

Turning Inflation Into Wealth Mini-Course

Reading Ten:

Reversing The Inflation Tax

This Reading Is Exclusive To This Course

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In previous readings we went back through history and found out what happened to historical borrowing costs when we adjust for inflation and taxes. We found some remarkable and surprising results, including:

For homeowners who entered into a mortgage in the early 70s, inflation dropped their real cost of borrowing over 30 years down to a mere 1%.

When we add the effect of taxes and the benefits of the mortgage interest deduction, the full 30-year cost of borrowing dropped to a negative 1%.

When we look at the results of just the decade of peak inflation from 1972 to 1982, we found that even though average inflation rates were only 1.3% greater than initial mortgage rates, the inflation “tax shelter” more than tripled the benefits, producing after-inflation and after-tax returns of 4.3% annually.

We then found that an investor in a 40% tax bracket would have had to earn an extraordinary 22% annual rate of return in order to realize the same after-inflation and after-tax financial benefits that were being realized by an average homeowner in an average mortgage (albeit both accidentally and unknowingly).

In today’s reading we will move from interest payments in the past to capital gains in the future, as we further explore how to turn the “inflation tax” upside down. We will set up a simple illustration, and examine it from three different perspectives. We will reconcile

nominal dollars, real dollars, tax dollars and net purchasing power benefits, and come to understand the underlying sources of our wealth benefits, as we learn to turn the government's inflation blindness to our personal benefit.

The chart on the next page illustrates the inflation tax in action, and it may be worth separately printing this page for easy reference as we explain the chart. We start with an asset, and it could be almost anything. Land, gold, stocks, or comic books. We buy it for \$100,000 as shown in the "Purchase Price". We hold the asset long enough for the tax treatment to become capital gains rather than ordinary income, and then sell it. *(The next three pages appeared in Reading Two, "Seizing Your Assets To Cover Retirement Promises", however, the rest of the reading is new.)*

During this time, we experience a 100% inflationary rise in prices. It now takes two dollars to buy what one dollar used to. Another way of phrasing this is that the purchasing power of a "new" dollar has dropped to fifty cents in old dollars, which makes the conversion from future nominal dollars (the left column) to real dollars (the right column) quite easy, we merely divide by two.

Our key assumption is that our asset price keeps up with inflation (many investments won't), but that it doesn't exceed the rate of inflation. The price doubles, but the dollar is only worth half what it used to be, so in real terms, the asset is worth the same as it was before the inflation occurred. In real terms, in terms of purchasing

