DAILY RECKONING

The Trade of the Decade

ADDISON WIGGIN

The Trade of the Decade

Our last Trade of the Decade skyrocketed 293% — here's the single move to make for THIS decade.

Dear Reader,

Studies have shown that allocation decisions are what make or lose the most money. Individual choices — selecting individual stocks or bonds — do not seem to make much difference in the long run. But deciding which market to be in and when — makes all the difference in the world.

An investor would have done well over the past 40 years to pay attention to his investments on the first day of each decade… and otherwise ignore the urge to play around with his money.

He could have made four simple decisions and turned an original grubstake of $10,000 into $297,600. I'll show you proof in just a minute. Then at the end of this report, you'll receive the single best trade for the 2010 decade. It's surprisingly simple to act on. And once set up, you'll be able to sit back and relax — enjoying the government and economy folly as it unfolds. But before I let you in on the play, let me show you how powerful the "Trade of the Decade" idea can be…

All an investor had to do was recognize that by cutting the link to gold in the early 1970s, the Nixon administration practically guaranteed inflation and a higher gold price. Gold traded at an average of $36 per ounce in 1970. Ten years later, the same ounce of gold sold for $615. With no leverage, no stocks, no further research, no headaches and very little risk, he would have made a profit of 1,608%. And he would have paid not a penny of tax on his investment during the period.

But then, on Jan. 1, 1980, things changed. Our investor should have taken note that nothing lasts forever and that there was a new man at the Fed. Paul Volcker meant business. He would drive down inflation rates — and gold — one way or another. It was time to sell. But where to put the money?

Our investor might not have noticed — they do not advertise these things — but Japan Inc. was extremely energetic in the early 1980s. He could not have known at the time, but had he bought Japanese stocks, he would have seen his fortune multiply again. The Nikkei 225 Index rose from 5,994 at the end of January 1980 to 38,916 at the end of 1989 — an increase of 549%.

Had he looked at the facts on New Year's Day 1990, he would have seen it was time for a change. On that day, he should have brought his money home to the United States and invested it in U.S. stocks, At 12.4 times earnings, with the Dow at 2,586, American equities were a good deal. Besides, there were 78 million baby boomers ready to spend and invest as never before… and a friend at the Fed, Alan Greenspan, ready to make sure they had money to do it. Over the next 10 years, the Dow rose to 11,041, for another 426% profit.

"That's well and good," I'm sure you're thinking by now, "but isn't cherry-picking historical 'should haves' and 'would haves' a bunch of Monday morning quarterbacking?"

In a single word answer: Yep.

So we sought to test the ideas, proactively, ourselves. To do it, we went on record with our own "Trade of the Decade" in 2000. We published the simple, single trade in our daily e-letter, *The Daily Reckoning,* and in what turned out to be our New York Times No. 1 best-selling book *Financial Reckoning Day.*

The trade was simple in 2000: **Sell stocks, buy gold.**

Bill Bonner, founder of *The Daily Reckoning,* explains the reasoning of the trade:

> What we were looking for were the extremes. We wanted to buy things that had been so beaten down for such a long time that they almost had to go up. And we wanted to sell things that had been going up for so long that people were sure they were going up forever.
>
> In 1999, gold was perfect for the buy side. It had been going down for 20 years… while other asset classes and money substitutes soared. On the sell side, stocks were perfect. The Dow had been going up since 1982… and prices had reached levels that could be sustained only by delusions and hallucinations.

"It turned out to be a good plan," observes colleague Merryn Somerset in a recent *Financial Timesstory.*

continue…

> In 2000, you could buy an ounce of gold for $280 [the average price over the year]. Now, it will cost you about $1,100. At the time, Bonner saw what most others did not. He saw the U.S. not as an economy carefully and cleverly managed by then-Federal Reserve chairman Alan Greenspan and his passion for low interest rates, but as a massive credit bubble waiting to burst.

Our first "on the record" trade was good for a 293% gain. Combined with the Trade of the Decades of the '70s, '80s and '90s, a simple $10,000 investment invested in January of each of the new decades would have turned into a whopping $297,600. All while ignoring the other years.

