PREDICTIONS FOR 2013-THE MONEY MARATHON JANUARY 2013

One of my favorite commercials on the radio is one for a newsletter which you can get free for "Prediction Number Six". To the best of my recollection, according to the commercial, they picked the tech stock crash in 2000, the fourfold increase in gold this century, the housing bubble, the financial crash and the subsequent bull market starting in 2009, and now you can get their Prediction Number Six for free. I have two observations about this commercial. First, anyone or group that is that smart doesn't need to sell you a newsletter, i.e. nobody is that smart. Secondly, if there is even a glimpse of truth to their track record, which I question, it is actually pretty easy to give multiple scenarios and then selectively choose the right one after the fact. As an example, I might predict that if we go off the fiscal cliff and or if Europe's situation gets worse and or if China's growth slows down, etc. etc. that we are in for a bear market. In the same paragraph, I can say that it's possible that if we come to an agreement in Washington and if Europe comes out of the recession and if China does grow and rates stay low and the economy continues to recover that we will have a bull market. Whichever way it goes, I can quote my prediction and state that it was correct.

Saying all this, I am going to make my predictions for 2013. Feel free to tell me I missed if some of these turn out to be wrong.

Prediction Number One: WATCH OUT FOR PEOPLE WHO KNOW IT ALL. If you find someone who says he has all the answers, run away as fast as possible. Nobody has all the answers and my experience is that the smartest people actually know that many things are just too complicated and have too many factors to know for sure. These people are able to give you the best chance by knowing enough to predict that your odds are better that certain events are more likely to occur based on their insight. (I feel good about this prediction for 2013 and beyond - it may be more of a statement than a prediction, but this way, if I miss all the rest I can say I got one right.)

Prediction Number Two: LONG BONDS ARE A BAD INVESTMENT. Long Maturing bonds (10 years or longer) are not good investments over the next 10 years. Interest rates have dropped dramatically over the past 30 years to nearly zero. Bond prices move inversely to interest rates. Interest rates have very little room to go down. A one percent increase in long rates would cause a 30 year bond to go down in price 12% and a 3% increase in rates would cause long bond prices to go down 30%. The risk/reward for long bonds is very unfavorable. (It is hard for me to imagine that I won't be correct in this prediction. I feel very strongly about this.)

Prediction Number Three: THE DOLLAR WILL DROP IN VALUE. In the long run, the value of the dollar will continue to go down relative to many other currencies (although maybe not Europe and Japan which are in worse shape) and particularly commodities and hard assets. In other words, land, stocks, commodities, gold and real assets should be worth much more in dollar terms over time. The Federal

Reserve is printing money like it is “going out of style” and this will drop the value of the dollar relative to hard assets over time. Debtors are helped by printing money, and the US government is the biggest debtor I know. (I also feel good about this prediction occurring although I wish I was wrong. We should try to protect and preserve the value of the dollar.)

Prediction Number Four: HEALTH CARE COSTS WILL INCREASE SIGNIFICANTLY. The Affordable Health Care Act will end up costing the country and taxpayers, many times more than was projected by anyone. The practical application of this is that everyone who has been paying for health care will be paying more. (Again, I wish I would be wrong on this but feel pretty certain I will be right.)

Prediction Number Five: THERE WILL BE NO SUBSTANTIVE DEAL OR OUR DEBT PROBLEM. I don’t believe Congress and the President will address our fiscal problems in a meaningful way this year. Yes, they did agree on the revenue side in the twelfth hour which is good. However, I am not optimistic they will address the spending side in a meaningful way that will significantly reduce the deficit over time. The annual projected deficit for as far as the eye can see is over a trillion dollars a year. Our total government deficit is $16 trillion and we have $87 trillion of unfunded entitlement liabilities. The average Medicare and Social Security recipient receives six times what they have paid in to the system. Any meaningful approach to our long term issues will slow the rate of growth of entitlements to preserve them for the future. However, it should be pointed out that revenue increases, though necessary, are only a small part of the deficit problem. (Increased revenue by itself only cuts the deficit by less than 7.5%.) If the rate of growth of entitlements and other government spending is addressed in a way that lowers the long term deficits to $500 billion per year or less, than I am wrong. Otherwise, we have kicked the can down the road and are heading for a fiscal disaster at some point. (I really would like to be wrong on this but don’t expect that I will be.)

Prediction Number Six: STOCKS WILL BE HIGHER IN 2013. I predict that stocks will be higher by year end 2013 than they are now. As of the last day of 2012, the S&P 500 finished at 1420, so it has to be higher for me to be correct. (I should note that I sent an email to several clients who are underinvested last Friday before the fiscal deal was completed. I recommended that this was a good time to invest since the market had been down five days in a row. With the rumors of a deal Monday and then the completion of a deal Wednesday, the market rallied big both of those days. My recommendation looks pretty good as I finished writing this article two days ago.) I do expect a correction of 10% to 15% at some time during the 2013 but would expect that the economy will grow, although slowly, that will ultimately cause the market to go up. My two main reasons that I think the market will grow are: 1) high quality, blue chip stocks with 3% or more dividends compare very favorable with a 10-year treasury bond yield 1.6%. Many of these companies continue to increase their dividend each year and so stocks are a very good alternative for low interest rates; 2) as long as the Federal Reserve keeps printing money, real assets will go up as the dollar goes down. Stocks represent companies that own real assets, land and buildings and commodities so stocks should continue to do well. (This is my riskiest prediction, but I feel good about it also.)

Just think, if I hit all six of these predictions, then I can put out a commercial touting my record and asking you to eagerly wait for my next prediction, "Prediction Number Seven". I am not holding my breath, but I will tell you how I did at the start of 2014.

Remember that every investor's situation is unique and it is important to review your specific situation with a financial professional.

Ed Douglas is a Certified Financial Planner/Consultant, Chairman Emeritus of Citizens Bancshares and author of three books, *Making a Million With Only $2000-Every Young Person Can Do It*, *The Money Marathon: 7 Simple Steps to Financial Freedom* and his new book, *25 Truths: Life Principles of the Happiest and Most Successful Among Us,* available at www.eddouglas.com and on Amazon. Ed can be contacted for financial planning services or seminars based on his books at ed@eddouglas.com or 660-646-2066 or at his office at 601 Locust. 25 TRUTHS: TRUTH NUMBER 19: EXERCISE, EXERCISE, EXERCISE (Live a healthy lifestyle). Ed's books are available at eddouglas.com, Hy-Vee, Amazon, or Boji Stone.