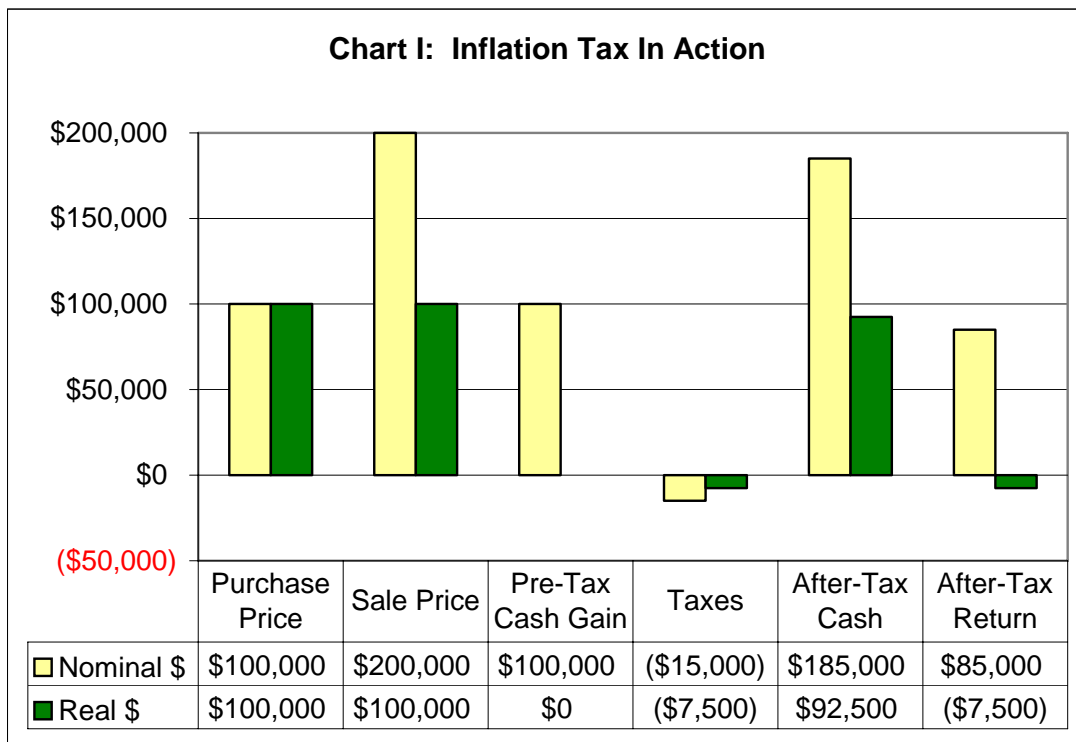
Chart I: The Inflation Tax In Action

Inflation: 100%
 Tax Rate: 15%

	Nominal Dollars	Real Dollars (Inflation-Adjusted)
Purchase Price	\$100,000	\$100,000
Sale Price	\$200,000	\$100,000
Pre-Tax Cash Gain	\$100,000	\$0
Taxes	(\$15,000)	(\$7,500)
After-Tax Cash	\$185,000	\$92,500
After-Tax Return	\$85,000	(\$7,500)
After-Tax Return (Percent)	85.0%	-7.5%

Ending Value Of The Property:

What The Government Sees:	\$200,000
The Economic Reality:	\$100,000



power, in terms of what we can buy if we sell the asset, nothing has changed, and this is represented by the dark green boxes on the chart, as well as the green bars on the graph.

But, that's not how the government sees it. Even though the government is often the source of inflation through its fiscal and monetary policy, the government is blind to inflation with its tax policy. As far as the government is concerned, a dollar is a dollar. So what the government sees (as illustrated by the pale yellow boxes and bars) is you bought an asset for \$100,000, you sold it for \$200,000, and that you just made a \$100,000 profit (the "pre-tax gain" line). And the government wants its share of your profits, in the form of an assumed 15% capital gains tax, which means \$15,000 in taxes.

Now, as long as we ignore inflation, that's not so bad. We still have \$85,000 in "profits". Indeed, that 85% after-tax return on investment may look pretty sweet.

The problem is when we adjust our 85% after-tax return for the technicality of a dollar only buying what fifty cents used to. When we look at our real wealth in terms of the goods and services we can buy with the proceeds of selling our asset.

When we go down the real dollar column on the right, and look with our dark green economic "eyes", then we see that we bought for \$100,000, we sold for \$100,000, and in terms of real wealth – our pre-tax gain is zero. But, we still have to pay taxes. When we discount those future taxes to bring them back to current dollars, at least it drops the real cost in half, down to \$7,500. Unfortunately, once we

pay those taxes – in purchasing power terms, we only have \$92,500 left.

Meaning that instead of making \$85,000 – we lost \$7,500 out of our \$100,000 investment in real terms. When we adjust for inflation and look at what a dollar will buy – our sweet 85% return vanishes, and what we are left with is a 7.5% loss on our investment.

We just met the “Inflation Tax” – and it ran over us.

Let’s review what just happened here. Through its fiscal and monetary policies, the government created inflation that cut the value of our dollars in half. Meaning that everything that we owned in dollar terms, such as bank accounts and bonds, just had half the value taken away from us. However, we were smart enough not to put our \$100,000 into a dollar denominated investment. We put it into another type of asset, one that kept up with inflation. We didn’t actually make any real money, we just protected the purchasing power of our assets against the effects of unwise government policies.

So how does the government react? By stripping us of part of the wealth we did preserve, on the grounds of illusory profits. With the illusion that created the pretext for seizing our assets having been created by the government in the first place.

That’s completely unfair. In fact, the inflation tax is totally outrageous. But that is also the way the United States federal government operates, and there is not much you or I can personally do about. Except turn the government’s inflation blindness to our

advantage. If the government's tax policy is blind to economic reality – are there ways to turn this relationship to our advantage? So that instead of paying real taxes on illusory income, we are paying illusory taxes on real income?

There are indeed ways to accomplish just that, and "Chart II: Reversing The Inflation Tax" (on the next page) is a simple example of one such method. Much of this example is identical to the previous example, in terms of buying a \$100,000 asset, experiencing 100% inflation, selling the asset for \$200,000, and paying a 15% capital gains tax on any nominal dollar "profits".

