the coming crisis. The primary drivers of the next crisis are powerful, historical, and economic cycles. Cycles that are more powerful than Wall Street, the Fed, the banking industry, or global geopolitical problems that lead to war. These cycles cannot be changed, moved, or altered by the headlines. The headlines are not the cause; they are but mere symptoms of greater issues, some of which have been moving through history for thousands of years.

Surprised by Crisis?

There have been at least 39 financial or economic crises and panics in the last 239 years (since the birth of the United States of America). That is an average of about 1 crisis every 6.12 years. As you will likely recall, the two most recent crises occurred in 2000-2001 and 2007-2008. It will forever be debated as to what are the root causes of each crisis and panic. Yet, in the debates, most people fail to recognize the powerful evidence of historical and economic cycles. And because of these cycles, regardless of what new schemes economists, politicians, and bankers try to develop over the next 5, 10, 15, or 100 years, there will always be times of crisis, just as there have always been times of crisis.

Every time there is a new crisis, people act like it's the worst crisis ever to occur and that there is never going to be anything like it again. "*It's different this time*" is a phrase often stated during times of crisis and, it's never different. Yet, most people are surprised and completely caught off guard.

The current confluence of cycles has the potential to cause a great deal of damage for those that are unprepared. It is possible, however, with proper preparation, planning, and partners, to not only just survive during the coming storm, but to thrive as well.

There are a couple of things that are for sure during times of crisis, and there can be no argument made against them: banks stop lending and most businesses struggle mightily when they don't have access to capital. This has happened through all of history and it is safe for one to assume that banks will not be lending to businesses during future crises.

One would be remiss in not at least acknowledging the force of *Creative Destruction* here. In his 1942 book, *Capitalism, Socialism, and Democracy*, Joseph Schumpeter introduced the phrase “creative destruction.” The book was written in part as a response to Karl Marx’s belief that capitalism created crises that destroyed productive forces. Schumpeter explained that while Marx was not wrong in the fact that crises were inevitable in Capitalism, but that disruption of productive forces were created by entrepreneurs that actually sustained economic growth, or created new values, even as established companies were destroyed. While *Creative Destruction* is an important topic to discuss, it does not affect the outcomes or conclusions of this paper.

It is a well-documented reality that more than 95% of all businesses fail. The numbers are dramatic: 40% fail in the first year and a total of 80% fail in the first five (5) years. Then, of those that survived the first five (5) years, 80% of those remaining fail in the next five (5) years. This leaves just about 4% of businesses surviving 10 years after start up. (It is not the purpose of this paper to discuss *why* businesses or business owners fail, that topic will likely be covered in a future blog post or white paper. For this paper, these numbers are taken and used at face value.)

Privately held businesses are the backbone of a country’s economy, especially the American economy. And if the concerns laid out in this paper prove to be even somewhat accurate, business owners are going to have problems over the next 5-15 years. Additionally, the economic "headwinds" will likely cause major problems for the "traditional" investor, as he or she could likely see their primary source of returns in stocks and real estate decline over the next 5 years or so, if not longer.

A Brief Discussion of the Cycles

The following is a relatively brief overview of many of the cycles that I've been referring to. The reasons *for* these cycles matter not to this paper, nor the conclusions drawn in this paper. What matters is that these cycles do *actually occur* – and have been occurring for hundreds, and in some cases, thousands of years. As I researched, reviewed, and came to have an understanding of these cycles, I began to realize the importance of sharing the knowledge of these cycles with both business owners and investors. Once business owners and investors are made aware of these cycles, they can make informed and prudent decisions about the future.

The following is a list of cycles with explanations about each cycle. This is not an exhaustive compilation of cycles – nor is it an exhaustive explanation of each cycle. It is, however, a discussion of most of the major cycles affecting business owners and investors over the coming years.

The Fourth Turning

Over the course of the past five centuries, history has shown an incredible pattern: every twenty to twenty-five years or so, a new era, or "turning," starts. Authors William Strauss and Neill Howe, who, as researchers and writers, developed a theory of history based on generations. In 1997, they wrote a book called *The Fourth Turning* that identified, examined, and named the turnings. The book focused on a "fourfold cycle of generational types and recurring mood eras in American history." (from their website: http://lifecourse.com/about/method/insight-overview.html)

Strauss and Howe identified four turnings in one cycle and the cycle lasts roughly 80 to 100 years, allowing for a turning every 20-25 years.

