How to Weather the Coming FINANCIAL STORM

by: L. Carlos Lara

With so many of our most popular doomsayers, conspiracy theorists, even trained economists and historians now claiming that we are in the quiet of another menacing financial storm, this one being more destructive than the last, their messages are getting a broader appeal. Day after day, in mainstream news reports, through the Internet and by other broadcasting means these social, political, and economic forecasters parade before us scenes of financial disasters, civil unrest, wars, moral decadence, decline of basic health services, and scarcity of essential foods as examples of what is in store for us in the coming tempest. When hearing about these predictions we cannot help but to become either paranoid with fear or highly suspicious of the messengers. Many times the impending doom is laced with huge opportunities to get rich quick from the ignorance or misfortune of others. Yet try as we will the image of *that* storm, what it will actually look like, its magnitude and its destructiveness, remains dependent on the eye of the beholder, for none of us views the world in the same way. The image of this storm can be so taxing on the nerves that many simply deny these unacceptable truths.

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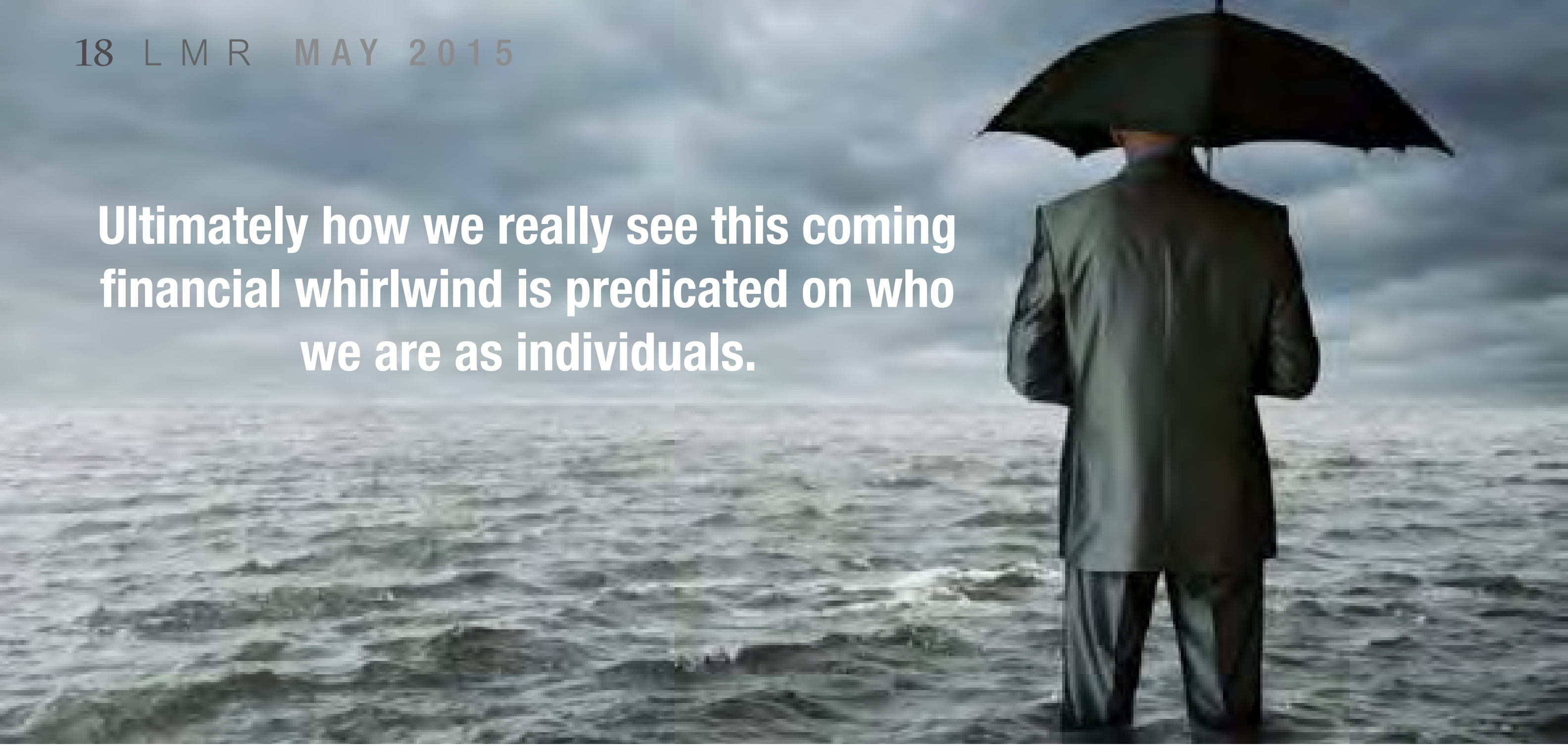
Note that I am not necessarily faulting those who make alarming predictions to the public. After all, we—Robert Murphy and I—have contributed to some of these predictions ourselves and also by bringing to our annual event, the *Night of Clarity*, speakers such as historian Tom Woods, former Congressman and Presidential Candidate Ron Paul and former Budget Director under President Reagan, David Stockman who speak to large crowds about the consequences that lie ahead. As analyzers of these disturbing trends we humbly confess that the dangers we see are of such size and complexity that most of them remain outside of the individual's direct control. We know that and have made peace with that. Still, we believe that a mere 10% of the right kind of individuals can actually change the course