However, we make one essential change – we borrow part of the money to buy the asset. As explored in previous readings, when this strategy is executed properly it creates a means to redistribute wealth from corporations and other investors into our pockets during times of substantial inflation. Even a small amount of borrowing can also act as vitally important shield against the Inflation Tax, and a moderate amount of borrowing can reverse the tax altogether.

In our example, we borrow \$40,000 and put up \$60,000 in cash for the remainder of the purchase price of our asset. When the inflation occurs, the value of the investment doubles – but the value of our borrowing does not. Indeed, when we look at the loan with our dark green "economic" eyes, we see something fascinating – in real dollar terms, the value of the loan we have to pay back dropped in half. Yes, we still have to pay back \$40,000, but because our purchasing power has been cut in half, the dollars we pay the loan back with are only worth 50 cents each.

Reversing The Inflation Tax

Inflation: 100%
 Tax Rate: 15%
 Borrowing: 40%

	Nominal Dollars	Real Dollars (Inflation-Adjusted)
Purchase Price	\$100,000	\$100,000
Loan	\$40,000	\$40,000
Net Investment	\$60,000	\$60,000
Sale Price	\$200,000	\$100,000
Value Of Loan	\$40,000	\$20,000
Pre-Tax Equity	\$160,000	\$80,000
Taxes	(\$15,000)	(\$7,500)
After-Tax Cash	\$145,000	\$72,500
After-Tax Return	\$85,000	\$12,500
After-Tax Return (Percent)	142%	20.8%

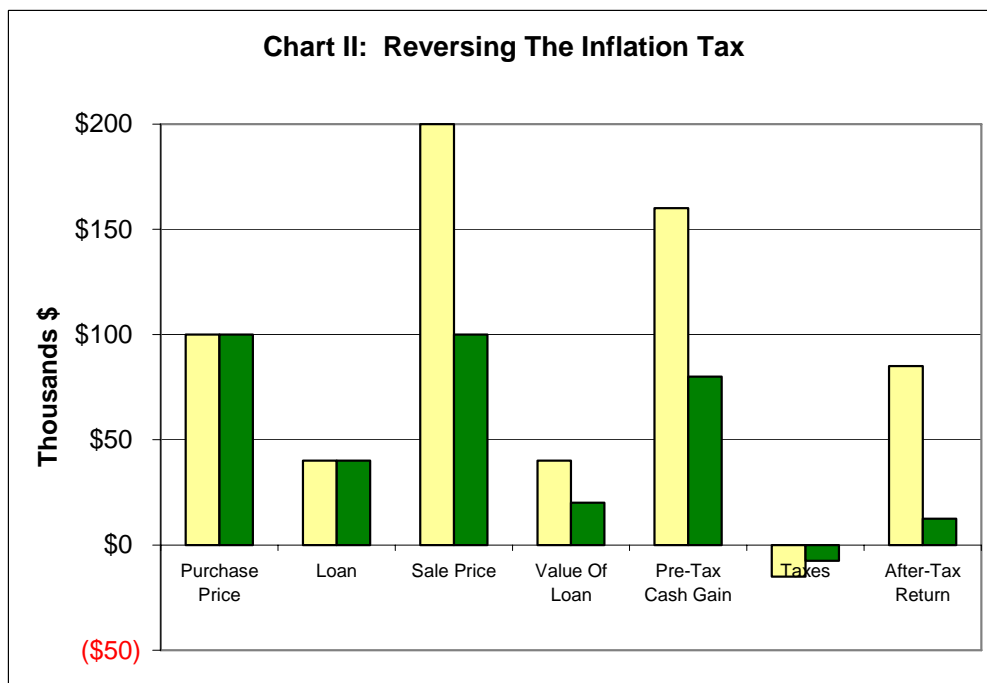
Ending Value Of The Loan:

What The Government Sees:

\$40,000

The Economic Reality:

\$20,000



This means that the inflation-adjusted value of the loan is only \$20,000. We own an asset that is still worth \$100,000 in real terms (\$200,000 in nominal terms). Our equity is equal to the value of the asset less the loan, so our equity in real dollar terms has climbed to \$80,000. Meaning we have realized a genuine \$20,000 profit on our investment in real dollar terms. We have gone from making no real economic profit to making a very real and substantial economic profit, on the very same asset – bought and sold at the same price.

Now this is where things get very interesting and very important. The government doesn't see this real profit. Because government tax policy is blind to inflation. As shown with the pale yellow boxes and bars, all the government sees with are nominal dollar eyes, where a dollar is equal to a dollar and never changes in value. As shown in the yellow boxes, all the government sees is that we borrowed \$40,000 – and we paid back \$40,000. This lack of profit or loss means that the loan is pretty much a non-event from a tax standpoint.