Here are Strauss and Howe's four turnings and a description of each:

1. The First Turning – is a "high" or an era of good feelings. An era when institutions are strong and individualism is weak. The most recent First Turning was post World War II America until the JFK assassination in 1963.
2. The Second Turning – is an "awakening." Institutions are attacked for personal and spiritual autonomy as people tire of social discipline and want to recapture a sense of personal authenticity.

3. The Third Turning – is an "unraveling," with the mood almost the opposite of a high. Institutions are weak and distrusted and individualism is strong. But society seems to be unraveling and there is a general distrust of leaders and the splitting into competing "values" camps.
4. The Fourth Turning – is a "crisis." This has been an era in which America's institutional life is torn down and rebuilt from the ground up – always in response to a perceived threat to the nation's very survival. In every instance, Fourth Turnings have become "new founding moments" in America's history, refreshing and redefining the national identity. The most recent Fourth Turning started with the Great Depression and climaxed with World War II.

While there is so much more to each turning, this provides just a brief exposure to show the importance of a "Fourth Turning." The fact is that every Fourth Turning in America History has climaxed with a war. Going in reverse, we have: World War II, The Civil War, and the Revolutionary War. As every Fourth Turning begins with a crisis, those who follow and understand this view of history believe that we are now fully in the midst of the Fourth Turning, as it began with the financial crisis of 2008. According to this view of history, from where we are today (the beginning of 2015), we should expect another 15 years, give or take, of upheaval in the economy, politics, and every day life, with the probability of the upheaval commencing with a war.

The American Economic, Political, and Social Cycle

In his book, *The Next 100 Years* (http://www.amazon.com/The-Next-100-Years-Forecast/dp/0767923057), author George Friedman calls for a crisis that will "come to a head, if history is any guide, in the presidential election of either 2028 or 2032." Mr. Friedman believes this will come to be because of "an odd – and not entirely explicable – pattern built into American history." (pg. 208) Mr. Friedman then begins to describe what I have come to refer to as "The American Economic, Political, and Social Cycle," (American EPS Cycle).

This cycle really has little to do with *who* has become President but much to do with *how* the individual became President. The changes, or shifts, have to do with the changing attitudes of Americans because of economic, political, and social issues and patterns. Every 50 years, give or take, cyclical shifts are brought on by some form of crisis or another. And, at the end of that roughly 50 year period, the leaders try to revert back to the same strategies as were used at the beginning of the cycle. The undercurrent of the cyclical shifts is "the struggle between a declining dominant class linked to an established economic model and the emergence of a new class and a new economic model." (pg. 209)

1. *First Cycle: From Founders to Pioneers.* This was a shift from the ideals of a small group of landowning Englishmen and Scots (the Founders of the United States). There was an economic crisis that led to a move away from the founding generation as a new generation of Pioneer-settlers rose to power with the election of Andrew Jackson. As more people journeyed across and settled west of the Appalachian Mountains, people like Daniel Boone, so moved the power of the economic, political and social strength of America. And with this power, came the strength of the pioneer-farmer that settled the continent's mid-section. The old class didn't disappear, the power just shifted to the poorer settlers moving west. While the founders – and almost gentrified landowners – preferred a stable currency to protect investors, Jackson and his contemporaries preferred cheap money (low interest rate loans) to protect debtors (or the farmers who voted for him).

2. *Second Cycle: From Pioneers to Small-Town America.* By the time the Civil War ended the farmers not only had their land paid off, they were actually making money from their farms. This led to a change from homesteads to small towns and small town banks, to serve the prosperous farmers. The small town banks took the deposits and gave it to Wall Street, which then invested in railroads and industry. But low interest rates ("cheap money") began to cause problems because those who were trying to get a return on their savings could not because institutions could only provide interest rates that were very small. Therefore, farmers and savers began taking risks that were beyond their tolerance and another crisis ensued. Ulysses S. Grant tried the same approach as Jackson (cheap money) and the crisis deepened. Rutherford B. Hayes was in the right place this time and decided to put the dollar on the gold standard (championed by his Secretary of the Treasury, John Sherman). This hurt the farmers, but set the stage for the rapid industrialization of the United States; inflation was controlled, interest rates increased, and investment became more attractive.

