

**PRO**

**YOUR WE**

**FROM**

**RAVAGE**

**INFLA**

# PROTECT YOUR WEALTH FROM THE RAVAGES OF INFLATION

---

*Paul M. King*

Apress®

## ***Protect Your Wealth from the Ravages of Inflation***

Copyright © 2011 by Paul M. King

All rights reserved. No part of this work may be reproduced or transmitted in any form or by any means, electronic or mechanical, including photocopying, recording, or by any information storage or retrieval system, without the prior written permission of the copyright owner and the publisher.

ISBN 978-1-4302-3822-5

ISBN 978-1-4302-3823-2 (eBook)

Trademarked names, logos, and images may appear in this book. Rather than use a trademark symbol with every occurrence of a trademarked name, logo, or image we use the names, logos, and images only in an editorial fashion and to the benefit of the trademark owner, with no intention of infringement of the trademark.

The use in this publication of trade names, trademarks, service marks, and similar terms, even if they are not identified as such, is not to be taken as an expression of opinion as to whether or not they are subject to proprietary rights.

President and Publisher: Paul Manning

Lead Editor: Jeff Olson

Editorial Board: Steve Anglin, Mark Beckner, Ewan Buckingham, Gary Cornell, Jonathan Gennick, Jonathan Hassell, Michelle Lowman, Matthew Moodie, Jeff Olson, Jeffrey Pepper, Frank Pohlmann, Douglas Pundick, Ben Renow-Clarke, Dominic Shakeshaft, Matt Wade, Tom Welsh

Coordinating Editor: Adam Heath

Copy Editor: Damon Larson

Compositor: Mary Sudul

Indexer: SPi Global

Artist: SPi Global

Cover Designer: Anna Ishchenko

Distributed to the book trade worldwide by Springer Science+Business Media, LLC., 233 Spring Street, 6th Floor, New York, NY 10013. Phone 1-800-SPRINGER, fax (201) 348-4505, e-mail [orders-ny@springer-sbm.com](mailto:orders-ny@springer-sbm.com), or visit [www.springeronline.com](http://www.springeronline.com).

For information on translations, please e-mail [rights@apress.com](mailto:rights@apress.com), or visit [www.apress.com](http://www.apress.com).

Apress and friends of ED books may be purchased in bulk for academic, corporate, or promotional use. eBook versions and licenses are also available for most titles. For more information, reference our Special Bulk Sales—eBook Licensing web page at [www.apress.com/info/bulksales](http://www.apress.com/info/bulksales).

The information in this book is distributed on an “as is” basis, without warranty. Although every precaution has been taken in the preparation of this work, neither the author(s) nor Apress shall have any liability to any person or entity with respect to any loss or damage caused or alleged to be caused directly or indirectly by the information contained in this work.

*For my son, Josh,  
the inspiration for everything I do*

# Contents

---

|   |      |
|---|------|
| <b>About the Author</b> .....   | vii  |
| <b>Acknowledgments</b> .....  | viii |
| <b>Acronyms, Abbreviations, and Symbols</b> .....                                   | ix   |
| <b>Introduction</b> .....   | xiii |
| <br>  |      |
| <b>Chapter 1:</b> Financial Fitness.....  | 1    |
| <b>Chapter 2:</b> Inflation: What's the Problem? .....                              | 13   |
| <b>Chapter 3:</b> Step 1: Set Up an Emergency Fund.....                             | 39   |
| <b>Chapter 4:</b> Step 2: Make Savings and Working Capital Work for You.....        | 51   |
| <b>Chapter 5:</b> Step 3: Generate a Good Risk-Adjusted Return on Investments ..... | 69   |
| <b>Chapter 6:</b> Taking Control.....   | 107  |
| <b>Appendix A:</b> Recommended Reading .....  | 117  |
| <b>Appendix B:</b> Useful Resources .....   | 121  |
| <b>Index</b> .....  | 123  |

# About the Author

---

**Paul M. King** is owner, head trader, trading coach, and financial consultant at PMKing Trading, LLC. His background is in information systems, but he moved from technology to the business side as a consultant to Wall Street companies. King is passionate about trading and helping traders improve their performance through his international mentoring program. He has trading clients all over the world, including in the United States, Canada, South America, and Australia. As well as sharing his insights on his blog, mini-eBooks about trading, and articles published in *Futures* magazine and elsewhere, King is very interested in personal finance and helping his clients become wealthier. Author of *The Complete Guide to Building a Successful Trading Business*, King's philosophy on trading and life in general is summed up by this old Chinese proverb: "Those who say a thing is impossible should not interrupt the people doing it."

