Peter Schiff on Investing
Guest: Peter Schiff
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Peter Schiff is CEO and Chief Global Strategist of [Euro Pacific Capital](), and the author of numerous books, including* Crash Proof 2.0, The Real Crash*, and* How an Economy Grows and Why It Crashes *(with Andrew Schiff). Every weekday he hosts the [Peter Schiff Show](), where Tom is a regular fill-in host.

WOODS: I solicited questions for you from some of my folks and, filtering out the "ask Peter why he's so awesome" questions, of course, we have to get to the most important question of all: when are you going to host the Tom Woods Show?

SCHIFF: I don't know. When do you want to have it hosted?

WOODS: We'll see. We'll see. All right.

SCHIFF: I have a hard enough time hosting my own show these days.

WOODS: Yeah. I don't know how you do a two-hour show every day. You make it seem easy. I've got to concentrate every minute I'm on there to make sure I'm on my game.

SCHIFF: It's easy to do a show when I'm sitting in a chair. The problem is, I travel, I have other commitments, and that's when it gets difficult.

WOODS: Yeah. Well, you have a stable of people to fill in—I think I'm going to commit to do February 5, so that'll help you at least one day. So anyway, suppose you're talking to somebody who, I don't know, has $25,000 to play with and yet knows nothing whatever about investing. What does that person do?

SCHIFF: Well, they can certainly allow somebody else, like me, to invest it for them. At least they knew enough to save the $25,000 and not blow it. But the key is to try to make it grow so that when you save $25,000, it doesn't just sit there. It grows in purchasing power. Especially today, because if you just leave $25,000 in the bank, you're going to earn nothing in the way of interest. Meanwhile, the government's going to make sure that consumer prices go up so that your $25,000 loses purchasing power. They'll also try to make sure that asset prices go up. So if you want to buy an asset, that's going to be more expensive, too. So you can't just leave your cash lying around. You have to do something with it. I would certainly recommend that you invest it with me and we've got plenty of products, mutual funds, for somebody, for a small amount of money like that—my mutual funds, the minimum investment is just $2500. I've got nine to choose from, so people can look at the strategy that's right for them or they can even go with a combination. At my brokerage account, we actually have managed accounts where we can manage you, although I think the minimum is $50,000 for a wrap account for us to manage the portfolio within my family of funds, but people can certainly choose the funds that they like and invest in them.

WOODS: Dave Ramsey used to say, I don't know, 10 years ago, as part of his basic advice, you've got to get out of debt, and then you've got to take your money and throw it in a mutual fund. Then he would dazzle the audience with the miracles of compound interest by saying, now look: if this mutual fund is giving you a 12 percent return every year, you're going to be a gazillionaire by the time you retire. What kind of return can somebody in this day and age, in 2014, seriously expect?

SCHIFF: Well, in the stocks that we are buying, when you take a look at the dividend yields that we are able to collect, it wouldn't be that difficult to have returns of that magnitude, especially if you don't factor in inflation. If you factor in inflation, then obviously the real returns are going to go down. But central banks all around the world are creating a lot of money, and so it's not even about the money you make, but it's the losses that you avoid by not having your money in cash. In fact, if you look at all the articles that are being written now and the speeches by the Fed members, the greatest concern that the central bankers have is that there's not enough inflation. They're worried that prices aren't rising fast enough and they're going to protect us from the threat of prices that aren't going up fast enough. So you're going to lose a lot if you don't invest money. Although I might discourage people from necessarily paying off debt indiscriminately because if you do have a lot of inflation, well that wipes out your debt, so you don't necessarily want to go out of your way to pay off debt. There's certain debt, credit card debt and high interest rate debt, that you definitely would want to pay off but people that have a 30-year fixed-rate mortgage, if they've got it fixed at four percent, I wouldn't be so quick to pay those loans off. Or student loans. Student loan interest rates are extremely low. I wouldn't be in a hurry to pay those off. In fact, there's a good chance that the government's just going to have a bailout for student loans, just forgive them. So, you know, why be the guy that pays it off? I would rather take the money and do something more productive with it.