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of history by triggering a tipping point and rescuing our freedom. Readers of the ***Lara-Murphy Report*** are by now familiar with this particular world outlook and belief. But for those of you who are new to our readership you should know that our camp represents and supports the Austrian School of Economics, we are proponents of *sound money-sound banking* and we advance a private strategy that directs the individual toward the escape exit of *that* unavoidable storm that is coming no matter how disastrous it may be. In fact, at the same *Night of Clarity* events, on the second day, Nelson Nash, the founder of the Infinite Banking Concept (IBC), Robert Murphy and myself conducted a special IBC workshop focused—not so much on the problem—but on the solution we call *privatized banking*. The concept is so revolutionary that we believe it is the ideal blueprint for a survival strategy to use in this type of economic environment.

Nevertheless, if we were to ask members of our own following how seriously we should be taking these warnings we would find differences in our opinions, on what action steps we should take first, second, third, and so on in order to combat an economic collapse. Ultimately how we really see this coming financial whirlwind is predicated on who we are as individuals. In other words, how you and I view this coming threat is dependent on basic factors such as our age, our education, where we currently live, whether we are employed or not, our marital status, whether we have children or not, our social, political and economic understanding of the world in which we live, and, I even dare say, our race and our religious beliefs, if we have any. This is another way of saying that this entire issue is complicated. But no matter what kind of storm it ultimately turns out to be, the bigger question is whether or not we can survive it. If it is possible to survive it, we want to know exactly how to do that. This is the essence of this *LMR* article.

DEFINING THE STORM OR STORMS—A, B, AND C

A large part of the difficulty is in getting our heads around the potential impact this storm will have on us directly. Before we can describe any steps for survival we first need to define the storm itself and determine as best we can if it will be one big financial tsunami or more than one. Economic collapses can certainly have far reaching consequences that go beyond the financial realm, but history does show us that financial crashes do not necessarily happen all at once, but rather unfold over time in a series of crashes. Although these crashes can certainly be massive dislocations with global implications, it does not mean that life will come to an abrupt end. Yes, it will definitely be a painful and disastrous experience for many, but there will be survivors. Even holocausts have survivors. What we most want to focus on is the *duration* of this so-called storm, or storms and whether or not we have prepared well enough to be able to get through them.

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Before we leave this thought, let me be clear that a stock market crash and a real estate crash are foregone conclusions. We have been warning our readers about these two markets for quite some time and it merits repeating again. At this point in the cycle, wealth held in the wrong places can prove disastrous especially if it is directly linked to these two asset classes. Money should also be kept out of institutions that are more vulnerable to systemic risk, such as commercial banks and Wall Street entities. But despite the business cycle's economic clarity, a huge portion of the complacent population will still be caught completely off guard as they have been in the booms and busts of the past.

The most important thing to realize with respect to our subject is that these types of crashes can be endured, not only by our stron-

ger financial institutions like those found in the insurance sector, but also by individuals, so long as they have the economic means to do so. Since we just went through one of these types of crashes seven years ago when both of these two markets crashed we should be able to recall that experience. We should all know what it felt like. We should also know what kind of fall-out to expect from them if they should happen again. To get a better handle on these economic phenomena in order to build our survival strategy, let's categorize them by referring to these initial crashes in the stock market and real estate, such as those we recently experienced, as "Storm A."

