

1. Why This Book?

One of the saddest and most frustrating aspects of writing "*Graham Dyer's Newsletter*" for the last twenty years has been that when the time is right for people to take advantage of my advice and act on it, nobody wants to even hear about it. But after the event, when it is too late for me to be able to help anyone, every man and his dog wants to know my view and seeks my assistance. After the 1987 stock market crash the circulation of my newsletter rose ten fold. It has been slowly falling in recent years and now barely pays its own way. Yet when the crash comes, it will soar again.

When times are good nobody wants to hear bad news. They certainly don't want to pay for bearish (negative) advice. Hence I starve because of sticking to telling my readers what I honestly believe rather than what I think they want to hear.

Similarly, when the economy and financial markets are at their lowest ebb, nobody believes forecasts that things will get better or heeds advice to buy while prices are at the bottom.

If all the rules of investment could be reduced to just one, it would simply be: Buy when prices are low; Sell when prices are high. It is that easy. Yet it is human nature to do the opposite. People follow the "unconscious herding impulse" rather than common sense when it comes to investment. And that's what this book is largely about, along with the greatest fraud ever perpetrated upon mankind – our fatally flawed money system, the other reason why economic depression is again inevitable.

In January 1985 I stuck my neck out and forecast a bull market for shares. No-one listened. Over the next two and a half years the Dow Jones index nearly trebled.

During 1987 the tempo of my warnings that a share market crash was imminent was raised and raised again as the months went by and the market soared higher and higher.

At the same time I was recommending that clients invest in real estate, because I believed a short, sharp property boom lay dead ahead. However, as house prices had

been in the doldrums for almost a decade, I got mostly strange looks from my clients and vitriol from my fellow advisers, whose livelihood (like mine at the time) depended on clients investing in (mostly) share related funds. One even wrote an article in the local newspaper under the heading: “The Sky Is Not Falling, Alice.” It was good naturedly but overtly aimed at countering my bearish advice.

The rest, as they say, is history. The sky did fall, Alice. By early 1988 the Australian share market had fallen 50%. People whom I had previously never met were **literally** lined up at my front door clamouring for my advice and help. There was little I could do for them as far as the money they had already lost was concerned.

Real estate prices doubled across Australia over the next eighteen months.

I raise this example at the outset not to boast, but in the hope (probably forlorn) that you are reading this book **before** it is too late to prepare for the coming inevitable Great Depression, and can accept that sometimes the best advice is that which makes the least sense to the most people at the time.

As I begin writing this book (October 2003) I often attempt to convince people, especially real estate agents, that residential property prices in Australia could fall 50% or even more from their current grossly overvalued levels. But when I see the eyes glazing over in overwhelming disbelief I just give up.

What those people do not realize is that in March 2000 I was making similar predictions for the NASDAQ index of “dotcom” stocks on Wall Street, which was, at that time, streaking past 5,000 points at the height of a mania similar to our property bubble today. Such a forecast was considered heresy by the majority of people at the time, and I used to get the same response of glazed eyes. Yet to me Blind Freddy should have been able to see it. A little more than twelve months later the technology index had fallen more than 70% from its all time peak. Even after a significant rally in recent months the NASDAQ is still below 2,000 points.

Similarly, at the end of 1989, when the Japanese Nikkei index was nudging 39,000 points I had the audacity to predict disaster for the “miracle” economy of the world. To me the village idiot should have been able to see it. But to most only a lunatic would suggest such a thing. Japan was “different,” they said. Inside twelve months Tokyo’s share index had fallen 50%. It has since been as low as 80% below its December 1989 peak. The Japanese economy has been the basket case of the world for a decade.

My fear is, of course, that you are reading this book after the event and only because its advice turned out to be right, in which case it will be of much less benefit to you than it would have been had you read it and acted upon it before it was too late.

Nevertheless, my hope is that it can still help you salvage the most possible from whatever is your situation.

As I write the property market across Australia is still booming, as it is in many countries around the world, (including the United States of America) and the All-ordinaries index is rallying, as are share markets around the world. All financial media talk is about “economic recovery” and I know of absolutely nobody but myself who is forecasting a deflationary depression, with the exception of Robert Prechter and his team at Elliott Wave International (www.elliottwave.com), whose work I draw on heavily in this book, with their generous permission.

Only when you come to understand that this is the way it must be will you be safe from the danger of being overtaken by financial calamity. That is, in order for a crash to occur, the majority of the people **must** believe that it can never happen.

In 1987 I don't think I had even heard of the Wave Principle. I certainly didn't understand how our flawed money system had sewn within it the seeds of its own destruction, and how its ultimate implosion was a matter of when, not if. I still regard myself as a novice as far as the new science of socionomics is concerned. I am by no means an Elliott Wave technician. And I don't claim to know everything about the private cartel that runs the international fractional reserve banking system. But compared to what I know now, in 1987 I was a baby. Even so, you are probably going to find some of my forecasts from 1987 on astonishing.

