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## 266

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For most of my life, I have watched the credit bubble expand. As a young child, the majority of the adults I saw were survivors of the Great Depression. Most never got over the trauma of the experience and had sworn off debt for life. They would not even *consider* the idea of borrowing to pay normal monthly bills. They also wouldn't borrow to buy major items such as a car, or even a house. If they didn't have the money in hand to pay for something, they simply did not buy it. Many of them retained these habits and beliefs for as long as they lived. My own father was born three days before the crash of '29, and to the day they died, his parents never borrowed one penny, and never once owned a credit card. For a generation, the consequence of debt beyond the ability to repay was devastating enough to alter lifelong behavior.

But the next generations gradually began to acquire modest debt, and saw the benefit of the leverage offered. The convenience of credit cards was seductive. As long as the balance was paid in full every single month, there were no problems. So why not borrow just a small amount for thirty days? Or use it to cover emergency situations? Few could save for the years it would take to pay cash for a house, so a mortgage seemed the logical way of achieving the American dream. Little by little, accumulation of debt became not only acceptable again, but was considered prudent management of family finances.

Half a century later, the debt ballooned into a massive bubble. People were buying houses on credit when they had no savings, and in some cases not even a job. Nearly everyone had a handful of credit cards, and almost no one paid the balance in full each month. People in great numbers were now making only the minimum payment as the credit card bills arrived each month, while also carrying a balance up to the credit limit on multiple cards. I knew the end of the Debt Supercycle was coming to an end when consumers routinely considered their unused credit lines to be their "savings"! Bankruptcies began piling up, and still the credit binge continued. Worse, countries across the developed world were borrowing massive sums to provide ever more "benefit" to their citizens. This took place all around the world, until finally the debt became so large that there was no money anywhere that could pay it all.

So now we have to deal with a massive deleveraging in both the public and private sectors that will continue for years. The harsh reality is that much of this debt won't be repaid, because there simply isn't enough money to repay it. Taxing "the rich" won't begin to solve the problem. The rich don't have even a tiny fraction of what it would take to pay the debts outstanding. Nor does the rest of the world. If you took *all* of the gold that has ever been mined in the world, it would not pay even the unfunded government promises in the United States alone. Promises are going to be broken, because there is not sufficient money to pay for them. The longer it takes to finally deal with these realities, the worse the final outcome will be.

This is not new, by the way. In [This Time Is Different](#), Rogoff and Reinhart detail how this cycle has repeated somewhere in the world an astonishing 266 times in just the past few centuries! Only a small number of those became global events, but it seems we just have to keep relearning the same lesson over and over, generation after generation.

The good news is that we have plenty of history to guide our way out of this mess, and plenty of history that tells us what will NOT work.

I think this might take about five more years before we have a really good grip on this situation, have put the needed solutions in place, and are seeing continuous improvement. The choices available to us today are whether we want this pain or that pain, but there is no choice that offers no pain. It's going to be a rough road making our way out, regardless of what you or anyone else does.

So how do we handle this?

Go back to that statement: We have done this **266 times** in the past few centuries. Think about that. Logic tells you that 266 times out of 266, we made our way through, survived and continued to grow afterwards. Otherwise, we couldn't have gotten in this mess again. There wouldn't have been the money around to do so. There is also the point that had we not moved on from these events, we would all be a lot more familiar with these episodes. As it is, only a small number register in our memories.

So, I have faith the #267 will be resolved as well. And as it resolves, the world will make yet another great leap forward. Our objective is to be invested in that future, and to own that future at today's fire-sale prices, and at the prices that might come our way over the next few years.

There are two choices. We can accumulate at these distressed prices, or we can let someone else do it. All of history shows the wisdom of being in the first group. In 1939, as we were about to go to war, John Templeton bought 100 shares in each of the 104 companies trading on the NYSE for less than one dollar. Four years later, four had lost money and the rest had nearly quadrupled in total value. He continued this philosophy of buying at the point of "maximum pessimism" all along his path to becoming one of the world's first billionaires, and he abhorred debt until the day he died.

Most of us have neither the courage to buy in times of great distress, nor the stomach to tolerate the gut-wrenching volatility that can accompany those times. For that reason, most managers, including us, attempt to smooth the ride a bit. It means more buying and selling, trying to reduce the impact of some of the more difficult declines. But it is those same declines that provide the opportunity for great gain.

It is said that most of us only recognize opportunity in the rear view mirror. We look back and say, "If only I gotten in back then..." Well, today is the "back then" that we will be talking about. The foreclosure properties are already disappearing as real estate seems to have cleared away the worst excesses. The next few years will likely remain difficult in one area or another, and it is through those rough patches that the great opportunities will cross our path.

For those with little or no debt, and who have investment capital, these years will offer some of the greatest opportunities for a generation, just as was true the other 266 times. I do not want to be a lender. To do so means that I am the one taking the very real risk that mine is the particular debt that isn't going to be repaid. Instead, I want to be an owner, buying at these distressed prices. I want to acquire throughout the trauma, and then to the daylight beyond. 266 times out of 266, that has been the right thing to do. I bet it will be the right thing this time as well.

Cindi Showalter

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