FROM THE AUTHORS OF THE

New York Times and *Wall Street Journal* bestseller *Aftershock*

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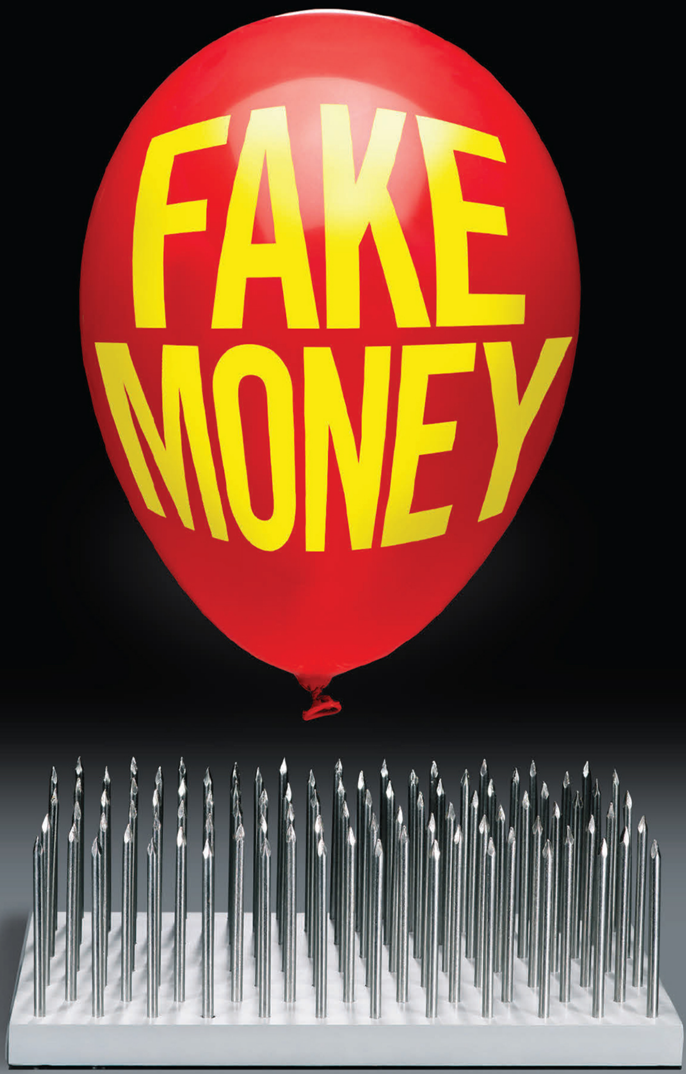
FAKE MONEY



REAL DANGER

PROTECT YOURSELF AND GROW WEALTH WHILE YOU STILL CAN

Fake Money, Real Danger

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WILEY

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Preface
Why We Wrote This Book Now

Why now? Why did we wait five years after *Aftershock,* 4th edition (Wiley, 2015) to write a new book?

Well, because this is the perfect time for this new book! And it wasn't before.

Why not?

Honestly, there wasn't much new to write about until now. The economy, although full of vulnerable bubbles, was still going strong. The stock and real estate markets were rising ever higher after the election of President Trump. Most importantly, the Federal Reserve was massively reducing its previous money printing, which had been launched after the 2008 global financial crisis.

When everything is looking good, it's hard to make the case – however accurate – that we are destined for ever higher and higher amounts of money printing to keep the stock market and other bubbles afloat.

Yes, the deficit increased enormously from 2015 to 2019, but nobody cared. It wasn't negatively affecting the markets.

So, it wasn't any easier in 2019 to predict when the Aftershock would begin than it was when *Aftershock* 4th edition came out in 2015.

Every time during those five years that our publisher, John Wiley, and other publishers tried to push us to write a new book, we told them we would – as soon as the Fed was forced to print money again. We knew that, sooner or later, the Fed would be forced to print more money to support the stock market bubble and the rest of our bubble-based economy.

Sure enough, we were right. And, *Oh My God,* did they start rolling the printing press! In March 2020, to save the stock market and the rest of our bubble economy during the Covid-19 pandemic, the US Federal Reserve printed more money in just one week than it printed in an entire year during the Financial Crisis peak.

And the printing presses keep rolling. As of summer 2021, the Fed is printing more than $120 billion per month.

Of course, the Fed could change over the next few years and print less money than it is now, but it will likely still be printing a lot of money in the future for reasons we explain in Chapter 4 (*Hint:* supporting the bubbles).