STORM "B"

But some doomsayers now speak of a much more serious type of meltdown that moves beyond a crash of the stock and real estate markets, a type of "Storm B." In this financial storm we are given the picture that the monetary policy of central bankers has taken us into uncharted waters, perhaps beyond the point of no return. Here the world of individuals and governments are now drowning in debt and the most important economic structures of the global financial system, the U.S. government Treasury bond and the dollar, could potentially blow at the slightest increase in interest rates or loss of confidence. Therefore, the warnings from our prognosticators to get out of dangerous assets are much more urgent. Here they mean to get out of assets that could completely come unraveled overnight. For example, here in the U.S. the government qualified plans, such as 401ks, 403bs, and IRAs, the Cadillac of retirement savings a few short years ago are now, according to these emissaries, ripe for confiscation by federal authorities. With all of this alarm also comes the heightened potential for civil unrest of the kind we are starting to see in pockets here and abroad. In fact, farmland when purchased far away from the big cities and marauding crowds, has suddenly become a much sought after commodity. Only a short time ago, Tea Party types advised the purchase of guns and precious metals. Today such purchases are baseline recommendations for personal safety and financial security. As David Stockman

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Notice that these potential financial threats are pushing individuals into doing things they have never done before. For example, breadwinners may have to bear the economic burden of taking care of their elderly family members and even their extended families instead of letting the government be the benevolent caregiver. There is a new awareness that government is completely broke, snatching at more power and control over our individual lives. The gravity of the situation raises the possibility of our populace returning to an agrarian society where individuals raise their own food and barter their goods for survival.

Yet as dire as these scenarios appear in the images of "Storm B," if one analyzes what these messengers are saying, we come away realizing that they are also advocating the potential for great financial gains as this massive storm produces an enormous transfer of wealth that will surely enrich many. The question is whether we will have the wherewithal to prepare for the coming storm adequately, and also be able to weather its duration plus take advantage of the opportunities. To accomplish these three things we will need money. We should never think that money (the medium of exchange) will disappear. If it really gets bad it may disappear for a short time, but you can count on its reappearance.

STORM "C"

Finally, to make sure we don't leave any unknown typhoon out of the big picture of possible storms, there is a "Storm C." Here the destructive descriptions have more to do with war, in fact the *mother of all wars* where there is total devastation of the enemy. One scenario is that this type of financial storm is a precursor to the end of the world. These scenarios are more closely aligned with religious beliefs and are obviously of a much more extreme nature. In these scenarios there are no viable earthly solutions for any of us as economic beings, so our discussion of these will have to end here at this time. But before you think I am dismissing this scenario as unimportant, I am not. These are theological analyses with a large body of worldwide advocates and supporters. For that reason alone a "Storm C" should not be completely ignored.

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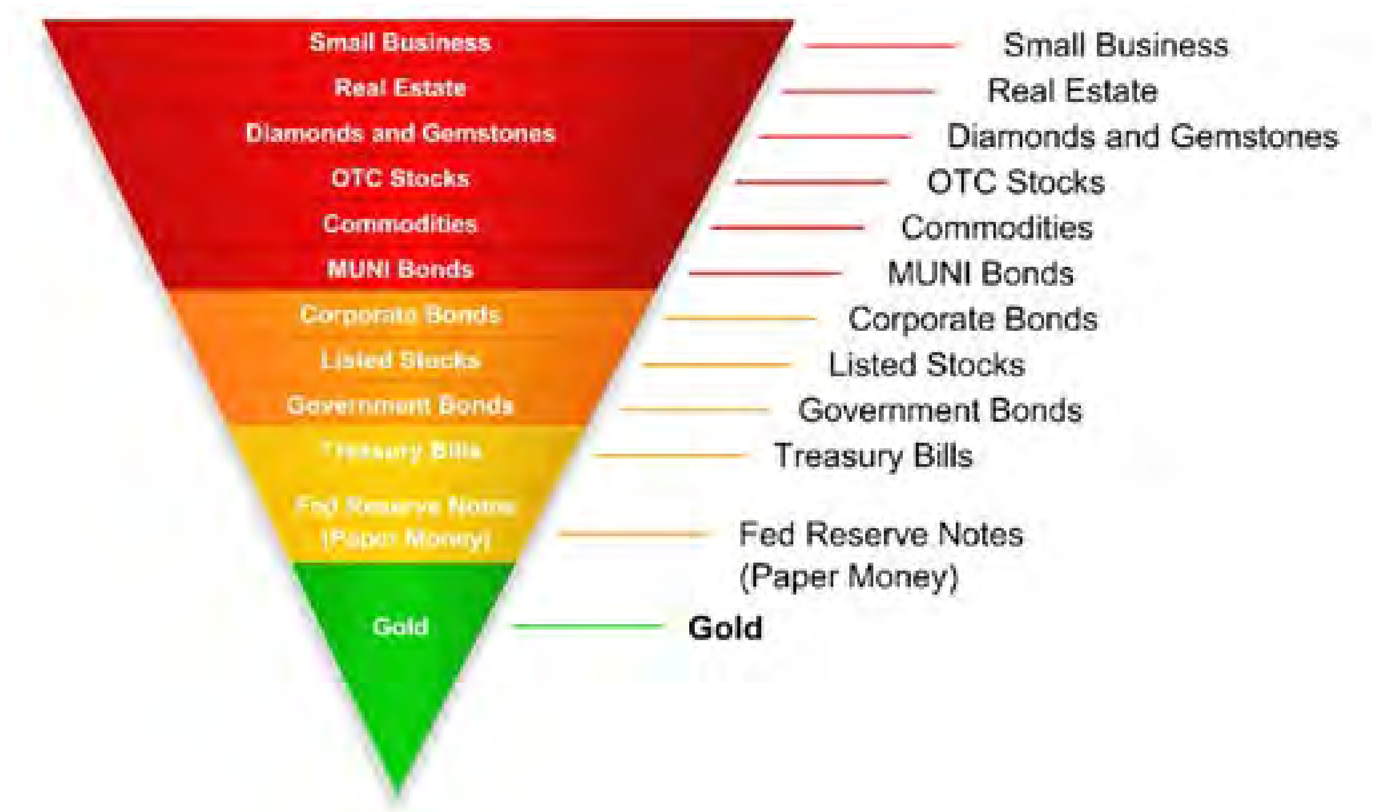
FORGET ASSETS, EQUITY AND PROFITS—THINK CASH FLOW