So what's next? What's the trade of the coming decade?

I'll turn it over to Bill to explain:

> We've decided not to double down on the identical trade. Gold will remain in our core holdings, but not in our Trade of the Decade for the next 10 years. Why? Because we think the U.S. economy is going the way of Japan.
>
> Japan went into a slump in 1990. It has come out… and gone back in… and come out again… and gone back in again. In terms of the amount of wealth destroyed — at least on paper — it was the worst disaster in human history. The value of real estate went down 87% in some cities. Stocks on Nikkei fell from a high of nearly 39,000 down to the 7,000 range in 2009… their lowest point in 27 years.
>
> Why such a bad performance? As we keep saying, if you really want to make a mess of things you need taxpayer support. The Japanese put more taxpayer money into the effort to prevent the correction than any nation theretofore ever had. The result: The correction was stalled, delayed and stretched out over more than two decades.
>
> And now U.S. economists are looking at Japan… not with alarm, but with admiration. They are beginning to believe that the Japanese model is the way to go… because it prevented widespread unemployment and a deeper slump.
>
> Here's our best guess:
>
> Now that the U.S. economy is caught in the same sort of deleveraging process that gripped Japan, the same sort of "remedies" will inevitably be employed… leading to the same results, more or less.

We'll skip the details for this report. You'll hear plenty of them in your daily issues ofThe Daily Reckoningin the days, weeks and months ahead — promise!

Instead, we'll turn to our Trade of the Decade for 2010. There are, of course, two sides to this trade… the long and the short sides. We had no trouble finding things to put on the short side. In a deleveraging period, almost everything goes down. We could have stuck with U.S. stocks, for example. They'll probably continue to come down… just as they did in Japan.

But who knows? U.S. stocks just had their worst decade since the '30s. What are the odds that they'll have another bad decade? We don't know. But what we look for in our Trade of the Decade for the sell side is something that has just had its best decade ever… something that has been going up for so long people think it will go up forever… something that everyone wants.

What does that describe? The thing that comes closest is U.S. Treasury debt. Yields have been going down (meaning the price of debt is going up) since 1983. And now, despite a supply that seems to be going off the charts, demand for Treasury bonds, notes and bills has never been stronger. What's more… if our analysis of the U.S. economy is correct… the supply of Treasury debt is going to continue to rocket upward for many years. Deficits of $1-2 trillion per year are going to become commonplace.

How long will it be before the market in Treasury debt crashes? How long will it be before hyperinflation… or a debt default… sends investors running for cover? We don't know… but it seems a likely bet that it will happen sometime in the next 10 years.

So on our sell side…we'll put U.S. Treasury debt.

How about the buy side? Ah… that is something we've struggled with. While there are many things that seem likely to go down, there aren't many that seem destined to go up. Let's see, what has been beaten down, dissed, battered and abused for the last 20 years or more? What is it that people don't want? What is it that they expect to go down… possibly forever?

Of course… Japanese stocks!"

continue…

So there is our Trade of the Decade of 2010s: **Sell U.S. Treasury debt/ Buy Japanese stocks.**

There are, of course, many different ways to complete the trade. Without knowing your specific situation, we can't recommend an exact buy-and-sell pair. The easiest thing to do is to visit Yahoo Finance's ETF center and search for funds by typing in "Japan" and "Treasury" in the "Find Funds by Name" field in the upper left-hand corner. From there, you'll mind many different options for creating your own buy-and-sell pair.

We'll write you tomorrow with the latest issue of *The Daily Reckoning*. Until then, happy hunting, and best wishes!

Regards,

Addison Wiggin
Executive Publisher
The Daily Reckoning

P.S. Have you seen any of these coins lately? If you find any of these coins floating around, you may want to begin saving them… In short, we've just uncovered what could be the safest (and easiest) investment idea we've ever found. And it's been hiding in our pockets the whole time. And here's the thing… Chances are — if you've purchased anything in the past 24 hours — you've probably laid your hands on these coins, too. But what you may not know is how valuable they could soon become. What coins are they? And why should you begin hoarding them now? **Click here to find out.**