WOODS: Well, now how about this concern. Anytime you're involved in investing, there are risks. There are no guarantees in this world. But now, because of the activities of the world's central banks, there's a whole other risk element that's introduced. Yeah, it's true that if I sit on the sidelines I'm going to lose my money because its purchasing power will be eroded, but if I get into stocks, then they can get pumped up by central banks and then I can take a real hit when the bust comes. So you begin to wonder: what path should I take? What is the safest way to go?

SCHIFF: Well that's why, when you look at stocks, they're not all the same. I like to buy stocks that are really like hard asset investments. I want to buy companies that own resources and raw materials, assets around the world. I don't want to pay a very high ratio, P/E ratio. So I'm not going to buy the Twitters of the world. These are where people are really gambling. But the Federal Reserve, through its monetary policy, is forcing people to gamble, because you can't just sit in cash. You used to be able to just buy a CD and play it safe and earn a five percent or six percent return. And say look, I don't want the ten percent or the 12 percent. I don't want to take the risks that come along with that. I'm happy to sit around and get five percent or six percent. But you can't do that anymore because that option is no longer available. In fact, if you sit in cash, not only won't you get your interest, but the value of the money principal's going to go down because inflation is going to rob you of your purchasing power. So you're being forced to do something, which is part of the Fed's plan. They want to force people into the stock market, into the real estate market, as speculators, because that's their plan to revive the economy. It's to juice these asset bubbles so that we all feel richer and we can go out and borrow more money because now we have collateral that we can pledge to borrow money, and now we can go out and take that borrowed money and spend it almost as if we'd actually earned it. So then we can have this whole phony economy based on ever-increasing asset prices because nobody's going to save. But of course, we all know, from economics, that the real root of economic growth comes from savings. That we need underconsumption to finance the capital investment that grows the economy, that leads to greater production of goods and meaningful jobs. Instead, the way the U.S. economy works is we use our inflated asset values, and borrow money from foreigners to buy the products that they made. So that we don't actually need to grow the economy to consume, we just need an asset that we can leverage.

WOODS: Let me give you a scenario. Let's suppose you're 30 years old and you've got two hundred grand in the bank. What percentage of that would you hold in cash?

SCHIFF: Very little. You know, I hold very little cash myself. I mean, I have cash to help run my businesses, so I have operating expenses and I have regulatory capital that needs to be kept in dollars, but most people don't have that. I mean, if you're a 30-year-old guy, I wouldn't have any more than six months to a year's worth of expenses in cash. I'd make sure I had a little cash to cover my rent or cover my mortgage, if you have a mortgage, but I would keep very little in the way of cash because it's just going to lose value. I mean, I would rather buy the things that I think I'm going to need next year. Not things that are likely to go on sale. I mean, I just went shopping yesterday at The Gap and I bought a couple shorts that were 85 percent off, and I paid six dollars for $40 shorts and I got some stuff at 75 percent off. But things, staples, you know, things that are just going to go up in price. Basic goods are going to get more—I'd rather store those in my basement than have money in cash. Even those forever postage stamps are probably better than having cash. I mean, the Post Office just raised the price of the stamp by 6 1/2 percent. They'll probably do another 6 1/2 percent next year. But everything is getting more expensive. So why would you want to hold onto cash?

WOODS: Cash seems riskless but of course there is the risk—more than a risk, a certainty—that the purchasing power will be eroded. But a person may think that the erosion of the purchasing power is not great enough to justify throwing it in a mutual fund and crossing his fingers. I'm just trying to think about the average person.

SCHIFF: Well, it's not just crossing your fingers if we're doing it strategically. But you don't necessarily have to be in a mutual fund. You could buy gold or silver. You can even buy foreign currency. But I prefer, as long as you're going to just not get any interest, you might as well buy gold or silver. I mean, people think, well, gold can go down, because it went down 28 percent, or whatever it did, in 2013. Well that's the first year in 13 that it went down. The other years have been up years. I think the odds are pretty good. In fact, the odds that 2014 is going to be a down year for gold I think is pretty slim. So I think that if people are worried about losing their purchasing power in dollars, they can certainly hold their purchasing power in gold or silver and, years from now, I think they'll be able to buy a lot more stuff with their gold and silver than they will with their dollars.