Now that we can look out into our world and see a clearer picture of the potential economic dangers that could possibly hurt us, we can more easily begin to analyze these threats through our own filters and determine our true reality. We will naturally act to protect ourselves on any one danger or dangers that seems real to us. In effect that action becomes our very first step toward our personal survival plan.

Of course any move we choose in order to protect ourselves will require money, or the movement of money. This will be either a small amount of money or a large amount of money depending on how much we have. I have already mentioned earlier in this text that there will be differences in opinion on where to move our money first. Conservative individuals who agree that our economic environment is precarious will move toward *liquidity* first and *safety* next without losing access to that liquidity. In other words, the money will need to remain fluid and flow at a moment's notice; consequently *cash flow*—above all else— will be the priority.

EXTER'S INVERTED PYRAMID

The best cash flow guide for an unstable economic environment the likes of the one we all find ourselves in today is John Exter's Pyramid. John Exter (1910-2006) was an American economist with an interesting background. For one thing he was a member of the Board of Governors of the United States Federal Reserve System and founder of the Central Bank of Sri Lanka, but he is best known for his "inverted" pyramid of collapsing values which he designed shortly after President Nixon took us off the Gold Standard internationally in 1971. Exter claimed that in a collapsing economy we should move down the pyramid in order to achieve liquidity and safety. In this picture model we get a visual organization of asset classes in terms of risk and size. Notice that gold forms the small base of the most *reliable* value. Asset classes at higher levels are more risky. Next to gold is cash and then



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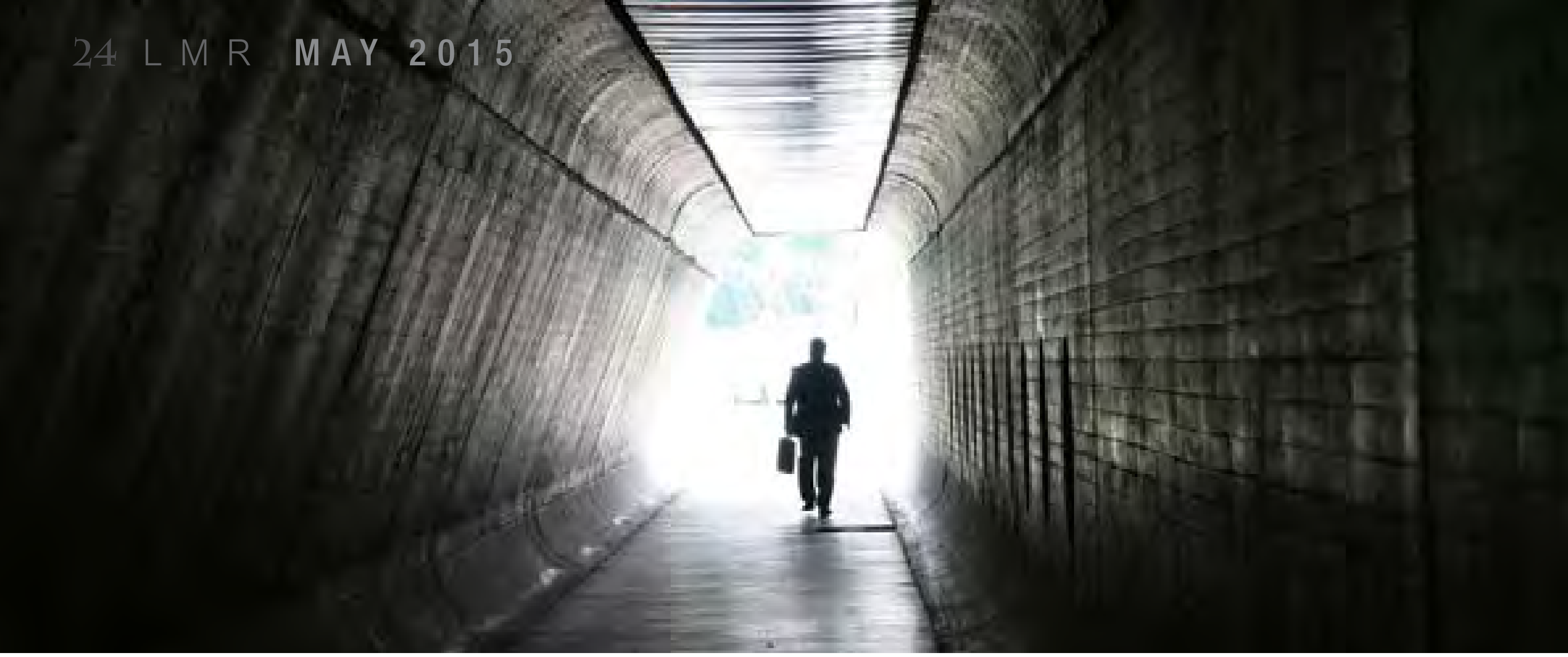