So what the government sees is that we bought a property for \$100,000, we sold it for \$200,000, we had a loan that was a non-event, and we made a \$100,000 profit, so we owe them \$15,000 for their share. We pay the government in full, and they are fine – with what they officially see.

What the government doesn't see is what happened with real dollars. Looking with nominal dollar eyes, it did not see us earning (taking) \$20,000 of real value from the lender, through paying them back in full with dollars that are worth less than the dollars we borrowed from them. Because the government did not officially see

the gain, we were able to take it on a tax-free basis. We take our tax-free real gain, subtract the \$7,500 inflation tax that we owe the government because of our illusory gain – and we have a real gain of \$12,500, after adjusting for both inflation and taxes. This is illustrated in the chart below:

Going From Paying Real Taxes On Illusory Profits, To Paying Illusory Taxes On Real Gains	
Inflation Tax	
\$0	Real Economic Gain On Asset
\$100,000	Illusory (Nominal \$) Pre-Tax Profit
(\$15,000)	Inflation Tax on Illusory Profit
(\$7,500)	Inflation Tax (Inflation Adjusted)
(\$7,500)	Real Dollar Profit/Loss
Inflation Hedge	
\$20,000	Real Economic Gain From Inflation
\$0	Tax On Real Gain
\$20,000	Real Dollar Profit/Loss
Combined Position	
(\$7,500)	Loss From Paying Real Taxes On Illusory Profits
\$20,000	Gain From Earning Real Wealth While Paying Illusory Taxes
\$12,500	Ending Increase In Wealth After Adjusting For Inflation & Taxes
<i>Copyright 2007, Daniel R. Amerman, CFA MortgageSecretPower.com</i>	

In nominal terms we turn \$60,000 into \$145,000, which is an after-tax return of \$85,000, which represents a 142% return on investment. Even after we discount for inflation, and the government seizing a share of nominal asset appreciation that doesn't exist in real

terms – our \$12,500 real gain is almost a 21% return on our \$60,000 investment.

So same asset purchase price. Same sale price. Same taxes legally paid in full to the government. But instead of losing 7.5% of the purchasing power of our investment – we increased it by almost 21%. That is how to reverse the Inflation Tax!

Once Again

While the relationships demonstrated above are entirely real, and how well you utilize the lessons contained may very well make a major difference in your future standard of living – you may not have followed every nuance in our first run through. Even using a very simple example with nice, rounded numbers – combining tax accounting and constant dollar economics is going to be difficult to follow for many readers. So let's try it again, quickly, from a somewhat different perspective, and see if that helps. Let's close out each of our strategies with just plain dollars.

With Chart I we buy an asset for \$100,000, we sell it for \$200,000, we have a pre-tax profit of \$100,000, we pay 15% capital gains tax in full of \$15,000 and we walk away with \$85,000 more than we initially invested.

With Chart II, we buy an asset for \$100,000, we sell it for \$200,000, we have a pre-tax profit of \$100,000, we pay 15% capital gains taxes in full of \$15,000 and we walk away with \$85,000 more than we initially invested. Identical to Chart I.

Keep in mind that the government does not tax us on percentage return on investment, we are taxed on nominal dollar profits, which are identical under the two structures. For instance, if we realize a capital gain of \$1,000,000, then we owe \$150,000 – regardless of whether we invested \$100,000,000 (a 1% return) or \$1,000 (a 100,000% return).

The difference to our personal bottom line comes from our having invested \$100,000 of our own money with Chart I, and only \$60,000 with Chart II. If we invest \$100,000, then we need to earn \$100,000 in after-tax terms, if we are to keep the full purchasing power of our investment during a time of 100% inflation. Because the government took \$15,000, that means we only made \$85,000, and we came up \$15,000 short in nominal dollars. That is a \$7,500 loss in terms of what our money will buy for us, and we walk away having \$92,500 in (pre-inflation) purchasing power. We lost 7.5% of the real value of our assets to the government's tax on inflation.

With Chart II, we invested \$60,000, and we needed \$60,000 in after-tax profits to stay even with inflation. We earned the same \$100,000, the government took the same \$15,000, so we made the same \$85,000. However, an \$85,000 profit on a \$60,000 investment is more than enough to keep up with inflation. We came out with \$25,000 more in nominal dollars, than we needed to stay even. Adjusting for inflation means we came away with \$12,500 more than we needed to stay even, and when we divide that \$12,500 by our initial \$60,000 investment, we find we walked away with entirely real 21% after-tax and after-inflation return on investment.