WOODS: You know, Peter, I hesitate to ask you a question that you're probably asked an awful lot. It has to do with the thinking behind a strategy that involves foreign investments. The argument you hear all the time is that, well, these foreign governments are just as crummy, if not crummier, than the U.S. government. So why would we give them preference?

SCHIFF: Well, they're not just as crummy. There are some that are and we avoid those countries. We try to invest in the countries where the governments are the least crummy. Right? Where the economic fundamentals are the best. So none of the countries are perfect, but we're a lot further from perfection than the countries that I'm investing in. And the idea is, most people don't want to just have all of their money in gold. So foreign stock portfolios give you the exposure of the stock market, they give to the dividend yields associated with stocks—you don't get any income from your gold investments, so to the extent that you're sitting on gold, you're giving up the opportunity to earn a return, a cash return. But when you own stocks that pay dividends, you get that, and you also get the currency effects. If you're buying sounder economies where they have budget surpluses and their governments have trade surpluses, high savings rates, these countries are going to have appreciating currencies relative to the dollar. You get some of that inflation hedge in the foreign exchange. You get the hard assets that these companies own. But we're not the cleanest shirt in the hamper. You know, everybody likes to say, oh yeah, we've got problems but everybody else's are worse. No, they're not. There are plenty of countries that are lending money. I mean, that's the reason we can borrow. Somebody has to be doing the lending. There are plenty of countries that are actually producing consumer goods in abundance because they're here, they're on the shelves at Walmart. They had to get there somehow. Some economy had to produce that stuff. So there is real production. There is savings and underconsumption going on and there is real economic growth going on on the planet. And I want to participate in that. I don't want to simply be in gold and just hope that everything collapses to make my gold portfolio go up. Even though I believe that these bubbles are going to burst, I don't want to have all of my eggs in one basket. And even if I'm wrong—I guess there's always the chance that I can have this whole thing wrong and maybe Ben Bernanke is a genius and everything he did was exactly what we needed and maybe I'm wrong—that doesn't necessarily mean that buying quality stocks outside of the United States at good prices with good yields is going to be a bad idea. I can still make money even if I'm wrong. I just make a lot more money if I'm right but I don't necessarily lose. But if you put all of your money in gold and then we're wrong and everything is great and gold goes way down, then we just lose. Right? So I'd rather have a portfolio that can do well if I'm wrong but still do really well if I'm right.

WOODS: This brings to mind another listener question: let's suppose the language barrier is not an issue and you have no residual attachment to a particular country. You are just impartially looking at the whole world. Where would you live?

SCHIFF: Well, I haven't been around the whole world and so I haven't lived in all of the different countries. I've traveled a bit and there are countries that I like. I think that countries that have the most amount of freedom is, you can look in Asia or even some of the countries in South America, not all of them, look at Chile or look at Peru or obviously Singapore in Asia and even some of these smaller countries where there's a lot of opportunity, even in the Middle East. You could be in Dubai. New Zealand is a great place to be. There are places where there aren't as many regulations. You could go to even Shanghai in China. There are countries where people can go if you're young and entrepreneurial and you want to be able to build something and you don't want to pay these high taxes. There are countries where you do have more economic freedom, more opportunity, to create wealth. They're here. There are people that are making fortunes in the United States but they're few and far between. So the odds are stacked against you over here. So people can tilt the odds by being in other countries. And it's even going to get worse when the economic bubble bursts because some of the people that are making money in the U.S., maybe they're starting some dot-com companies, some social media company, that's not actually generating a profit but they can sell stock. So eventually, that window's going to close when the bubble bursts. So you'll have to actually come up with a profit-making business to get rich in America. The government makes it harder and harder to do that.

WOODS: Well, back in the U.S., where do you think the housing market is right now? And where do you see it going, let's say a few years from now?