3. *Third Cycle: From Small Towns to Industrialized Cities.* Daniel Boone and small-town life have both been celebrated in America. But in the second half of the 19th century, there was a massive influx of immigrants pouring into the US. And because they were different, many immigrants were not welcomed in small town America. Immigrants found work in the cities and their labor was fuel for the industrialization of America. While some investors and business owners made a lot of money, the immigrant and poor workers could not purchase the products they were producing. After a crisis (the Crash of 1929 and ensuing Great Depression), Franklin D. Roosevelt rose to prominence, as he championed the industrial, urban workers and socialized labor with public works programs. Even though the New

Deal didn't end the Great Depression, FDR did tap into the energy of the poor workers and they kept him in power for four terms.

4. *Fourth Cycle: From Industrialized Cities to Service Suburbs.* After World War II, America experienced a great wave of growth. But the social supports of transferring money to the workers from the wealthy through taxes were no longer working in the 1970s. The penalizing of success through high tax rates discouraged investment. Without investment, the industrial plant, and the economy as a whole, became less and less efficient and less competitive globally. President Jimmy Carter tried to carry on the same policies of FDR and it's not what was needed; this ushered in Ronald Reagan and his "supply-side" economics: reducing taxes and encouraging investment. Reagan's policies transferred power from the cities to the suburbs as the American economy moved away from FDR and New Deal principles toward suburban and entrepreneurial classes.

5. *Fifth Cycle: From Service Suburbs to A Permanent Migrant Class?* If the 50-year cycle continues, we should experience the same strategies over the next 15 years or so. Reagan put the policies into place and every President since, including both Bushes, Clinton and now Obama, have, from an historical perspective, held pretty much the same economic policies in place. "The patterns are too powerful, too deeply rooted in fundamental forces." (pg. 218) Every cycle ends and shifts to a new cycle.

We are beginning to see increasing economic and social tensions. We don't know for sure yet, but it appears that 2008 was a crisis that has caused many to be concerned. Will it be the crisis that will have lasting and impactful change? We do not know. But we do know that the solution to the major crisis of the last cycle will not be the solution for the next crisis. Since the early 1980s, the US economy has been based on a system of relatively readily available credit – for both consumers and businesses. Interest rates are currently at historically low levels. Credit, even though there has been a massive amount of money circulated into the global system, does not seem to have accomplished its intended task. Growth in wealth is, and has been high for almost 35 years, within 401(k)s, IRAs, and real estate. However, the savings rate is very low, relative to historical standards.

"Consumer demand and equity prices live in a delicate balance. If consumer demand falls for any reason, the value of things, from homes to businesses, will decline. These values help drive the economy, from lines of consumer credit to business loans. They define the net worth of an individual or business. If equity declines, demand decreases, so a downward spiral is created." (pg 219).

Real Estate, Monetary, War, and Stock Market Cycles

Martin Armstrong is an economist whose company provides insights and analysis for both the sophisticated professional and the average Joe, like you and me (http://armstrongeconomics.com). (If you want an unbiased, analytical approach to reviewing the cycles of history, Mr. Armstrong's site is highly recommended. It is incredibly difficult to argue with his logic and conclusions.)

Based upon the hundreds, if not thousands, of years of cycles analyzed, Mr. Armstrong believes that in order to understand business, financial, social, and economic cycles, one must "grasp how everything is truly integrated...(and) driven by international capital flows." He has spent his entire career studying capital flows and cycles throughout history, even as far back as studying cycles during the Roman, Greek, and Persian Empires.

To track global capital flows, Mr. Armstrong has developed something he calls the Economic Confidence Model (http://armstrongeconomics.com/models/7219-2/). When capital flows get concentrated in one particular area, a bubble is created. When that bubble bursts, capital flows to where the expected return is the greatest.

Inside of the economic confidence model is something Mr. Armstrong calls a 51.6 year major wave. The major wave is when there is a shift from "public" to “private” solutions, and vice versa. The most recent peak of the Public wave (government solutions) was in 1981. The next peak of the Private wave (non-government, private solutions) should Peak around 2032, according to the 51.6 major wave. I find it fascinating that this lines up very closely with The American Economic, Political, and Social Cycle as discussed by Mr. George Friedman in The Next 100 years. This also, amazingly, lines up with Strauss and Howe's Fourth Turning, which should peak between 2028 and 2033. Fascinating!

