Profiting from the World's Economic Crisis

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Title	: Profiting From The World's Economic Crisis
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Profiting From The World's Economic Crisis, written by Bud Conrad, comprises 5 main parts and 17 chapters. The 5 main parts include economic forces, financial crisis response, recession or depression, investment opportunities and the summary.

The beginning of this book emphasizes the budget deficit in the US that has caused the increase in debts. The author highlights the spending by the US government of more than what they can afford. The situation has not improved and has got worse, causing the deficit to continue and the currency to depreciate. It has also resulted in the Federal Reserve printing more money for spending in trying to stimulate the economy. However, consumers are spending on foreign goods. Moreover, the impact on investment is that it has become unsafe to hold it in US dollars and investors are trying to switch their investment from stocks and bonds to commodities such as gold and energy.

In all countries, the central bank plays an important role to stimulate the economy such as by providing higher liquidity to the capital market and the money market to help the better use of resources and provide greater liquidity for financial institutions. This action may affect the business environment and cause currency debasement. Unfortunately, financial depression always comes before the action taken such as government regime change, and much less disastrous than a war before it turns into a financial crisis.

In addition, there is an implication of the financial crisis amid the stock market crash. It shows the US dollar has little chance to peg with the gold exchange rate. This should be able to help the banks obtain funding from the central bank and monetize much more debts to the business expansion. In fact, the dislocation of funding causes the resultant out of control of the currency in many developed countries.

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The author also forecasts there are three sectors that will perform well in the future, such as green energy, communication and biotechnology, which provide greater capability to society during the crisis period. In turn, the critical issues related to credit like high level of debt, low interest rate, government deficit, self-dealing political class, foreign holding of the currency will create greater pressure. All these can cause investors' loss of confidence and new systematic shock to the economy. The author calls the interest rate changes "the trade of the decade" because it works against the fundamentals. On the other hand, there is the rising demand for gold amid the loss of confidence in the dollar. This is clear that the rise is not because of the fundamental of gold but the change of the fundamental dollar value.

The essential information in this book is many economists highlight their prescription for what the US president and the Federal Reserve should do. The successful plans should indicate a stabilizing economy such as consumer confidence, retail sales, unemployment claims, risk spreads, and other leading indicators should be rebound away from dangerous levels. In conclusion, countries need to confirm economic recovery after the implementation of the stimulus package by the central bank. However, the author highlights the current situation is not the worst case that is as serious as a crisis from the high bad debt and as this would usually be experienced all around the world.

There are few lessons for investors can learn from the financial crisis, which include the following:

1. **How the economic cycle works**. There are two main measurements of the economic cycle, which are the period of expansion and of contraction. These represent the growth and the recession of the economy. Also, the key factors to the current stage of the economic cycle are gross domestic product (GDP), interest rate, employment rate, and consumer spending.
2. **The market fluctuates with boom and bust**. The fluctuation of the financial market is critical, allowing investors to gain extra profit from the upswing overvalue and loss of money from the undervaluation of assets, which include shares and properties.
3. **Higher risk comes with higher expected return**. During a financial crisis, there will be a higher risk which is associated with higher expected return for all businesses and investments. However, lower risk is associated with lower expected return. This is also called risk and return trade-off which involves investment decision for all the relevant parties such as institutional investors and retail investors.

4. **Be more sceptical of financial engineering**. There are still some minority investors who find it hard to understand investment products. This creates greater possibilities of losses for investors during a financial crisis. Investment products heavily depend on financial alchemy that is purportedly not easily understood by investors

5. **Avoid the high gearing ratio in financing activities**. In any form of business, financing is fine when the market is normal. However, it will magnify a loss during an economic downturn. It also forces the closure of the investment position, making a loss. This is due to the lender losing confidence and refusing to roll-over maturing debt. When the stock market drops, a margin call takes place and forces investors to sell when they should be buying instead.

6. **Portfolio diversification is essential**. With low-yielding government bonds prior to a financial crisis, hedge funds and Real Estate Investment Trusts (REITs) are the most popular alternative investments for investors. Adversely, there will be a huge drop for hedge funds and REITs during a crisis while Government bonds will become very popular. Therefore, there should be negative correlation among the portfolios during a crisis.

7. **Asset allocation is essential**. Most important for the different kinds of investment is asset allocation. This includes shares, bonds, cash, property, etc. The exposure and experience of the fund manager will be the next important in the investment.

Conclusion

In conclusion, an effective investment is not an easy task. It involves a lot of study, and analysis before any decision is made, especially during a financial crisis. ■