# Acknowledgments

---

First, I'd like to thank the governments of the world and their wonderful fiat currencies and interesting monetary and fiscal policies—without which this book would not be useful or required.

On a less facetious note, I'd also sincerely like to thank Jeff Olson, the lead editor of this book, without whom I would never, ever, have gotten around to doing a brain dump of all the information I've accumulated by helping various financial advice clients over the years. Jeff, many thanks for your initial gentle prodding to consider writing this book in the first place, your tireless editorial improvements, and your unique ability to let me know when I was assuming my readers would know what the heck I was talking about when it was obvious to you they wouldn't (because you didn't). This book is much, much better than it would have been if I'd ever bothered to self-publish it (which is doubtful). Thank you.

# Acronyms, Abbreviations, and Symbols

---

|       |  |
|-------|--|
| ADV   | Average daily volume                         |
| AMEX  | American Stock Exchange                      |
| ATR   | Average true range                           |
| AUD   | Australian dollar                            |
| CAD   | Canadian dollar                              |
| CAGR  | Compound annual growth rate                  |
| CD    | Certificate of deposit                       |
| CHF   | Swiss franc                                  |
| CPI   | Consumer Price Index                         |
| CPI-U | Consumer Price Index for All Urban Consumers |
| DD    | Drawdown                                     |
| EEM   | iShares MSCI Emerging Markets Index Fund ETF |
| EFA   | iShares Trust MSCI EAFE Index                |
| EPI   | WisdomTree India Earnings ETF                |



|       |  |
|-------|--|
| ETF   | Exchange-traded fund                       |
| EUM   | ProShares Short MSCI Emerging Markets ETF  |
| EUR   | Euro                                       |
| EWA   | iShares MSCI Australia Index ETF           |
| EWC   | iShares MSCI Canada Index ETF              |
| EWG   | iShares MSCI Germany Index ETF             |
| EWH   | iShares MSCI Hong Kong Index ETF           |
| EWJ   | iShares MSCI Japan Index ETF               |
| EWT   | iShares MSCI Taiwan Index ETF              |
| EWV   | ProShares UltraShort MSCI Japan ETF        |
| EWZ   | iShares MSCI Brazil Index ETF              |
| FARCE | Faithful annual rebalancing of common ETFs |
| FTSE  | Financial Times and London Stock Exchange  |
| FX    | Foreign exchange                           |
| FXI   | iShares FTSE China 25 Index Fund ETF       |
| FXP   | ProShares UltraShort FTSE China 25 ETF     |
| GBP   | British pound                              |
| GLD   | SPDR Gold Trust ETF                        |
| GTC   | Good until cancelled                       |
| HELOC | Home equity line of credit                 |
| HKD   | Hong Kong dollar                           |
| IB    | Interactive Brokers                        |
| IRA   | Individual Retirement Account              |

|        |   |
|--------|---|
| IWM    | iShares Russell 2000 Index ETF  |
| JO     | iPath DJ-UBS Coffee TR Sub-Idx ETN                                    |
| JPY    | Japanese yen  |
| MAR    | Managed Account Reports   |
| MOO    | Market Vectors Agribusiness ETF                                       |
| MSCI   | Morgan Stanley Capital International                                  |
| NASDAQ | National Association of Securities Dealers Automated Quotation System |
| NLV    | Net Liquidation Value   |
| NYSE   | New York Stock Exchange   |
| NZD    | New Zealand dollar  |
| PALL   | Physical Palladium Shares ETF   |
| PPLT   | Physical Platinum Shares ETF  |
| PSQ    | ProShares Short QQQ ETF   |
| QID    | ProShares UltraShort QQQ ETF  |
| QQQ    | PowerShares QQQ ETF   |
| RSX    | Market Vectors Russia ETF   |
| RWM    | ProShares Short Russell2000 ETF                                       |
| SEK    | Swedish krona   |
| SH     | ProShares Short S&P500 ETF  |
| SKF    | ProShares UltraShort Financials ETF                                   |
| SLV    | iShares Silver Trust ETF  |
| SPY    | SPDR S&P 500 ETF  |
| TBT    | ProShares UltraShort 20+ Year Treasury ETF                            |

|      |   |
|------|---|
| TIP  | iShares Barclays TIPS Bond ETF              |
| TIPS | Treasury inflation-protected securities     |
| TLT  | iShares Barclays 20+ Year Treasury Bond ETF |
| TWS  | Trader Workstation                          |
| UGL  | ProShares Ultra Gold ETF                    |
| UNG  | United States Natural Gas ETF               |
| US   | United States                               |
| USD  | US dollar                                   |
| USO  | United States Oil ETF                       |
| UUP  | PowerShares DB US Dollar Index Bullish ETF  |
| XLE  | Energy Select Sector SPDR ETF               |
| XLF  | Financial Select Sector SPDR ETF            |

# Introduction

---

*Paper money eventually returns to its intrinsic value—zero.*

—Voltaire

I've read a lot of trading, investing, and finance books over the years. One thing that really annoys me is reading the first third of the book and not learning anything new. Or realizing that the author has a completely different philosophy than I do on the subject, so I can't really get any benefit from the book. So I want to be sure with this book that you know exactly what you're getting before you spend time and money to understand my message.