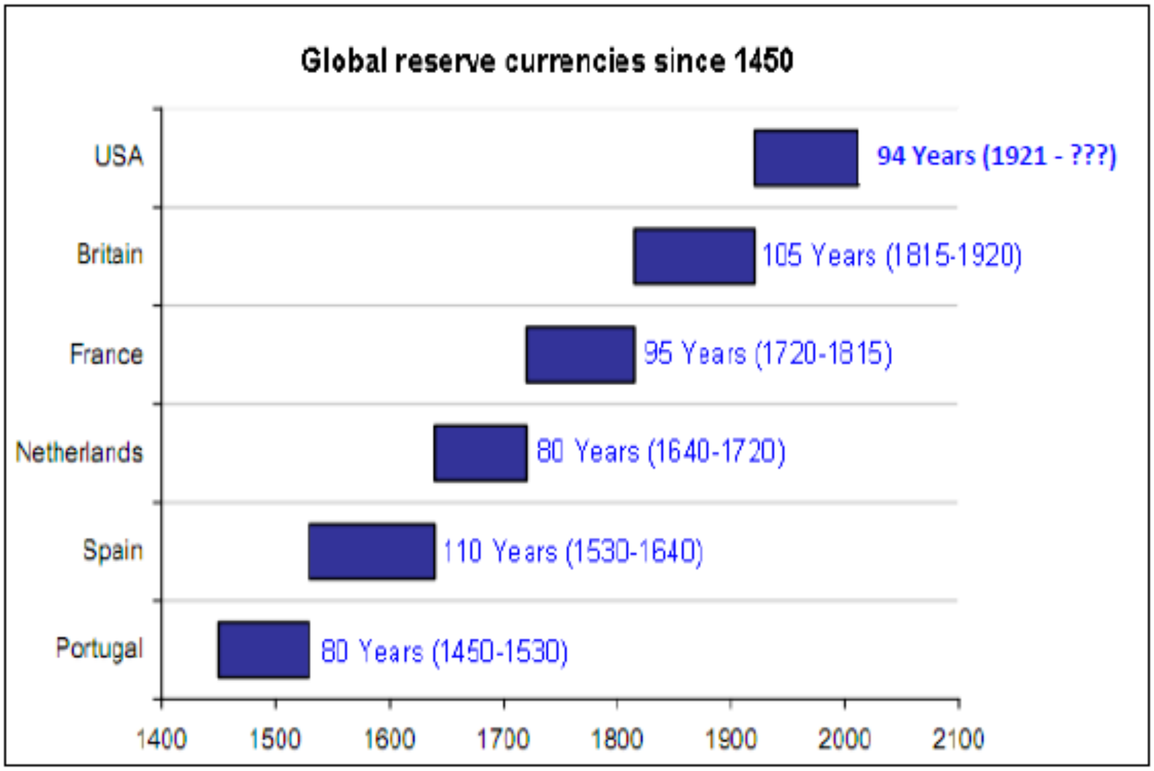
Just as in 1929 when there "was a concentration of capital in the USA as money fled Europe and correctly so since they (European countries) by and large defaulted on their national debts in 1931. This drove the dollar to historic highs, confused politicians who then adopted protectionism, all because capital was fleeing. Today, capital is fleeing Europe in fear of defaults once again." (http://armstrongeconomics.com)

Capital is, in fact, currently fleeing Europe once again. Capital has been fleeing Asia. The US Dollar is increasing against other currencies, and the American stock markets continue to be a direct beneficiary of both the capital flows and rising dollar. However, it is these increased capital flows into the United States that will ultimately be what collapses the global economic system.

If you were to research on your own, you would find that there has been a major concern regarding monetary policy of the countries with developed economies. The monetary policy of a county refers to how that country makes decisions with its currency. The decisions regarding the currencies of countries and systems like the United States or the Eurozone, for example, greatly affect the rest of the world and the world's economy.

Currently, the global "reserve currency," or the currency that the world does business in, is the U.S. Dollar. Much has been said, and some things are being done, to move away from the U.S. Dollar. (China and Russia have begun doing business in China's currency.) The reasons have to do more with the "symptoms" described earlier in this paper, rather than the cycles. However, as you can now conclude, it's the forces moving through history.

Using history as our guide, the "stay" as the world's reserve currency is somewhere between 80 and 110 years (see chart below; the source is DoubleLine).



Why is a currency the world's reserve currency? Because the economy associated with that currency is or has been one of the world's dominate players, if not *the* dominant player, in the global economy. If the world were to ever move away from the U.S. Dollar, this would have a dramatic - and likely negative - impact on the American economy and the American people.