So we paid government taxes of \$15,000 in their full legal amount as we close out – there is no shady or questionable tax-shelter going on here. We walk away with \$145,000 in after-tax cash, which is an \$85,000 nominal profit on our \$60,000 investment. We increased our real purchasing power by \$12,500, which is a 21% after-tax and after-inflation gain on our original investment. Flipping the inflation tax on its head was entirely real in our example. As it can be entirely real for you in an inflationary future.

Pay 7.5% when you really make nothing. Or, turn the combination of government fiscal and tax policy into a 21% return – when on the underlying asset itself, you really made nothing at all in inflation-adjusted terms. Your choice.

The Source Of Our Gains

Now, we're going to take it one level further. We did indeed successfully reverse the inflation tax in terms of our own bottom line of real wealth, but we didn't actually take any money from the government –which is why the government tolerates this, and it isn't a tax shelter in the usual sense. To see where the money really came from, we need to return to the first paragraph of "Inflation Pickpocket", the slightly twisted morality tale that constituted the first reading in this series:

"Inflation is not an even game, it is not a fair game, and we are not all in this boat together. For inflation is not about destroying everyone's wealth – it is about redistributing that wealth, and if you

don't understand this, then it will likely be your wealth that will be getting redistributed."

What today's reading shows is not just how inflation redistributes wealth – but how it redistributes tax benefits.

Where we made our money was in taking \$20,000 in real wealth from the corporation or bank that lent us the \$40,000 in the first place, through paying them back in full with dollars that were only worth half what they were when we took out the loan. We took \$20,000 in purchasing power from them, we paid \$7,500 in real dollar taxes, and we walked away with \$12,500 more in real wealth than we started with.

The lender took a \$20,000 loss in real terms – but couldn't deduct it, because government tax policy only sees through nominal dollar eyes. Effectively, we took their tax deduction and used it to make our own real income tax-free, and that was more than sufficient to pay our inflation tax on our illusory income, and still come out substantively ahead.

We've left interest payments out so far to keep things simple, but they don't necessarily hurt our position. Not if, as happened during the last major bout of inflation in the US, mortgage rates (and other long term rates) were 7% and less coming into the inflationary period, and inflation average 8.7%. Meaning that we would take their interest payments from them too, as our borrowing cost would be effectively negative, as discussed in detail in the previous readings. (We do need to be cautious not to just simply add up this and the

previous readings on inflation and interest rates, however, as that would double count principal benefits).

The major tax benefits from our interest payments in a time of substantial inflation? We took those from the lender too. We are paying a negative rate of interest in real dollar terms, but all the government sees are nominal dollars. So the lender has to pay taxes in full on illusory nominal dollar profits, even while it earns a true negative return. Even while we are being paid by the lender to borrow in real dollar terms, we are able to take tax deductions for the nominal interest payments we make, meaning that we are earning a (much) better than tax-free income, as we are effectively getting paid by the government to pay a negative interest rate.

(The other interest cost consideration is of course the earnings from whatever we did with the \$40,000 we freed up by taking out the \$40,000 loan.)

None of the above is fair. But, it is reality, during a time of major inflation. The wealth will be redistributed, and government tax policy will just compound the inequities. Some people will not only incur major investment losses in real dollars as a result of inflation, they have to pay substantial taxes on those losses, because of the illusion of nominal dollar income. Other people will win from inflation, but their benefits will be more or less accidental, and they won't necessarily even understand that anything happened, other than enjoying the benefits of an increased standard of living. Still others will come into the next period of inflation prepared and with eyes wide open. They will thoughtfully position the combination of their assets

and liabilities in such a manner that wealth flows to them from inflation. They will do this using a strategy with an emphasis on risk-reduction, and they will do it in such a manner that much of their real dollars earnings may even be tax-free to them – so they are indeed, paying illusory taxes on real income.

The Home Exception

There is currently an exception to the inflation tax in the United States. While the specifics are beyond the scope of this reading, the exception is that homeowners don't have to pay capital gains taxes when they sell their primary home, so long as they reinvest in another home within a specified period. They are also allowed a once in a lifetime exemption to cash out profits from their primary home.

