Massive Wealth Destruction Ahead?

That is the view of one of my favourite investment commentators, Marc Faber.

Of course, Marc Faber is known as "Dr. Doom" so I expect a pessimistic stance from him.

Mr. Faber describes why investor wealth destruction may lie ahead.

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Courtesy of CNBC:

> *Runaway government debts have triggered uncontrolled money printing that in turn will lead to inflation that will decimate portfolios, according to the latest forecast from "Dr. Doom" Marc Faber.*
>
> *Investors, particularly those in the "well-to-do" category, could lose about half their total wealth in the next few years as the consequences pile up from global government debt problems*
>
> *"Somewhere down the line we will have a massive wealth destruction that usually happens either through very high inflation or through social unrest or through war or credit market collapse," he said. "Maybe all of it will happen, but at different times."*

Around the globe, too many governments – national, regional, local – have created huge debt loads and continue to run significant deficits. Given the levels of social welfare payments both now and in the future, generous pensions for public employees, weak economies hurting tax revenues, a disinclination to cut cuts, etc., I do not see these deficits disappearing.

With governments continuing to print more and more money, it has to have an inflationary impact as well as devaluate the currency.

Also, with so many countries in financial difficulty, who will purchase a government's debt issues? In the case of the U.S, the U.S. itself is purchasing much of its own new debt. You do not need to know much about economics to guess that this cannot be good.

What Should Investors Do?

Fallout shelters and survival gear? Perhaps.

Given that Mr. Faber is concerned about inflation, he looks to asset classes that should provide some protection. Real assets – also called hard or inflation protected assets – often meet this criterion.

> *He reiterated both his commitment to stocks and gold, but said investors also can find value in other hard assets, particularly in distressed properties in the U.S. South.*
>
> *"I think that people should own some gold and I think that people should own some equities, because before the collapse will happen, with Mr. Bernanke at the Fed, they're going to print money and print and print and print," he said. "So what you can get is a bad economy with rising equity prices."*

Not bad advice.

My only concern with equities is if economies stay weak, that will hurt corporate earnings and growth. Not good for stocks. However, if inflation does really kick in, prices will rise and that may fuel paper profitability to some extent.