

**AMERICA'S
#1 PORTFOLIO
PROTECTION
PLAN**

How to Preserve Your Wealth
During the Next Market Crash



America's #1 Portfolio Protection Plan

By Dan Denning, Coauthor, *The Bonner-Denning Letter*

Editor's Note: Market crashes don't happen often. But they DO happen. In this special report, macro-economic analyst Dan Denning reveals what he calls "America's #1 Portfolio Protection Plan." Read on to see how you can protect your wealth in a financial crisis.

Diversification and asset allocation can help you reduce your risk as an investor.

For your kids and grandkids, a depression could be just the tonic they need. In a world where real wage growth is stagnant and robots are taking all of our jobs, your best chance to build a fortune is to buy assets when they're cheap. You can only get them at that price after a crash.

Do you think it's a coincidence that famed investor and economist Ben Graham wrote his investment classic, *Security Analysis*, in 1934, just five years after the Great Crash of 1929?

The Dow Jones Industrial Average fell by 89% between September 1929 and July 1932, dropping from 386 to 41. Stocks and bonds weren't just cheap... they were destitute and unloved.

If you have any skill at reading a balance sheet and doing a bit of math, you stand a good chance of being able to buy future earnings at a deep discount. But most investors find that emotionally hard to do.

For most investors, expectations are high when prices are high, and expectations are low when prices are low.

If you teach one thing to your kids and grandkids – or if you hope to protect your wealth in any market – remember that it should be the opposite: Your expectation of future returns should be low when prices are high, and high when prices are low.

This is another way of saying, "Be fearful when others are greedy, and greedy when others are fearful."

By now, though, you're probably wondering what the plan is. In the pages that follow, I'll take you through the four asset classes that belong in every Permanent Portfolio.

Bill Bonner and I first discussed what you'll find below on one of his trips to London in 2017. It's intended to get you thinking about a diversification and asset allocation strategy. That strategy can help you manage the risks we see in each asset class, while still admitting that there are genuine opportunities to be had.

So let's get to it, starting with the first asset class we believe belongs in every Permanent Portfolio: cash.

Cash

If you believe the market (or earnings) is going to go up, your cash is going to underperform (be very lazy). In a low-interest-rate world, your cash won't earn you any money.

True, it won't be at risk in the market. But inflation won't be kind to your purchasing power.

Still, the biggest benefit of cash is what's called "optionality." If you have it, you can trade it for something you want when that thing becomes cheap.

A hefty cash position assumes you'll be able to put it to better use when assets become cheap. Your risk is that assets may stay expensive for a much longer time.

It may not naturally occur to you that you also have options about what kind of cash to own. I'm not just talking about whether you want to own hundred-dollar bills, fifty-dollar bills, or twenty-dollar bills. I'm talking about which cash?

The U.S. dollar? The Swiss franc? The Singapore dollar?

Everyone should own cash denominated in foreign currencies.

It's not hard to do. You can exchange your dollars for euros or British pounds at major banks.

Obviously, you'll want to do so when exchange rates are favorable. But it shouldn't be too difficult to accumulate \$5,000–\$10,000 worth of cash in a foreign currency.

Stocks

The worst advice I could give you is to sell everything now and go straight into cash.

Emotionally, it's tempting. But we usually make our worst decisions when we invest emotionally. That's why most investors tend to buy high and sell low. Even in bull markets, research shows that investors underperform the indices by trading too much.

Unlike bonds or cash, a stock is a claim on a for-profit enterprise. That enterprise can increase its earnings, even (or especially) in challenging circumstances. Think, for example, of a company that sells generators during hurricane season.

Wall Street is full of "factor investing" models today that aim to slice and dice the market by investing style (momentum or value), market cap (small or large), or volatility (beta, so-called "smart beta," or alpha).

If you were going back to basics, you'd look for companies selling at less than one times book value. You can find them in the U.S. But many of them are financial stocks (like banks). Those are precisely the kind of investments we want to avoid in a financial crisis.

That means you have to be willing to buy foreign stocks or exchange-traded funds that give you access to foreign markets.

Tangible Assets

When it comes to tangible assets, gold is one possibility. What about oil? What about silver? What about real estate? Aren't those tangible assets, too? And does buying a real estate investment trust (REIT) for income qualify as buying a tangible asset for the purposes of the portfolio?

We believe tangible assets – a claim on something real – will be more valuable than purely financial assets (claims on future cash flows) as the stock market mean-reverts.

The bulk of this position will be made up of real estate which you either own and occupy or rent and generate an income from.

Since real estate values are local and affordability depends on your income, interest rates, and the size of the mortgage, where you buy is up to you.

That said, I believe we'll continue to see what I have dubbed "The Sixth Migration" – a vast exodus of Americans from densely populated, high-tax, urban coastal enclaves (like Los Angeles, San Francisco, Seattle, New York, Boston, and Miami) to "flyover country" and the heartland.

People will be far more willing to relocate under the logic that "distance equals safety" in a dangerous world.

Of course, precious metals and collectibles are included here, too. And be creative.



For example, at Sharps Pixley in London, you'll find some gold and silver gift items that are both valuable and beautiful. Made by Degussa, the silver bull and bear shown above left would look great on any desk. Or you can buy a 25-ounce replica of a 20mm bullet (above right) at fine bullion providers or on eBay.

What about art? Most people believe art is too expensive for the average investor to buy or store. But look at the lithographs below.



These became popular in Melbourne when I lived in Australia from 2005 to 2014. Why?

For young professionals with their first taste of discretionary income, it was an easy way to buy art without having a lot of money to start with.

The Green Devil (pictured in the middle) I bought in 2013 sells on vintage poster auction sites for nearly twice what I paid for it. Variables like size, condition, rarity, and authenticity will account for different values for different prints. But they can get quite expensive.

Explore your options. You have them.

Cryptocurrencies

The last asset class in our plan may be controversial: cryptocurrencies.

Neither Bill nor I are prepared to say we fully believe that cryptocurrencies are actually money.

But then, the definition of what money is and who gets to produce it is one of the recurring subjects of Bill's free newsletter, *Bill Bonner's Diary*.

Cryptos are a speculative position, but they're one with potentially huge upside. Several cryptos have soared thousands – even tens of thousands – of percent in the past and are thus worth including in a well-rounded portfolio.

It's Never Too Late

So there you have it: the four asset classes that belong in every Permanent Portfolio.

Keep in mind that no investment or allocation strategy can protect you entirely from the worst financial calamities.

However, maintaining a diversified asset portfolio is one good way of reducing how much damage you sustain when the next calamity occurs.

Being in the right asset class – or out of a dangerous asset class – at the right time goes a long way to meeting your investment goals.

And it's never too late to put your wealth-preservation strategy in place.

Regards,

Dan Denning
Coauthor, *The Bonner-Denning Letter*

P.S. There's more to be said on the topic of wealth preservation. In fact, that's the primary goal of *The Bonner-Denning Letter*, which I cowrite with Bill.

We reveal the BIG trends taking shape. And we give you time-tested ways to preserve your wealth – and your freedom – from the forces that would wish to take them from you.

One of the most important tools we give our *Bonner-Denning Letter* subscribers are specific percentage allocations for each of the asset classes in this report. And in light of developments in the financial

markets, we just updated our percentage allocations so you can continue to protect, and even grow, your wealth in the years ahead. Learn more about our *Letter* [right here](#).

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