Hence, we have a much better idea now than any time in the last five years of what forces are likely to finally drive bubble-popping inflation and kick off the coming Aftershock.

We are pleased and proud to present you this new book of insights and advice on what is truly one of the most historic times in world economic and financial history.

Enjoy!

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David Wiedemer

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Robert Wiedemer

I, along with my brother, want to dedicate this book to our mother, who inspired us to think creatively and see the joy in learning and teaching. We also dedicate this to our father, the original author in the family, and to our brother, Jim, for his lifelong support of the ideas behind this book.

I want to thank early supporters Mike Larsen, Steve Schnipper, Ron Everett, Sam Stovall, and Phil Gross. I am most grateful to Weldon Rackley, who helped my father to become an author and who did the same for me.

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Cindy Spitzer

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CHAPTER 1

Fake Money, Real Danger – Massive Covid Stimulus Boosted the Boom and Will Bring on the Bust

If a book called ***Fake Money, Real Danger*** sounds a bit scary, let's make two things clear at the start.

First and foremost, ***the potential future dangers described in this book are not happening right now.*** The enormous level of government stimulus from massive money printing and borrowing (Fake Money), and the likelihood that Congress will keep borrowing and the Federal Reserve will keep printing, will keep us in high cotton, for now. Even if the stimulus declines, interest rates will stay low and asset prices will likely keep rising.

That means, at least for now, the sky is not falling. Not only is there no reason to panic, investors today still have enormous opportunities – if they move quickly and correctly in the near term.

And that brings us to the second critically important point: ***The near term will not last forever.*** All this Fake Money, and the asset bubbles it helps create, are not permanent. There is real danger ahead, and only those who see it coming and know what to do about it will be able to hang on to whatever gains they made earlier.

The purpose of this book is not to scare you into inaction, or to scare you into defensive actions that may not actually protect you. Through facts and charts, we want you to see for yourself the full degree and threat of Fake Money. Even better, you can see for yourself when the real danger will begin and what you can do about it.

While the full extent of the future is unknowable, we have developed a way to make substantial gains in the current Fake Money stock market, as well as how to protect yourself from the inevitable failure of the Fake Money economy.

Let's begin.

Just Like the 2008 Financial Crisis, Only Much, Much Worse

Remember the 2008 Financial Crisis? The housing bubble popped, stocks crashed, banks tanked, and the government responded with massive money borrowing and massive money printing – quintupling (five times) the US money supply.

As a result of such massive government borrowing and printing, many businesses and banks were bailed out, the economy eventually recovered, and the sagging stock market resumed its upward rise.

If that sounds a lot like what has been happening during the Covid Crisis, you're not wrong. Only this time the truly massive government stimulus – and the real danger it creates – is even bigger. Much, much bigger.

Congress Borrowed a Massive Amount of Money and Gave It to Everyone

Unlike during the Financial Crisis, when Congress primarily borrowed money to bail out financial institutions and banks, in the Covid Crisis, Congress borrowed unprecedented amounts of money in a very short period of time and gave it to just about everyone.

That's very different from the past, when much of the corporate and financial bailout money was eventually paid back. This time, Congress couldn't care less about getting repaid. It simply borrowed $3 trillion and gave it all away, no strings attached.

To put this giant giveaway into perspective, $3 trillion is about three-quarters the size of the entire government's annual budget. It's also about 15% of our GDP. So, even if our GDP had declined as much as 15% due to the Covid pandemic, there would be relatively little impact because Congress made up for all of it with so much borrowed money.

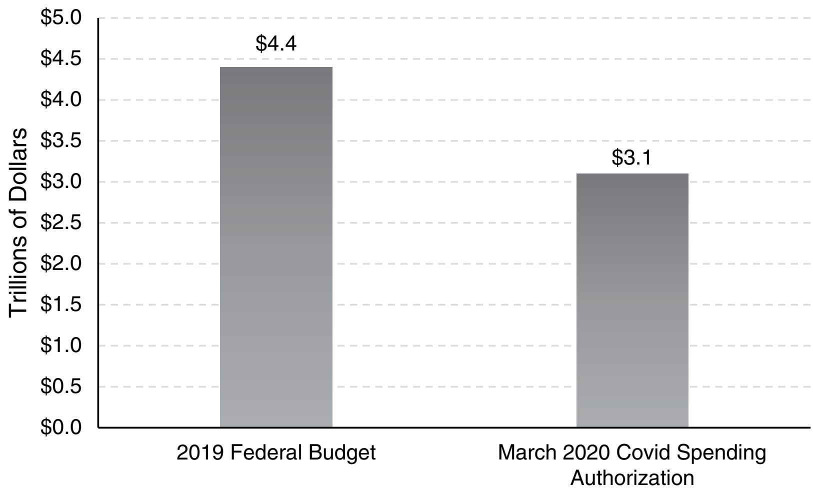

Figure 1.1 Huge Fake Money Giveaway in March 2020

Source: Federal Reserve Bank of St. Louis.