Is it not very intriguing that there are approximately 15 years left until the U.S. Dollar reaches the point where it has been the global reserve currency longer than any other currency in the last 565 years? This is an eerily similar time frame as the rest of the cycles that have been discussed in this paper.

The move away from the U.S. Dollar will likely not happen in 2015, especially since capital continues to flow into the United States, and likely will throughout 2015, and possibly even into 2016. The U.S. Dollar continues to gain strength against the other global currencies. However, China has recently begun marketing the renminbi, their currency, as the world's reserve currency. This advertisement was not in China, but in Bangkok, Thailand. There are several years between now and the time when there is a global reserve currency that is not the U.S. dollar. Yet, when the bubble does burst, major changes are coming, not only for the U.S., but the rest of the world as well.

It is now easy to see how all of the cycles are lining up over the next 15 years. How are these cycles going to impact business owners? How are these cycles going to impact investors? And what can each do about it?

Capital Crisis

In any economic environment, there are four basic cornerstones that are needed for a business to be successful:

1. a good idea
2. a solid business plan
3. a founder/CEO/manager with an unwillingness to give up and who has the ability to execute the business plan
4. and, most importantly, capital

Capital is the “life blood” of business. Many businesses in the throes of the “worst economic recession since the Great Depression” were caught off guard in 2008 and 2009 and were not able to access to the necessary credit (capital) from the banking system to which they once had relatively easy access, at least over the prior 25 years or so. It is well known that access to credit is better today (in 2015) than it was during 2008-2009, yet banks are not lending to businesses like they once were. In the defense of banks, they do need to manage their own risk. However, if business owners are not able to access the necessary capital to run or expand their businesses, this will not only hurt individual businesses and their owners, but the overall economy as well.

Don't Be Surprised

Many economists, stock market professionals and the owner of the local Subway sandwich shop, amongst others, believe that there is, at the very least, a stock market correction coming, if not a stock market crash. Some believe it is because government debt and obligations in the "developed" countries are at all time highs. Others simply say, “what goes up must come down” as the stock market is near all-time high levels and has essentially gone straight up since March 9, 2009. Others believe it's because of global geopolitical issues. The reality is because of the powerful cycles discussed in this paper and neither individuals, corporations, nor governments can do anything to change the course of these cycles.

The powerful cycles that have been discussed in this paper are all going to be reaching the depths of their troughs (the most negative part of the cycle) sometime within next 5-15 years or so. When this is coupled with the concerns of growing government debts around the world, growing government obligations (like social security and pensions), the growing threat of increased taxation on both income and capital gains, the growing threat of pension and retirement plan confiscation, and the growing threat of bank deposit tax or confiscation, business owners and investors should be very concerned.

It is inevitable that there is another crisis coming. As stated earlier, a crisis has occurred, on average, every 6.12 years throughout American History. Given the history of the powerful cycles working throughout the last 200-plus years coupled with the current economic and financial conditions, it is completely within the realm of possibility that the stock and real estate markets could see a decline of more than 50%, if not more. (The stock market declined 89% from 1929-1932 and *only* 54% in 2007-2009.)

Real estate will be no shelter from the storm either. If you were to research farm prices in the 1930s (during the Great Depression), you would find that farms that once sold for $1.50 per acre in the late 1800s were then, in 1932 and 1933, sold for $0.25 per acre. It is in the realm of possibility that real estate prices over the next 5-15 years will be, at best, stagnant (a liquidity crisis – not enough cash in the marketplace). At worst, the prices of real estate will become so depressed (a full-on real estate collapse) that 2008-2009 will look like a cakewalk as a comparison.

The Federal Reserve has kept the Fed Funds rate near zero since December of 2008 to spur stock and real estate investment and yet it’s still difficult for businesses to gain access to enough credit. (The Fed Funds rate is the interest rate banks charge one another for the use of Federal funds.) The Fed cannot charge interest rates lower than 0%. Even though the government and many economists will tell us that they have more tricks up their sleeves, they don’t. Liquidity will likely dry up, affecting banks and businesses alike. Banks will hoard cash (like they did in 2008-2009 and all previous crises) and will cut off access to loans (capital) for businesses, as has been the case for hundreds of years during times of crisis.