next in line is the U.S. Treasury. By carefully examining this model we can use it to plan our money moves much more carefully and expeditiously. Obviously, if we feel the economy is heading for an enormous crash as in a type "B" tsunami we certainly do not want to own assets at the very top of the pyramid and we will want to get out of them as fast as we can. On the other hand, if the future according to our own analysis is not as catastrophic our action moves will not be as radical indicating that we feel our present cash flow can sustain a type "A" storm.

CONCLUSION

Our main takeaway is this: Robert and I discovered that the best private strategy that will allow individuals to maintain the best cash flow flexibility in terms of liquidity and safety is Nelson Nash's *Infinite Banking Concept (IBC).* We wrote extensively about it in our book, *How Privatized Banking Really Works.* But more recently, Nelson Nash, David Stearns, Robert Murphy and myself created an educational program to teach Nelson's theory to financial professionals in order to equip them to teach it to others. Today many of our graduates can be found on a national listing found at www.infinite-banking.org/finder. As the problems in the general economy have worsened, Robert and I have continued to research and verify that Nash's theory, in combination with sound money and sound banking principles, still stands even in the worst of economic collapses. Remember that in a collapsing economy we need to move out of dangerous assets and out of institutions vulnerable to systemic risk, such as commercial banks and Wall Street entities. Privatized Banking utilizes the conservative insurance sector in order to warehouse our cash that is essential in an economy such as this. Since the life companies are less vulnerable to systemic risk, than commercial banks and Wall Street entities as exemplified during the Great Depression of the 1930s, they represent a bulwark of financial strength that has been tried and tested with historical evidence. They hold together

with impressive excess reserves and match their liabilities with assets at the near base of the Exter Pyramid. Specifically, 74.8% are made up of U.S. Treasuries and investment grade (AAA) corporate bonds at year-end 2012.

We should not forget to mention that U.S. government bonds, due to their high credit quality and strong liquidity, represent the likeliest of assets to be readily convertible into cash for the insurer at or near their carrying value. But let's also realize that as owners of banking policies we are not actually invested in the assets of the insurer. We're simply using the structure of the banking policy as an efficient cash flow mechanism and it works exceptionally well.

I want to reiterate, however, that Robert and I also endorse the other half of David Stockman's advice to acquire cash *and gold.* Individuals who are concerned about outcomes in the category of Storm B should ideally bulk up *in their physical possession* several months' worth of basic expenses denominated in gold, at today's prices. This will constitute a fund of "emergency money" in case there is a tremendous crash that causes a reset in the currency and/or disrupts the entire financial system temporarily. We should stress that not everyone associated with Nelson Nash's IBC is an advocate of gold in our present environment, but Robert and I think it is very prudent to concentrate one's assets in the base of Exter's pyramid—namely cash *and gold.*

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In Part II of this article I will continue the discussion of *How To Weather The Coming Financial Storm* and will include in it a breakdown of the Life Insurer's investment strategy in a low- and high-interest rate environment as that information is of special interest to many. We will also discuss the policy surrender in case of a major financial crisis.