Covid relief spending authorized by Congress in March 2020 was almost as big as the federal government's entire annual budget in 2019.

In fact, in just two months in 2020, Congress authorized borrowing an amount almost equivalent to the entire federal budget for the year (Figure 1.1).

This level of borrowing is totally different from the government's Financial Crisis response and much more powerful in its short-term positive impacts. Unfortunately, it will be much more powerful in its long-term negative impacts, as well.

Of course, few in Congress care about, or even see, any long-term negative impacts. Ask almost anyone in Congress if they expect the massive amount of money to be paid back and they will tell you no – and it doesn't matter if we don't.

And it's not just Congress. Most economists (who should know better) and most investment analysts (who should want to know better) think the same way: we are never going to pay it back, and there's nothing to worry about.

To Support All This Government Borrowing (and the Stock Market), the Fed Printed Massive Amounts of Money

Massive borrowing by Congress was made possible by massive money printing by the Federal Reserve. And if you think the Fed's massive money printing during the Financial Crisis was enormous, take a look at how much *more* massive money printing occurred (so far) during the Covid Crisis (Figure 1.2).

We call all this massive money printing and borrowing Fake Money because it wasn't created in proportion to real economic growth. Instead, it was created in enormous quantities to artificially boost economic activity and, most importantly, to support asset values.

The more Fake Money that we continue to borrow and print, the faker all this Fake Money becomes, creating

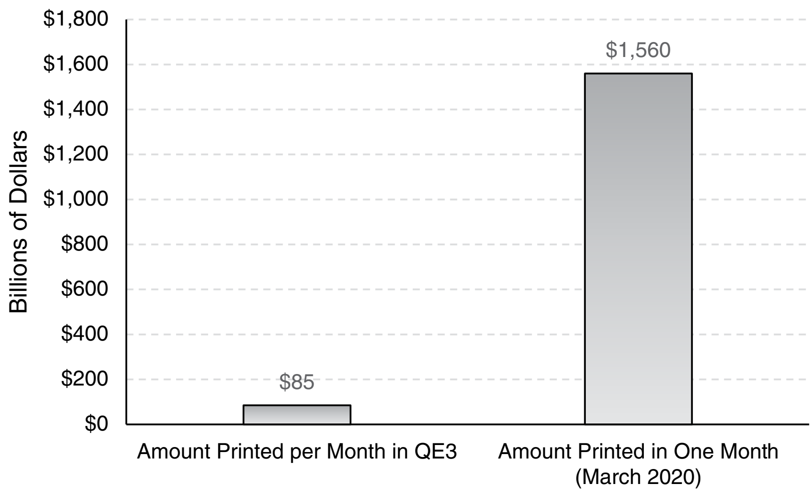

Figure 1.2 Much More Money Printing in the Covid Crisis than the Financial Crisis

Source: Federal Reserve Bank of St. Louis.

In QE3 (the most recent previous round of money printing), the Fed printed about $85 billion of new money per month. In March 2020, money printing shot up to more than $1.5 trillion in just ONE month.

vulnerable asset bubbles and vulnerable bubble wealth. And that's exactly what's been happening during the Covid boom.

How We Know It's Fake Money: A Quick Look at the 1980 Chrysler Loan

Remember the government bailout of Chrysler in 1980? You might not, but it was a big deal then. Chrysler was asking for a $1 billion loan to get it through one of the toughest recessions this country had faced since World War II. Lots of people in Congress were skeptical. Even David Stockman, a young congressman whose congressional district in Michigan had a large Chrysler factory in it. In fact, he was so skeptical that he voted against it.

The debate was months long and tortuous. Many people agreed with Representative Stockman. They didn't want the government to get involved in bailing out private industry. Again, it wasn't a bailout, it was actually a loan. Despite lots of opposition and months of debate, in the end, it passed. And, it was paid back completely – early.