When we consider just a home in isolation, this would seem to lessen the need for inflation hedge. When we look at overall financial positions for individuals, however, this strongly increases the attractiveness of using a mortgage hedge for the purpose of increasing net worth during a time of inflation. The home exception means there is no longer an offset needed to pay an inflation tax, and all of the appreciation benefits of the inflation hedge can flow straight to the homeowner on a tax-free basis, even as the homeowner is realizing the other benefits discussed in prior readings.

There are many forms of inflation hedges, not all involve liabilities, and not all liability hedges involve mortgages – but mortgages do have some particular advantages for households, including households with sufficient net worth that they don't actually

need a mortgage. Indeed, for a household with substantial financial assets to protect from the inflation tax, it could be termed near folly to not take full advantage of the unique advantages of the mortgage inflation hedge, with its easy access to long-term, low fixed-rate terms, as well as the potent one-two tax-advantage combination that exploits the treatments of both interest deductions and capital gains.

Is This Just Leverage?

Any time you use both an asset and a liability, then there is a form of leverage involved. However, it is important to keep in mind that leverage is the name for a tool – not a strategy. The tool can be (and is) applied in a near infinite number of ways and strategies. Often, the term “leverage” is used with a connotation that suggests using debt to increase returns by increasing risks.

Financial professionals may be more likely to use the phrase “asset / liability management”, in recognition that what we are doing is managing tools. Sometimes the strategy involving debt can mean taking speculative risks in concentrated form – but other times assets and liabilities are managed together with a focus on portfolio risk reduction, or with the idea of managing tax exposures and increasing the amount of dollars that can be realized on an after-tax basis.

What is being illustrated here is the judicious use of moderate amounts of carefully selected liabilities as part of an inflation risk management strategy, where the goal is to reduce overall risks for the long-term investor. We are strategically using a combination of economic and tax benefits with both interest payments and capital

gains in order to redistribute wealth benefits and tax benefits to our personal advantage during a time of substantial inflation. To realize these benefits – we have to be able to safely cover interim loan payments. There is a trade-off between the two and we will later be discussing more about that.

Three Questions

This could be a good place to ask yourself some questions:

- 1) Based on what you've been reading – do you believe inflation taxes are real?
- 2) Do you believe there is a substantial chance that there will be a high rate of inflation sometime within the next year to ten years?
- 3) Do you have an explicit strategy for reducing your exposure to inflation taxes?

If you believe inflation taxes are real, that there is a substantial chance of inflation, and that you are not prepared, then perhaps you need to accept something: you have a very real problem. An outrageously unfair handicap that can have devastating implications for your investment performance, even if you do everything else right. *Even if your investments perform spectacularly.*

Unfortunately, when it comes to inflation taxes, the overwhelming majority of the population is blissfully unaware. Which means their future relationship with inflation taxes has already been determined: unwitting victims (unless they get lucky).

As we finish Reading 10, you are in a different spot than most people. You know about inflation taxes. I haven't held back here with the free materials – you've just read 18 pages of some quite sophisticated stuff, and more like 60 pages in total with the three previous inflation tax readings. I've kept the numbers and explanations as simple as I possibly could (and it took a lot of work to make it look this simple). But if you have been following and even mostly understanding the readings, I think it is fair to say that you now know more about inflation taxes than most financial professionals, and more than all but a tiny minority of financial journalists.

You also have something that isn't available anywhere else, and that is some "out of the box" insights (proprietary to this course) about how to actually *reverse inflation taxes*, and turn them to your advantage.

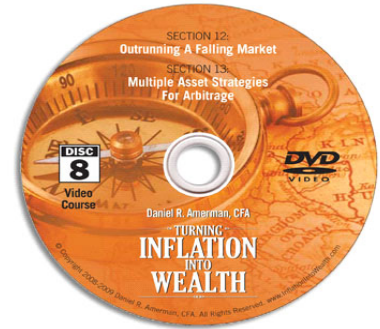
Because I've kept the numbers so simple – you can clearly see that they add up. But they may still seem, well, a bit theoretical, as you try to process this information. You aren't reading about this anywhere else. And the price of the DVD course, well, it may seem a bit steep compared to the unending daily torrent of financial writing that goes out over the web, and can be (mostly) read for free. So, this might a good time to do a little old-fashioned cost benefit analysis, and the chart below is intended to aid you in that task.