(To be clear, this section of this paper is not meant to be an indictment against banks. Banks are currently required by law to keep only a fraction of customer deposits in their bank at any given time. Currently, that number is only 10%. That is, for every $100 that you give to a bank, they are *allowed by law* to loan out $90. Banks must also consider the risk/return ratio when lending to privately-held businesses; many times the income, or return, from lending is not enough to justify the risk.)

Capital Crisis Becomes Investor Crisis

While business owners' problems will be getting access to the capital they need, the biggest issue for investors, however, will be with their investment savings, which include pension and retirement plans. Not only could investors see the value of their accounts drop by at least 50% (and as much as 90%), investors will have to contend with the government.

In times of extended crisis, governments throughout history have typically done two things. The first is to increase taxes, which hurts both business owners and investors. (Taxes erode real returns and discourage further investment.) The second thing governments have done during times of crisis is to confiscate savings. While never stated as a “confiscation,” the confiscation of savings comes as one of the following ways to supposedly “protect” its citizens:

1. a one-time “tax” (the United States of America did this during the 1930s).
2. a “tax” on bank accounts (this was done in the United States in the 1930s and has been done several times throughout the world over the last several years.
3. a “guarantee” of one’s retirement account or IRA in exchange for giving it to the government (“giving” might be a misnomer as it implies that citizens have a choice).

One does not have to search for very long to find articles about proposed "debt taxes," "wealth taxes," or proposals that would, for all intents and purposes, confiscate pension, IRA, and 401(k) plans. Politicians from around the world have been discussing and proposing such things since before 2008 and that chatter has only increased since then. There are many in America who would try to argue that "that could not happen here, in the United States of America." But it already has happened in the United States and continues to happen and be discussed in both the U.S. and around the *developed* world.

There are many well-documented examples of government over reach. Here are several examples:

- Some banks in the UK, Italy, Spain, and Portugal are restricting how much money a customer can withdraw from their own account.

- Starting in September of 2015, France will no longer allow its citizens to make payments in cash of more than 1,000 euros ($1,065).

- There are some banks in the United States that have begun to restrict their customers' international wire transfers.

- The United States Justice Department has recently begun to urge banks to report "suspicious activity" which includes withdrawals from one bank customer that total $5,000.

- Banks in Cyprus completely froze their customers during their most recent financial crisis.

- The government of Poland nationalized private pension funds.

- The United States has set up a new "MyRA" plan. (MyRA is supposed to look and sound like "My IRA.") This MyRA is set up so U.S. Citizens can "loan" their retirement funds to the United States Government, in exchange for "guaranteed" returns (a "guarantee" based on what, one should ask.)

- In October of 2014, the Securities and Exchange Commission (SEC) of the United States has given Money Market Mutual Funds permission to temporarily halt redemptions. This new amendment will give the Boards of Directors of money market mutual funds the ability to stop money from leaving the funds. Given this, it is very difficult to consider money market mutual funds "safe" investments.

- An economist in the U.S. is calling for the government to eliminate the 401(k) plan and *"use the savings to create an entirely new system run by the government."*

"***Traditional***" ***Diversification Won't Work***

Diversification is reducing non-systematic risk by investing in a variety of assets. *Portfolio Diversification* is investing in different asset classes and in securities of many issuers in an attempt to reduce overall investment risk and to avoid damaging the performance of a single security, industry, or country.

The theory of diversification is a good one, conceptually. But, just as with any good theory, it is very difficult to put that theory completely into practice. Theoretically, “traditional” diversification tries to minimize risk. Practically, diversification is put into practice to try to minimize the amount of money that could be lost due to negative circumstances.

"Traditional" diversification, as it is currently practiced by the vast majority of investors and "financial advisors" only takes into consideration publicly traded stock and bonds (mutual funds and exchange traded funds are formed based on either stocks or bonds). When an investment strategy employs only stocks and bonds as its base, there are really only two things that an investor does during times of crisis: sell or hold (most investors panic during times of crisis, but this is a feeling, not necessarily an action).

Those that "hold" what they have, hope that they built a portfolio that will withstand the momentary craziness of the publicly traded markets (or they hold because they're frozen by fear and panic).

Those that "sell" what they have, hope that they can get someone to buy what they have so that they can buy it later when the publicly traded markets have "recovered" (or they have sold out of fear and panic).

Both strategies rely on the "safety" of bonds, specifically government bonds. Government bonds (Treasuries) are where investors go for safety. Government bonds are considered "risk free" because of the limitless power of the government to tax and borrow more to make its payments. Yet, given the powerful cycles discussed in this paper and the actions of governments around the world, the idea of a "risk free" investment is a 20th Century concoction and will likely not have the same "risk less" return in the future.