Thirty years later, in 2008, the question of bailing out almost every industry came before Congress. The banking and financial industries were at the top of the list, but the auto industry was there, too. It would take a lot of money – *over $1 trillion*, not $1 billion. Yet, unlike the extremely modest $1 billion Chrysler loan, there was only a month of debate and not much opposition.

Only a little more than 10 years after that, in 2020, Congress approved a *$3 trillion* giveaway with about a month's debate. It wasn't an industry bailout that could potentially be repaid or a loan that must be repaid; it was mostly a massive giveaway. And, it wasn't $1 billion, or $1 trillion. It was $3 trillion, decided quickly with no strings attached, that faced little opposition from Congress or the President.

Why almost no debate over a $3 trillion giveaway but so much debate over a $1 billion loan? Because everyone knows it is absolutely critical to quickly protect the economy and high asset prices from any significant threat. It is a silent recognition of just how fragile those high asset prices really are, and just how dependent the economy really is on those high asset prices. Without this massive influx of Fake Money, there is no solid economic or financial support for such high asset prices. These are bubbles, and they absolutely must have outside artificial government Fake Money support or they will collapse – immediately.

"Now we just have to sit back and wait for the Fed to bail us out."

All This Government Stimulus, Plus Investor Enthusiasm, Created a Massive Stock Market Boom

The Fed's massive money printing during the Covid Crisis helped make the government's massive borrowing possible, kept interest rates low, and pushed the stock market bubble up and up (Figure 1.3).

Some stocks did even better. Tesla, for example, roared up 1800%, moving from $50 per share in mid-October 2019 to almost $900 per share in January 2021 (Figure 1.4).

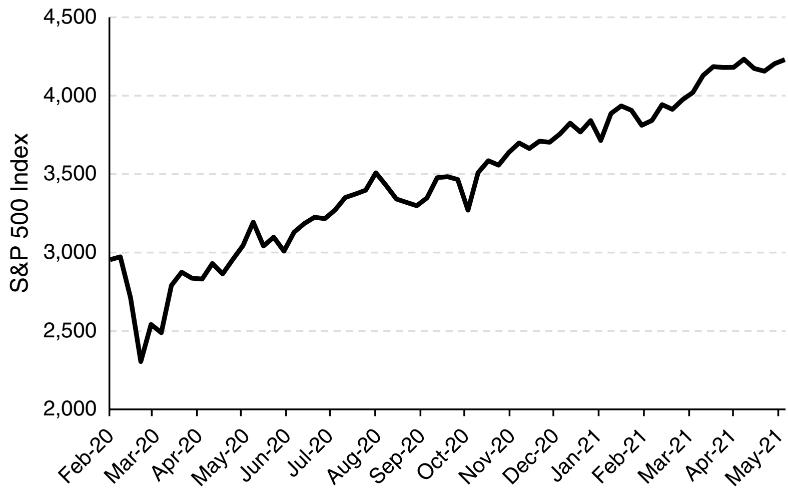

Figure 1.3 Covid Fake Money Was Great for the Stock Market

Source: Standard & Poor's.

The S&P 500 rocketed higher during the Covid Crisis from March 2020 onward.

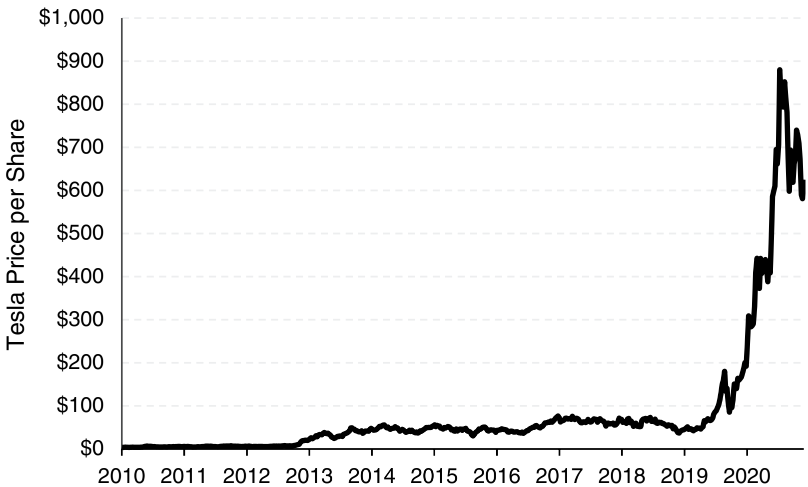

Figure 1.4 Kaboom! Tesla's Stock Price Explodes in the Pandemic

Source: Standard & Poor's.