Inflation Tax Education Return On Investment (Illustration)

Based Upon Materials From:
 Section 12, "Outrunning A Falling Market"
 Found On DVD #8

Inflation Assumption: A Dollar Becomes Worth A Penny

Tax Assumption: 30%



	Ending Assets, After-Inflation & After Tax			ROI (After Inflation & Tax)	
	(A) Good Asset, Naïve (No) Inflation <u>Your Assets Today</u>	(B) Bad Asset, Good Inflation <u>Tax Mgmt.</u>	(C) Good Asset, Good Inflation <u>Tax Mgmt.</u>	(B) Education Return On <u>Investment</u>	(C) Education Return On <u>Investment</u>
\$ 50,000	\$ 42,000	\$ 139,000	\$ 209,000	19400%	33400%
\$ 100,000	\$ 84,000	\$ 278,000	\$ 418,000	38800%	66800%
\$ 250,000	\$ 210,000	\$ 695,000	\$ 1,045,000	97000%	167000%
\$ 500,000	\$ 420,000	\$ 1,390,000	\$ 2,090,000	194000%	334000%
\$ 1,000,000	\$ 840,000	\$ 2,780,000	\$ 4,180,000	388000%	668000%
\$ 2,000,000	\$ 1,680,000	\$ 5,560,000	\$ 8,360,000	776000%	1336000%

The above is an illustration (only) of the benefits of knowledge, and having a strategy to deal with one of the largest threats to an investor's net worth in an inflationary environment. It is not a projection, there are no guarantees, and your results can and almost certainly will vary quite widely from the illustration shown.

Education return on investment based on price of Turning Inflation Into Wealth Complete Video Course as of the preparation of this exhibit. Price may change at any time without prior notice.

This chart is a bit unusual in that it attempts to put a value on education. In this case, a very specific piece of education, that being one of the core subjects of Section 12, "Outrunning A Falling Market", which is part of the Turning Inflation Into Wealth Complete Video Course. This is found on DVD #8, the final DVD in the series.

The illustration we review on the DVD starts with a “Good Asset”, as shown in column (A) on the left side above. An asset that thrives with high inflation, and rises in value at a faster rate than the dollar is falling, meaning it is one of the tiny minority of investments that is gaining in purchasing power terms. For instance – let’s say you buy gold, **and the price for gold rises to over \$100,000 an ounce**, even while the dollar is becoming worth a penny.

All around you, the value of their savings for those who followed the conventional wisdom has been nearly annihilated – much as has happened again and again, in many nations around the world and in many times. You didn’t follow the conventional wisdom, you owned close to half a million dollars of gold, and your net worth just went to a cool \$60 million. Talk about a great investment choice!

Except, there’s a little problem. As we’ve just reviewed over the last couple of readings, the way the government also sees it, we just made a great investment and they want their share. So, once we pay the taxes on \$60 million of income, and then adjust for what a dollar is worth – we just lost a big chunk of the purchasing power of our starting half million. We lose 16% of our net worth in the illustration above – by making an extraordinarily successful investment. If we started with half a million dollars, we lost \$80,000 in after-tax and after-inflation purchasing power by successfully timing our purchase of over 30 pounds of gold to coincide with the biggest increase in gold values in our lifetimes, riding it all the way up to over \$100,000 an ounce.

A spectacularly successful - but naïve - investment strategy cost us a big chunk of our net worth because we ignored inflation taxes – but they didn't ignore us. And there was nothing theoretical or abstract about that hit and run on the purchasing power of our net worth, because there is nothing theoretical or abstract about the government demanding the payment of taxes on nominal profits.

What comes next is one of my favorite parts of the workshops (and the DVDs). I show people a “bad” investment asset (column B), one that doesn't keep up with the rate of inflation – but is used in combination with a potent inflation tax shelter. While the “bad asset” itself is completely outperformed by the “good asset” – your bottom line is the purchasing power of your savings more than triples by protecting yourself with a hedge against inflation taxes. In the illustration above, using an inflation tax hedge *in combination with a “bad” asset that loses major money in inflation-adjusted terms* means that (starting with \$500,000) you end up with \$1.4 million in net worth, instead of \$420,000 with a good asset (like gold going to \$100,000 an ounce).

Then I come back and explore what happens if you really do it right. What if you buy a “good” asset, and you simultaneously execute an effective inflation tax hedge? As shown in column C if both asset and hedge work well together – then our ending after-inflation and after-tax net worth moves to \$2 million. Reversing inflation taxes means our ending net worth is almost five times as great as an asset-only strategy – even though the asset itself has identical performance.

