

# Killed By Inflation

By [The Mogambo Guru](#)

09/05/05 When you have a fiat currency, sooner or later you get deficit spending, and that means that inflation is guaranteed, and it will devour the purchasing power of every dollar you own.

Many of us while away significant amounts of our working day thinking of ways to get rich quick so that we can abandon our hate-filled little families and take up with someone half our age but twice as nice. One of the ways to get wealthy that you always hear about is investing in the stock market.

But I have some bad news in that regard. If you think that your genius will produce fabulous gains in the stock market that will put you miles and miles ahead of any posse or bounty hunter, then Adam Hamilton, of the Zeal Intelligence newsletter, has some real news for you. "The S&P 500 went from 108 in the late 1960s to 107 in the early 1980s, for a small 1% loss. That is bad enough, to not earn any money over more than a decade, but if you look at the same slice of time in the inflation-adjusted data, investors actually lost nearly two-thirds of their purchasing power over this same period!"

See what I mean about inflation? You got killed by inflation! And the damned stock market didn't help you out one little bit! Hahahaha! I'll bet that little financial planner of yours never told you about THAT! Hahahaha! And even worse and more currently, the same thing can be said for the last five years, too!

## **Preserving Purchasing Power: It Will Devour Your Purchasing Power**

So no matter what the clueless touts on TV say, neither stocks, nor bonds, nor houses will preserve your purchasing power over the long term nowadays. When you have a fiat currency, sooner or later you get deficit spending, and that means that inflation is guaranteed, and it will devour the purchasing power of every dollar you own.

But is there EVER a time when stocks preserved their purchasing power? If you had asked me, I would shrugged and said "Hell no, probably." But you did not ask me. All eyes are on Mr. Hamilton. Apparently he is ready for this question, because he immediately says, "Over the past half century from the absolute best-case moments in time to buy and sell for the long term, fully 7/8th of the gains investors could have reaped are illusory. These are wiped out by rising inflation decreasing purchasing power."

In case you, like me, missed the significance of that, they summed up by reiterating, "Thus inflation wiped out half of the best possible annual gains in the last half century or nearly 7/8th of the final compounded return."

While the audience goes "oohh!" and "ahhh!" at this revelation, I can almost hear him thinking to himself, "This Mogambo jerk is a real idiot! How can I summarize this in such a way that even a

stray cat stumbling in here after eating a diseased rat can instantly understand?" Racking his brain, he finally says simply "Inflation has a huge impact." But I am wayyyYYYYyyyyy ahead of this guy! I already knew that! I really did! I knew that already!

I know that with inflation, you can invest enough money to buy a Cadillac, and finally, after years and years of successful investing, you sell. After taxes and after inflation has eaten away at the purchasing value of your money, you get back enough to buy a Cadillac and maybe enough gasoline to get you home! Hahahaha! Invest a car and get a car! Real sharp investing there, dude! I can see that your retirement is well funded and in real good hands! Hahahaha!

### **Preserving Purchasing Power: Not Dead**

From Doug Noland we get some interesting bits. For one, we learn that inflation is NOT dead for everybody. It's only dead in the eyes of 1) lying government wonks and 2) lying Wall Street stock and bond touts. Speaking for myself, I reply to these guys saying how inflation is low, and how inflation is benign, and how inflation is under control, and how inflation is non-existent, with the Famous Mogambo Laugh Of Contempt And Scorn (FMLOCAS) which, when written out, is merely "Hahahahaha!" but which (in real life) sounds more like a hyena gagging up something disgusting. Mr. Noland is much more refined in his considered reply, which, in its entirety, reads "For the week, the CRB index added 0.6%, increasing y-t-d gains to 11.7%. The Goldman Sachs Commodities index jumped 2.2%, with 2005 gains rising to 40.7%."Hahaha! If that ain't inflation, then what in the hell IS it? Hahaha!

The thing that I find particularly interesting was that "Almonds, particularly popular in US snacks and confectioneries, have more than doubled in price to \$8,400 a tonne in the past two years. Cocoa beans have soared from £600 a tonne to £1,647." But as wonderful as that sounds, the price of hazelnuts, it turns out, has "risen more than fivefold from about \$2,150 a tonne two years ago, to a peak of \$11,120 earlier this year."

More ominously, he quotes Simone Meier on the Bloomberg site, who said that in July, "Money supply growth in the dozen countries sharing the euro unexpectedly gained at the fastest pace since October 2003." And if you don't remember anything that I taught you except for one thing, I hope that you remember that an increase in the money supply always precedes the resultant and unstoppable increase in prices.

It is an increase in prices which we common-as-dirt consumer sluggards out here in the real world call "inflation," which we hate, because when we get to the checkout counter and that mean old biddy in that stupid little apron hits that "total" button, I know that it is going to be higher than it has ever been before, and I am going to scream in agony and clutch my heart in mortal pain, and then she will laugh ("Hahaha!") at my distress, and say how she hopes I die!

So how much is the money supply expanding? Ms. Meier writes, "M3, the ECB's measure of money supply, accelerated to a 7.9 percent increase from a year earlier." Well, that is true, and as bad as that is, what is NOT mentioned is that the narrowest measure of money supply (cash and equivalents), according to the Economist magazine, is increasing at 10.5% in the Euro area!

So what does all of this expansion of money and credit mean, as far as inflation is concerned? I am charmed that you asked me that, because it is inflation that is the thing to be feared more than all other fears, including monsters under your bed or the CIA spying on you and making your life a living hell. Like, for instance, how my water heater "mysteriously" suddenly sprung a leak recently. I mean, it was in perfect operating order (POO) for twenty years in a row, and suddenly, one day, for no reason at all, it breaks? Gimme a break!

But this is not about how government agents are beaming invisible rays into my brain ("Consume! Consume!"), but about how the inflation in the money supply for the last several years is already showing up in prices, and the continual increase in the money supplies means MORE price inflation in the future.

But there are those who think, especially idiots and people who have taken a lot of drugs, that a little inflation is a good thing. To these people I say, "Step up a little closer to me when you say that, so that I can reach out and slap your face for saying something so stupid."

If there is one thing that I want you to remember, it is that there is no acceptable level of price inflation above zero. Zero is the upper bound on acceptable inflation. And if you think otherwise, like the horrid Ben Bernanke and a lot of other morons who ought to have their faces slapped, then show me one other time in all of history when a "little" inflation was a good thing.

Regards,

The Mogambo Guru  
for The Daily Reckoning

*September 05, 2005*

The Mogambo Sez: It just keeps getting weirder and weirder, and I get weirder and weirder, too. But the eerie way that the stock market keeps going up in spite of everything, and how bonds keep going up in spite of everything, and how gold keeps going down in spite of everything is taking a real toll on me. And I already have gold. So I can only imagine with horror the panic of people who do NOT have gold!

These grubby little manipulations of the gold market are a gift to you, allowing you to buy gold at artificial very low prices. Take it. And silver, too. So take some of that, too.