In this book you are going to accompany me on my journey up the learning curve since those early beginnings. It is a journey that will never end, because we will never stop learning about the global economy and international financial markets. We will never stop learning about human nature. It never changes, yet it is the key to everything.

In 1987 my forecasts were based on a “gut feeling” developed over the previous two decades. Today my predictions are based on a mountain of evidence built up since then, especially in the last six years or so.

I do not have even a slight doubt that we are heading into a deflationary depression that will be **worse than the 1930's**, no matter how long the current property boom lasts and no matter how much further share markets rally. From a crowd psychology perspective the die was cast at the end of the 1990's, and the only question remaining is **when** the sickening downturn will unfold. We even have a fair idea of **how far** real estate and stock markets will fall.

Where The “Gut Feeling” Came From

At the end of 1968 I moved my (then) very young family from Melbourne (Victoria) to South-East Queensland, where I took up a position as Office Manager/Accountant with a public company. (More about my life story in the last chapter.)

At the time I “owned” a house in the Melbourne suburb of Frankston, which owed me about \$8,000. I had bought the land for \$2,000 and was fortunate to get a housing co-op loan. A carpenter friend built the house for me.

When we packed up and left I put the house on the market for \$13,750. After some months, when it hadn’t sold, I agreed for the agent to let it, while it remained on the market for sale.

A couple of years later, during a trip back to Melbourne, I agreed to drop the price to \$12,750, as I really wanted to sell the house.

It sold. I was rich. After agents’ fees I had almost \$5,000.

More importantly, the Poseidon nickel boom was passing me by. Poseidon shares had soared from 80 cents to \$280 in just a few months and I was missing out. I didn’t want to be rich. I wanted to be filthy rich. A fellow employee where I worked had been making a fortune buying and selling “penny dreadful” mining and oil stocks in 1970/71, and I was going to join him. I couldn’t get my hands on that \$5,000 quickly enough.

No sooner was the money in my bank account than in I plunged. And I had “inside information.” I had Jobsons Mining Digest, a weekly paper with all the low down from the high ups in the business.

I will never forget Leopold Minerals. The “good oil” in Jobsons was that Leopold was about to announce some fantastic nickel assay results from their exploration drilling in Western Australia (not so far from Poseidon’s leases.) You bewdy! The rest of the market wouldn’t know about this for days. (Or so I thought. The “market,” of course, could buy Jobsons from the newsagent just like I had).

I think I paid about 33 cents for Leopold shares. Every lunch time during the week I would rush home to listen to the share market report on ABC radio. And sure enough; after a few days (it may have been weeks) the announcement came out and Leopold shares took off. They soared past \$3.00. I could hardly contain my excitement. I had made it! I hadn’t sold yet, of course. I wasn’t going to be that silly. I was going to wait until they **really** took off. Who knows? They could be another Poseidon.

Then one day shortly thereafter came the announcement that Leopold Minerals had been suspended from trading on the Australian Stock Exchange pending an enquiry into their drilling results, which were suspected of being fraudulent.

Leopold was subsequently delisted. I think it was some years before they came back on. When they did, if I recall correctly their shares were listed at 1 cent. I didn't even bother to sell mine. Probably because when I sold Magnum Exploration at 1 cent (I paid \$1.50 for them) the brokerage exceeded the value of the shares.

Ironically Poseidon never became a major nickel producer either and subsequently went into receivership. As I write another nickel boom, centred on Kambalda in Western Australia again, is lighting up, with the metal price breaking above \$10,000 a tonne, based on the assumption that demand from China is about to surge.

The Leopold fiasco was a shattering blow to not only my bank balance, but also my ego. How could I be taken in so easily and get it so wrong? I thought there must surely be a "secret" to successfully investing in Australian mining shares. Later I thought I had found it. A friend and I had noticed that when a mining or oil company began a drilling program, their shares would shoot up and just keep rising, right up until the day the results of the exploration were announced. Then if the results were disappointing the share price fell. But if the results exceeded expectations the share price just kept rising.

That's it! All you had to do was find out when companies were about to start drilling and buy their shares then. Just before they announced the results of the drilling, sell the shares and laugh all the way to the bank. Whether the exploration was successful or not you would make money. You couldn't lose. If they struck a bonanza you would miss out on the really big move. But even if they drew a blank, you would still win, because the share price would rise **in anticipation** of potential success. Aha! Maybe that's where the old adage: "Buy the rumour; Sell the fact" came from. Had we at last found the "Holy Grail?"

Alas, no. After a time, when the euphoria of the "resources boom" (the boom that never happened) wore off, even this strategy didn't work. It seemed no fundamental approach worked. Little did I comprehend the significance of that last sentence at the time. My \$5,000 capital gain from selling the family home had been reduced to zero.