Sound confusing? It doesn't need to be. That is the point of eight DVDs of information, supported by six books. To take the paradigm change that starts with this mini-course, and move it to another level entirely. Remember – the complete video course is an educational product, that is focused on your achieving the understanding you need to make better and more informed choices for the particulars of your own situation.

What's the potential return on this education? As an illustration, with the examples we just looked at, if we start with \$500,000 in assets, assume we make some "bad" asset choices, as part of getting an effective inflation tax hedge, compare that to our after-inflation and after-tax results with a gold going to \$100,000 an ounce but with no inflation tax hedge, and then take the difference between the two and divide by the current cost of the complete video course, our return on our educational investment is **194,000%!**

With the illustrations shown, if we start with \$500,000, and buy "good" assets in combination with a potent inflation tax hedge, then with the same methodology shown above, our potential return on our education investment is **334,000%** (or more than 3,000 to one on dollars spent, *in after-tax and after-inflation terms*).

As shown in the chart, if we start with \$50,000 in assets, and use the same scenarios and assumptions, then our potential return on educational investment is **19,400% to 33,400%**.

As also shown in the chart, if we start with \$2,000,000 in assets and use the same scenarios and assumptions, then our potential

return on educational investment is **776,000% to 1,336,000%** (or more than 13,000 to one on dollars spent, *in after-tax and after-inflation terms*).

Now, do keep in mind – *this is a hypothetical illustration, with an assumed person, some assumed financial decisions, and an assumed inflationary scenario. It is not a projection, let alone some form of guarantee.* Your results will depend entirely on the specifics of your situation, your own asset choices, your own hedge choices, and most importantly – what actually happens. To make a bold point, I used a high inflation scenario and a 30% tax rate, and as each are reduced, the benefits produced drop as well.

That “334,000% rate of return” may sound fantastical – but besides being easily verifiable mathematically (within the illustration shown), it’s really just common sense. If you have significant assets, and if you make different choices that radically change how your assets perform, then the cost of the DVD series is inconsequential in comparison. (This is particularly true if the purchase is tax-deductible for you, as that likely boosts the potential return over 500,000% with the hypothetical scenario illustrated.) If better education leads to a several hundred thousand dollar potential shift in your future net worth, then that education may indeed turn out to be one of the best investments you could possibly make.

This may hold true even if inflation is not as high, or you make different choices. For instance, if we go back to our example illustration at a half million dollar asset level, and say that you only make a 10% adjustment (so \$50,000 in assets), and that works out to

deliver only 10% of the illustrated benefits, meaning you only realize 1% of the benefits shown (10% X 10%) – that is still a 3,340% return on your educational “investment”. Because the dollar amounts are so major and the risk so extreme.

I’m assuming that you think there is a significant chance of a high rate of inflation occurring in your country, sometime in the next few years (or you likely wouldn’t be on Reading Ten of an inflation course). If you make the decision to go with precious metals asset only strategy, and we come into a high inflation scenario – then you will look like a genius. And you will be a genius, compared to most investors around you, and most professional financial managers.

Unfortunately, an asset only approach likely leaves you “bare naked” when it comes to that obscure technicality known as inflation taxes. If you have a hundred thousand dollar investment portfolio and there is a high rate of inflation in practice – then you WILL PAY tens of thousands in inflation taxes on your attempts to keep up with the rate of inflation - it isn’t optional. Possibly even hundreds of thousands in inflation taxes. Which, grossly unfair though it is, could very well leave you with less real purchasing power than you started with – despite having bet your net worth on an asset investment decision that turned out brilliantly.

As mentioned in the previous reading – I didn’t start out with any masochistic desire to become an authority on inflation taxes. My interest was borne of necessity. Because whenever I combined 1) a high assumed rate of inflation and 2) a significant tax rate; and then looked at results on a 3) after-inflation and 4) after-tax basis – I found

that it was very, very difficult to come out ahead, even with a “brilliant” asset choice.

You need an offset. If unfair government tax policies force you to pay real taxes on imaginary income, then you need to find a way to reverse that situation, and create an offset where you pay imaginary taxes on real income (economically speaking).

If you want to take your level of understanding to an entirely different place, to gain the “out of the box” knowledge you need to protect what you have built, and you want to take action before it is too late -- follow the purchase link below:

<http://mortgagesecretpower.com/Workshop/dvdpm.htm>



Please note that this is a theoretical discussion of taxes from an economic perspective, and is not tax advice for the particulars of your personal situation. For specific tax advice, you should rely upon the services of a tax professional.

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