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How to Terror-Proof Your Finances

"To drift is to be in hell, to be in heaven is to steer."

—George Bernard Shaw

Former Homeland Security Director, Tom Ridge, has said it's not a matter of "if" we'll have another terrorist attack, but *when*. Like the attack of 9/11, the financial effects of another terror attack will be felt by almost everyone who lives in the United States. If you have been lulled into a false sense of complacency because we haven't been attacked yet, think for a moment about what you could lose if a major attack occurred in the not too distant future. After September 11th, 2001, major economic shifts occurred, and that was a relatively minor event. If a nuclear or dirty bomb went off in New York City, the economic "fall out" would be much, much greater. Fortunately, there are simple, effective ways to "terror-proof" your savings if you know what to do.

After the events of 9/11, I felt a need to re-think how I allocated my own investments. As a Certified Financial Planner and investment educator, I also had many students that were concerned about protecting their portfolio. I looked for books that could be of help, but couldn't find one that was useful and reasonably priced. Therefore, I decided to write my own. With the help of my co-author Jonathan Robinson, we wrote *"Terror-Proof Your Mind and Money: Create Physical, Financial and Mental Security in Dangerous Times."*

In the book, we discuss many practical ways to easily take the "terror" out of terrorism by relieving one's anxiety, securing one's home, and protecting one's financial assets. Although I can't discuss all the suggestions outlined in our book

in a brief article such as this, I *can* offer you many helpful guidelines for protecting your assets in the event of another tragedy. When the time of another attack occurs, if your investments are in the right places, you'll weather the ensuing storm just fine. Yet, if your assets are badly positioned, you could face the prospect of financial (as well as emotional) devastation.

HOUSE OF CARDS

If you honestly look at our current economic climate, you can see there are many vulnerabilities. In the event of a major terrorist attack in the U.S., our economy could fall like a "House of Cards." Consider the following:

1. The stock market, especially tech stocks like Google, Yahoo and EBay are trading at higher valuations than tech stock prices during the dot.com bubble in the late 1990's. Many commentators are even calling the early 2005 market an "echo bubble."
2. The benchmark 10 year Treasury bond is yielding less than 5% in a world that has been promised higher interest rates by Federal Reserve Chairman Alan Greenspan. (Higher interest rates will cause the value of your long term bonds to automatically drop in value.)
3. The housing market is certainly overpriced on both coasts, and is probably unsustainable in the middle of the country too. Home sales have begun to slow down in light of higher mortgage rates, outlandish prices, too much speculation, and buyer exhaustion. If current homeowners can't borrow more money out of their ever increasingly valuable residence, will they keep spending at the mall? It has largely been money borrowed out of housing that has helped

consumer buying the last three years...and without it, the U.S. could easily fall into a recession--causing even more problems.

4. The value of the dollar—looked at by the rest of the world as a share of stock in the USA Inc.—has been falling for almost three years. Do you think the world will continue to put \$500-600 billion dollars worth of their savings into our economy each year? If foreigners decide not to send their money to us, our interest rates will rise even faster than the promised "gradualism" promised by Mr. Greenspan. Most Americans don't really care about the value of the dollar in world markets, but I assure you if the dollar becomes some sort of "American Peso," we will all quickly learn how a weak dollar can hurt. For example, we have to buy oil in dollars, and if dollars aren't worth anything, how will we afford to fill the tank of our nice new SUV?

5. And finally, the rate of inflation (classically defined as too much of an increase in the amount of money in circulation), is rising. And if that kind of inflation (monetary) is rising, then price inflation won't be far behind. A rerun of price inflation would essentially be a rerun of the entirely troublesome 1970's.

Yes, there is undoubtedly some good news on the investment front, but overpriced markets are inherently risky in any kind of era, and they perform very badly in panicky, terror stricken financial markets. An act of terrorism would exaggerate problems in all of these markets.

ASSET ALLOCATION

I have been teaching investment workshops since 1979. In 1999 and early 2000 I couldn't get my adult students to be worried about ridiculous stock prices. My allegedly savvy adult students all thought, "This time it's different." Well, live and learn. Warren Buffett, the best investor of our era has said, "*Investment knowledge is cumulative.*" Mr. Buffet has seemingly learned that the U.S. stock market is not a good bet now. He has recently publicly stated that he's not buying anything in the U.S. stock market, but instead is focusing on buying foreign currencies.

In studying what happened to financial markets after the attack of 9/11, I learned that investors who had money diversified into various asset allocations did pretty well. So if history is any lesson, you'll probably do fine in the event of a future attack if you invest "relatively" equal percentages of your investment money in the categories of stocks, short term bonds, cash, commercial real estate and commodities (including gold and silver). Once you've moved your money into these different asset classes, the next thing to focus on is to start picking specific mutual funds or individual equities that you believe will perform well in turbulent kinds of markets. For example, in an increasingly dangerous world, certain "security" stocks would likely be good investments (if other value considerations are present.) Such classic defense stocks as Boeing and Lockheed have done well since 9/11. Of course, I'm not your financial advisor and this is not the forum to be touting any particular companies, so I'm not recommending anything without knowing more about you. Rather, my goal here is to get you to look at allocation of assets - the big areas your assets are invested in.

Besides detailing how certain *industries* did after 9/11, I devote significant attention in our book to encouraging investors to include precious metals in their portfolios. Gold and silver have protected investors for centuries from financial mismanagement, bad governments, inflation, and of course, war. It's not an accident that the Golden Rule is frequently misquoted as "Those with the gold rule." It is also worth remembering that all "fiat" currencies (paper declared to be money by some authority without it being exchangeable into anything else) have eventually become "collectibles." Confederate money, French assignats, Iraqi dinars, etc. have all become confetti. Compare that track record to the fact that every single gold or silver coin ever made still has value. You should think about placing some percentage of your money in gold and silver if you are looking to make your portfolio terror-proof.

Your preparation doesn't have to be perfect. As George Patton said, *"A good plan today is better than a perfect plan tomorrow."* Nobody is born knowing how to invest. Smart investors develop their expertise by reading about what others did with their money, and coming up with a suitable plan based on all the information they can collect. Remember, traditional Wall Street brokers and TV financial analysts rarely (if ever) bring up the subject of terror-proofing your savings. Therefore, other than the book I co-authored on this subject, you're pretty much on your own when considering the likely implications of a terror attack on your financial health. Make your decisions carefully.

For most people, the worst scars from a future terrorist attack won't be physical. They will be emotional and financial. If you are caught flat-footed, your future financial plans (and those of your loved ones) could be delayed for a

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significant period of time, or destroyed altogether. That would be adding one tragedy on top of another. It's time to pay attention to your where your money is and take appropriate action...before it's too late.

Michael McGowan is an attorney and Certified Financial Planner[®]. He is a former stockbroker and trust company portfolio manager, who teaches investment workshops around the United States. *Terror-Proof Your Mind and Money* is now available through www.amazon.com. You can get more financial information at Mr. McGowan's financial website, www.goodinvestmentdecisions.com, or at his blog, www.goldwindow.blogs.com. Permission to reprint is granted as long as the above full attribution to the author, e-mail address, and web site are included.