For this reason it's easier to describe who this book is for, from a personal finance point of view, and let you decide whether you fit the profile. Then I'll briefly describe what the book is designed to help you with.

First, and most important, to benefit from the advice and techniques in this book, you need to be financially stable. I call this "financial fitness," and Chapter 1 deals with exactly what this means. Basically, you should have monthly net income that is greater than monthly fixed expenses (i.e., you should be cash flow positive). You also must have assets that are worth more than current liabilities (positive net worth).

If you're not financially fit (or close to it), then the three-step method this book describes will not be of much use to you. In this case I suggest you read some of the books on personal finances listed in Appendix A of this book, or check out the "Protect your Wealth from Inflation" page on my web site, at <http://pmkingtrading.com>. Only return to this book when you have achieved financial fitness.

Assuming that you do fit the description of financial fitness, then I'd like to explain what the rest of the book contains so you realize just how much you need this book! The book's title has three main words in it that should be big clues to what the book is about.

The words are:

- Protect
- Wealth
- Inflation

Let's deal with them in order.

## Protect

Protection is not about generating a massive return really quickly. It's about the other side of the coin: preserving the assets that you already have and making sure you can more easily weather any financial storms that inevitably come along. For this reason, the first step in this book is about how to manage an emergency fund that can keep you afloat financially if you lose your primary income, have a large uninsured expense to deal with, or experience any other financial emergency. The important idea is that you need to manage your emergency fund in a way that will not be adversely affected by interest rates or other factors that are out of your control, like government monetary and fiscal policy.

A key concept in this book is that risk and return go hand in hand. It's very important that you think about the risk side of the equation first, and then make sure you're getting paid for that risk with a decent return. However, risk can be hidden in some unusual places. For example, if you put cash into a savings account paying an interest rate that is less than the current rate of inflation, then even though the dollar value of the account may be insured so it's "risk-free," you're still losing purchasing power every single day. Eventually, the money in the account that could, say, purchase six months worth of products and services when you put the cash in there, may only buy six weeks worth when you need it. How is that risk-free?

Chapter 2 explains the problem of inflation in detail. This is then followed up by Chapter 3, which outlines step one of my three-step method: how to protect the purchasing power of your emergency fund so it's still worth something when you need it.

## Wealth

The second important word in the title is *wealth*, which is what you want to protect. Obviously, if you don't have any wealth to protect because your net worth (current assets minus current liabilities) is negative, then this book is not for you. If you do have a positive personal balance sheet because your monthly income is greater than your monthly expenses, then it's a good idea to have a plan for protecting and increasing the value of your working capital (funds that are not earmarked for emergencies but are not being used for investments).

Chapter 4 deals with how to effectively manage your savings and working capital regardless what the prevailing interest-rate and inflation environments are.

Once you are managing your emergency fund and working capital effectively, then further surplus income and assets can be put to use generating a satisfactory risk-adjusted return in investment accounts. Chapter 5 deals with how to manage investment accounts effectively by controlling risk, and then getting paid a decent return for the risk you are taking. Here's a small hint: traditional investment management techniques do not do this effectively at all. As you will learn, you must change your approach to avoid future disappointment. Buy-and-hold, dollar cost averaging, and other traditional financial management techniques just don't work very well. In this section of the book I'll describe in detail how to manage your investment account in a straightforward but sophisticated way to maximize your risk-adjusted return, and I'll also demonstrate how this approach provides a significantly better result than traditional portfolio management methods.

## Inflation

Inflation is the last word in the title and is the main focus of the book. What does your wealth need protection from? Price inflation. As I mentioned earlier in this Introduction, Chapter 2 describes the problem of inflation in detail, but in terms that anyone can understand. Mitigating the effects of inflation forms the backdrop for each of the subsequent chapters.

I'm not formally trained in economics (thankfully) and I don't subscribe to any particular economic theory or policy. But I do have a great deal of experience helping people protect their portfolios from the losses that might