If you think that's a bit sad, consider this: About three years after I sold our home in Melbourne (for \$12,750) I learned that it had been resold – **for \$40,000!**

How could this happen? What made the house price treble during the same period in which the shares I was chasing fell 90% to 100% in value? How could someone as smart as me lose so heavily – on both investments? I was more than your average

bear. I was a qualified accountant, for goodness' sakes. (Yes, I used to be an accountant before I discovered I had some personality.) What **causes** markets to rise and fall? Why is it so hard to figure out? Why does it seem to follow no logical pattern? What **causes** booms and busts? Who would know these things?

If I was a baby in 1987, then I was still hatching in the 1970's. But this quest to find out why financial markets act the way they do was now into my bones. It was a fire in my belly. I was not going to rest until I found some answers.

It has taken me thirty years, but I now know the answers. In the process of finding the answers I discovered that we are heading for another Great Depression. And as I have been sharing these answers with my monthly newsletter subscribers (and in my weekly telephone update each Monday) for many years, I am now sharing them with you in this book.

Perhaps what flabbergasts me most now is just how few others know the answers. Hardly any of the wealthiest, most intelligent, most highly educated, best connected investors in the world know these answers. Many of them will get wiped out in the depression. Nor do they seem to want to know the answers. Most seem content to accept that financial markets, be they for shares, property, gold, bonds (interest rates) or whatever, rise and fall on the basis of changes in economic fundamentals. Yet my research led me to exclaim years ago that a study of financial markets is "90% psychology and only 10% fundamentals." And even if that is an exaggeration (and I am not conceding that it necessarily is) the economic fundamentals are a **product** of what causes markets to rise and fall, not the **cause**. When you get your head around that one the penny will have dropped, and you will have a massive advantage over almost everyone else in the game

No matter when this book is written, it will be out of date a day later, as far as short term forecasts are concerned. But longer term predictions are unlikely to change. I do not know what the economic and/or financial market conditions are at the time you are reading this, because I don't know at what time you are reading it. I don't even know the year. If I did I could update my comments. The only way you can keep up to date with my view is to read my monthly newsletter or at least listen to my weekly telephone update. All I can tell you is that in October 2003 most economic news is upbeat and the idea of an economic and financial collapse is absurd to most people. Interest rates remain at historically low levels, as does inflation. GDP growth is strong, business profits are up, consumer spending is still booming, and even unemployment is on the wane. Yet the indicators I am looking at are all pointing menacingly down.

The Greatest Investment Opportunity In A Lifetime

But the thought of looming economic depression should not cause you physical or mental depression if you are an investor. On the contrary. If I am right, **and you are prepared** (that is, if you are cashed up before it happens), you are going to be presented with one of the most wonderful investment opportunities in a century or more. Some of the greatest fortunes in the world were made during the last Great Depression.

In the 1930's both property and share market values fell by up to 90%. That was dreadful for those who had to sell (because they hadn't believed the depression was coming, so hadn't prepared beforehand). But what a bonanza of bargains for those in the market to buy at that time. Those who **believed** it was coming and liquidated (sold) assets beforehand, or at least postponed purchasing, were rewarded with the opportunity of buying back those assets (e.g. shares and real estate) for as little as ten cents in the dollar. They could either keep up to 90% of their money in cash or else buy up to ten times the amount they could have at the peak of the boom prior to the crash.

And because every depression in history has been accompanied by **deflation**, not inflation, every dollar they spent during the depression bought **more** goods than before, not less, as is the experience when **inflation** is raging.

So this book is intended to be **positive, not negative**. Note the first three words in the title: "**How To Profit**." Only the last part of the title could be construed as negative. Yet the public perception will be that this book is negative. That too is human nature.

Believing is preparing. To be prepared is to profit. The hardest part will be believing in the first place.

My Strategy Is Very Low Risk

Even if I am wrong about a coming Great Depression, if you take my advice the worst that will happen is that you will have earned interest on your money sitting in the bank, and you will have missed out on paying ridiculously high prices for real estate. Even if the share market were to go on and set new records from here (which is possible in Australia) you would not lose anything. You would simply miss out on profits you might have made, provided you bought **and sold** at the right time. That is a lot different from the consequences you will suffer if you take wrong advice from others who advise you to buy and/or hold shares and property now and I turn out to be right.

The Scope Of This Book

This book is global in its perspective but with an Australian flavour. The majority of my readers at the present time are Australians, and they need to relate things to their own local experience. But the Australian economy is too tiny to matter in the overall scheme of things. So where possible I bring Australia into the context. However, the old saying: “When America sneezes the rest of the world catches cold” still applies, and quite often you will see me focusing, for example, on Wall Street indices, the U.S. economy, Alan Greenspan, etc. etc.

To begin with I am going to go back to 1987 and show you some of the things I was saying, even when I was a “baby.” Then I will take you on a roughly chronological journey of learning, although newsletter articles on some subjects (e.g. where money comes from) will be grouped together.