In times of crisis, all assets decrease in value.

It’s a matter of supply and demand, really. When there is a decrease in demand, the price decreases. When the price decreases, the quantity demanded decreases. It becomes a vicious cycle.

We know that the stock markets will be negatively affected. Real estate will be negatively affected. But, the biggest crises will come from the “safe” investments of bonds. And if there is not safety in bonds, where will people place their investments in times of crisis?

Investing decisions have been made based on Post-Great Depression thinking. That is, decisions have only been made with the last 80-90 years as perspective. As we move from a “public” phase to a “private” phase, governments will continue to become more aggressive in taxing its citizenry. The U.S. government has now, in the last couple of years, moved to take control of healthcare and, now in early 2015, the internet. Couple this with the incredibly egregious FATCA (Foreign Account Tax Compliance Act), and one can begin to see that the U.S. government is, at the very least, concerned.

What should we do?

> *"It is not the strongest of the species which survives, nor the most intelligent...but the one most responsive to change."*
> *-- Charles Darwin*

You are likely aware of the phrase "only the strong survives." But that is a misquote of Charles Darwin; he actually said that "*only the adaptive survive*." This coming battle is not going to be won by the strongest investor or business owner, but by he or she who can adapt to the new circumstances.

If you have an IRA, 401(k), or other accounts that have investments in the stock, bond, and real estate markets, you should at least review your current asset allocation. You may want to consider a self-directed retirement account or IRA that allows you to invest in alternative investments that are not the typical stock, bond, mutual fund, or real estate investments. (*Yes! It is possible to use your IRA or 401(k) to invest in privately held businesses. And it is possible to actually move your IRA money to another country altogether. At least it is for now*.)

While I do not advocate pulling all money out of the stock or real estate markets, it could be prudent to simply withdraw or reallocate a portion, and in some cases, a large portion, into "alternative" investments, such as ownership of, or loans to, small, privately held businesses, depending upon the investors’ individual goals, objectives, risk tolerances, and plans.

Investing in privately held businesses adds an element of diversification to one’s portfolio that cannot be gained from any of the stock, bond, or real estate markets. There is an element of risk at play with all investments, whether privately held or publicly traded, during a crisis. However, different cycles affect different businesses in different ways. Beyond the desire of finding diversification, the appeal of investing in a privately held company is that an investor’s capital makes a big impact for that business that needs capital. The right investor in the right business can make a big difference for both the business and the investor. If the investor makes the right decision, that business could yield a spectacular return, in both impact (a meaningful difference to society) and profit (the return on the investment for the investor).

Crises come and go. The crisis that is coming looks to be a particularly powerful one, relative to history. But, with proper planning, a business owner and an investor can be successful together.

In my future papers, and subsequent blog posts, I will be providing solutions for both business owners and investors as to how they can take advantage of the coming cycles, in ways to both make an impact and a profit.

For Impact and Profit!

Mark J. Aubry
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About the Author

Mark J. Aubry is a contributor, co-founder, and Chief Evangelist of Impact Capitalist. He is also the CEO and co-founder of *RHM Impact*, a company that is both advocating for the *regenerative health management* process and helping patients and physicians navigate the complexities of regenerative medicine.

Mark *believes strongly in the virtues of free market capitalism and its incredible potential to make a meaningful difference* in the lives of people.

An entrepreneur and business owner his entire adult life, Mark founded and ran his first business almost 25 years ago while a university undergrad. For the last 18 years, Mark has focused on building businesses that provide strategic guidance to entrepreneurs, business owners, and physicians by helping them understand, manage, protect, and grow their resources. Mark has done this in the fields of wealth management, consulting, telecommunications, and biotechnology.

Also an educator, as a teacher and adjunct professor, Mark has taught Economics, Psychology, Business Management, Finance, and Entrepreneurship.

While developing Impact Capitalist, Mark and his long-time business partner, Tom Fediuk, have spent the last 5 years studying, researching, and working in the field of regenerative medicine. It has been over the last 2 years that they've focused on developing the *regenerative health management platform*.

Mark's *Righteous Path* is helping business owners understand, manage, protect, and grow their resources as they pursue *their* Righteous Path. He is the author of the Praxis and Impact Physician blogs, as you can read his white papers *here*.