2010: The Best of Times or the Worst?

by Robert Kiyosaki

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“It was the best of times. It was the worst of times.”
– Charles Dickens

Is the recession over? Are happy days really here again? Paraphrasing Dickens, my answer is, “For people who are prepared, 2010 will be the best of times. For many, 2010 will be the worst of times.”

The following are a few of my predictions and reasons behind them…

**Prediction #1:** The real estate market will crash again.
Pictured above is a graph of mortgage resets. In simple terms, a mortgage reset is when a mortgage comes due. In normal times, refinancing was a simple process…but these are not normal times. Some points of interest:

1. In September 2008, the mortgage resets hit $35 billion that month. That was the exact time the financial crisis hit. When people could not afford to refinance and began to default, the stock market and banking industry crashed.

2. The eye of the storm: In the summer of 2009 mortgage resets were low -- around $15 billion a month. This is when optimists began to see “green shoots” in the economy. The green shoots were the eye of the storm. In 2010, as I see it, the second half of the financial hurricane hits. By late 2011, the resets climb to nearly $40 billion a month. The storm will not end until 2012.

3. The first half of the storm was primarily due to subprime defaults. The second half of the storm will hit more solid homeowners. The question is, can they weather the storm? Will Mac Mansion foreclosures be next?

4. In America, there are over 40 million people who own more than two homes. Can they afford to carry and refinance two or more mortgages?

5. Since home values have gone down, many homeowners will find they owe more than their home(s) are worth. Will the bank be kind to them?

6. The time for using your home as an ATM is over. This is crushing retailers and retail real estate. Shopping centers are in trouble. Strip malls are emptying as shopkeepers close -- permanently. This will lead to the crash of the office, warehouse, and other commercial properties.

My prediction: Obviously these are the best of times if you are a buyer of distressed properties and the worst of times if you are a seller.

Other things I am watching for in 2010:

1. Will China crash? America’s crash has hit China in the gut. The Chinese are laying off millions of workers. Only massive government bailout is keeping the economy afloat. The Chinese boom will eventually go bust…but will it bust in 2010? Only time will tell.

2. When America stopped importing from China, China stopped importing from the rest of the world. This affects Asian countries as well as Australia, Brazil, and other suppliers of raw materials.

3. Fed Chairman Ben Bernanke is replacing toxic debt with new debt. By protecting his friends in the mega-banks, he is turning the U.S. into a zombie nation. The recession is over, but America is entering an era we will be calling The New Depression, a period
when the rich become extremely rich but everyone else becomes poorer. Taxes will kill anyone working for a paycheck.

4. The U.S. dollar will grow weaker. If the dollar strengthens, we will have more unemployment because our goods become too expensive and we will export less.

5. The deficit will increase. The bailouts for the rich are killing the economy.

6. Israel may attack Iran. Israel will not tolerate Iran developing nuclear power, even if Iran claims it is for peaceful purposes. If there is an attack, oil prices will go through the roof.

7. Dead cat bounce. The current stock market rally will probably turn into a dead cat bounce. If the Dow drops below 6500, 5,000 may be the next stop.

**The Best of Times**

I know I sound painfully pessimistic. I know my predictions are bad news for most people. Yet, for others, bad news is good news.

The following are the bright spots for people who are prepared.

**Prediction #2:** Gold, silver, and oil will continue to be safe investments in 2010.

The following recaps the year-end prices of gold and silver:

<table>
<thead>
<tr>
<th>YEAR</th>
<th>GOLD</th>
<th>SILVER</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>$ 273</td>
<td>$ 4.57</td>
</tr>
<tr>
<td>2001</td>
<td>$ 279</td>
<td>$ 4.57</td>
</tr>
<tr>
<td>Year</td>
<td>Gold (in millions)</td>
<td>Silver (in dollars)</td>
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<tr>
<td>------</td>
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</tr>
<tr>
<td>2002</td>
<td>$348</td>
<td>$4.78</td>
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<tr>
<td>2003</td>
<td>$416</td>
<td>$5.92</td>
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<tr>
<td>2004</td>
<td>$438</td>
<td>$6.79</td>
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<tr>
<td>2005</td>
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<tr>
<td>2008</td>
<td>$882</td>
<td>$11.33</td>
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<tr>
<td>2009</td>
<td>$1100 (approx)</td>
<td>$17.50 (approx)</td>
</tr>
</tbody>
</table>

In 2009, the Dow rose approximately 18%. Gold rose approximately 25%. Silver rose approximately 50%.

By the end of 2010, I predict gold will be at $1,775 an ounce, silver at $24 an ounce, and oil at $85 a barrel. If Israel attacks Iran, these predictions will be blown away.

**Prediction #3:** The next market to crash will be commercial real estate.

Cash flow positive real estate will be even more affordable. 2010 through 2012 will be a real estate buffet for those with cash and access to credit.

**My Personal Investments**

As I stated in 2002, “You have up to the year 2010 to become prepared.”

The following are things I have done to prepare myself:

1. I started The Rich Dad Company in 1997 because I saw this crisis coming. For the past three years, I have tightened internal controls and prepared for global expansion via a franchise distribution system. The company is debt free with strong income.

2. 2009 was my best real estate year to date. With the Fed handing out large sums of money and pension funds looking for projects to invest in, my real estate holding company has acquired tens of millions of dollars for acquisition of bankrupt properties and development projects. Development projects are affordable again, as labor, material, and land costs are low and the government is generous with 40-year, low interest, non-recourse loans. People still need a roof over their heads.

3. My oil development projects have done well. We drilled three wells and hit oil on two of them. Government tax breaks for oil exploration remain generous, even for dry holes. Even if the economy crashes, we will still burn oil.

4. I took 90% of my money out of the stock market in 2007. If the Fed raises interest rates, the stock market and real estate market will collapse.

5. I loaded up on gold and silver between 1996 and 2004.
6. With the Fed printing trillions of dollars, cash is trash and savers are losers. As soon as I have excess cash I invest in oil, real estate, gold, and silver.

7. In a zero-interest-rate environment, debtors are winners…but only if you have good debt…debt that’s paid by tenants.

**In Conclusion**

A few years ago, Japan was ‘King of the Financial World.’ Japan’s economy was the world’s second largest economy -- till the bubble burst in 1990. Japan’s budget went into deficit in 1993. Since then, the deficit has averaged 5.4 percent of GDP per year. As a result, Japanese government debt is now 200 percent of GDP today. The U.S. is following Japan, and China will follow the U.S.

We will not see much inflation because the Fed is not able to print enough money to replace the losses from the burst of the credit bubble. Also, factories have too much excess capacity due to lack of demand, which means prices for consumer goods will remain low and unemployment will remain high. Instead, we will see inflation in gold, silver, oil, some stocks, some real estate sectors, and food -- not because values are going up but because the dollar is going down.

Welcome to The New Depression. And may these times be the best of times for you.