It's been almost 14 years since the first Tesla car rolled off the assembly line, but almost 95% of its stock value as of June 2021 was created in the 20 months prior, during the Covid pandemic.

All This Stimulus, Plus the Massive Stock Boom and Super Low Interest Rates, Created a Massive Housing Price Boom

In some ways, the Covid Crisis housing price boom has been even bigger than the housing price boom before the 2008–2009 Financial Crisis, with pandemic home prices going sky high in some areas (Figure 1.5).

But, of course, the "experts" will tell you that it's different this time. Unlike the Financial Crisis housing boom, when home prices shot up in a bubble that eventually popped, *this* housing boom is supposedly based on real demand, not just

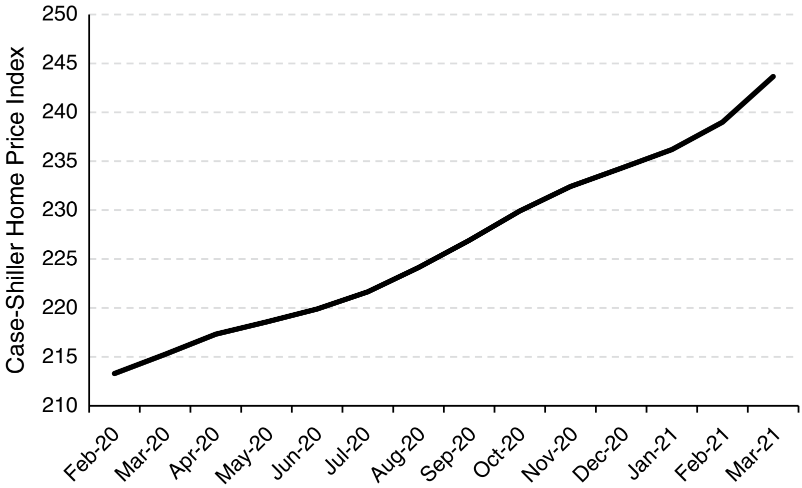

Figure 1.5 Home Prices Go Sky High During the Covid Crisis

Source: Standard & Poor's.

Unlike the Financial Crisis, when housing prices fell 27% from June 2006 to February 2012, housing prices immediately went UP 15% in just 12 months following the Covid Crisis.

bubble frenzy demand that will quickly collapse. Of course, everyone forgets that they assumed the housing demand in 2005–2007 was very real, too – until it collapsed in 2008.

All This Massive Stimulus and Boom Mentality Creates Enormous Opportunities for Investors . . . for Now

This boom ain't over. There's still a lot of money to be made. Chapter 5 describes in detail how to take advantage of the pandemic boom. It makes no sense to miss out on gains now just because we know the Fake Money boom won't last forever.

But it also makes no sense to take advantage of opportunities now and then lose it all later. To optimize your opportunities now, you must also be aware of the real dangers ahead. As you will see later in the book, all this borrowing and printing comes at a very high future price.

To understand the real dangers, it's important to understand that it's not just a Covid Crisis–driven borrowing and printing binge. Unfortunately, our problem is much bigger than anything we did in 2020. In fact, it's been building over many years. The Covid Crisis has just made it worse. A LOT worse.

The Stock Boom Didn't Start with Covid, It's Been Building for a Long, Long Time

While many might prefer not to face it, just a quick glance at the following chart immediately reveals that the US stock market is clearly in an enormous bubble. In the 54 years from 1928 to 1982, the Dow rose a justifiable 300% due to strong long-term economic growth.

However, over the next four decades, the Dow increased an astonishing 3500%, rising from about 1,000 at the end of 1982 to almost 35,000 in mid-2021 (Figure 1.6).

Why? Did company earnings also grow 3,500% in that time? Did the economy grow 3,500%? What about other possible drivers of economic growth and rising stock market values? Did income or population grow 3,500%?

Absolutely not.

Nothing that would normally drive the growth of the stock market grew by 3,500% in 40 years. Instead, the stock market shot up, up, up due to a rocket fuel mix of investor speculation, ultra-low interest rates (created with massive money printing), and massively increasing government and corporate debt.