SCHIFF: Well, I think the government has managed to reflate the housing bubble, which was their goal but it's a different type of bubble than it was before. Before, everybody was buying. Poor people were just stretching to buy houses they couldn't afford. They were taking all kinds of crazy mortgages to get into these homes. That's stopped. You know, buying large. There are still some people that are getting 3 1/2 down with FHA-type loans. But homeownership rates have plunged. They're at maybe a 20-year low now. So a lot of people who were buying homes they couldn't afford are now renting, and they're having to deal with rising rents, which is a big problem. But the new buyers are the hedge funds, the private equity funds, that used to be buying stocks, now are buying real estate. If you look at December sales figures, for December 2013, nationwide about 42 percent of all the homes were bought for all cash. In places like Florida, better than 60 percent of the homes were purchased for cash. These are not homeowners who are going to live in their houses. These are not even people who are buying vacation houses. Nobody pays all cash for a $200,000 or $300,000 house and then lives in it. If you have $300,000 and you're going to live in a house, you're going to use it as a down payment for a million-dollar house. You're not going to buy a $200,000 house. These are speculators. The average American, if he's going to live in a $200,000 house, he's lucky if he can scrape up $20,000 for a down payment. So these are speculators. And where are they getting the money to buy these houses? Well, they're getting it from investors or they're leveraged up. They can borrow money at 1 1/2% and maybe even cheaper. Some of these funds have really good inroads into the cheap money. They can borrow a lot of money and go pay cash for these houses, and they're planning on renting them out or planning on flipping them to some other hedge fund for a profit.

But eventually this is going to blow up. They're overpaying for these houses. They're dreaming if they think they're going to find tenants, because most people can't afford to pay a rent that would be adequate, even with today's interest rates, let alone a rise in interest rates, people generally don't want to rent a single-family home. There's too much headache there. They generally want multi-family. They want an apartment. They don't want a house with a yard and all those hassles. Some people do. But I also think it is going to be very difficult for these hedge funds to manage these properties. What do they think? I think they're going to have a lot of problems with the tenants. They're going to have a lot of problems with repair bills. They had no idea, in many cases, what they purchased. They come in and they swooped down and they buy up all these homes at once and they're not going to know what the problems are until they get a tenant in there. And then the tenant comes in and says, oh, this is wrong and that is wrong and all of a sudden they're going to blow a year's worth of rent on maintenance. So I think this is going to be a big disaster. The Fed is trying to keep it going with cheap money, but the housing market's going to come down. And the only reason it won't come down is if the Fed just refuses to allow rates to rise, in which case the dollar will come crashing down instead of the houses.

WOODS: Peter, let's shift gears just because I know we're low on time. So many people, when I solicited questions for this program, were curious about your father. And maybe it's a sensitive subject. But can you tell us what exactly he got in trouble for? Was there some way that he could have done whatever he was doing and avoided getting in trouble? What's the deal and how is he?

SCHIFF: We really don't have enough time to get into all of that. But my dad has been on a crusade since the mid-'70s or early '70s, to kind of force the U.S. government to obey the law with respect to the collection of income taxes. Through his research, he concluded on his own, that there is no legal requirement to pay income taxes, that the way the code is written, the income tax is based on voluntary compliance. And it's voluntary for a reason, because if it were mandatory, it would be illegal. It would be unconstitutional. He's read all of the Supreme Court decisions that bear on it. He is an expert on the case law. He thoroughly understands, at least from his perspective, so he hasn't filed tax returns or he's filed tax returns claiming zero. But he never did it in a way to be sneaky or deceitful. It's not like, most people believe they owe income taxes and then maybe they lie. They misreport, they don't report all their income or they inflate their deductions, they hide their money, they try to figure out how to not pay the taxes. Well my father basically said, I'm not paying because I'm not required to. The government's breaking the law. And he goes on television, he goes on radio and he says, I'm not paying my taxes and here's why. So he is not hiding anything from the government. He's in the government's face saying, I'm not required to pay and neither is anybody else. And there were a lot of people for some time that were following my father. He wrote a bestselling book, *How Anyone Can Stop Paying Income Taxes*. It sold a couple hundred thousand copies. He wrote other books; he's probably sold half a million books in total. And a lot of people were following his advice, so the government had to do something about it. They had to discredit him. They had to shut him up, and he spent probably the majority of his last 20 years, or 25 years, in jail. I mean he's been in jail now for almost eight years. He's been in and out a few times. The first time he went was like 1980, '81, then he was out and it was only like six months and then he was in again for five years or so in the '90s. And now this most recent, this eight-year stretch, he got 13 years this time.

But the amount of taxes that he supposedly evaded, the amounts are very small. The majority of the money that he theoretically owes is interest and penalties, it's not the actual tax. I mean, I've paid more taxes every year than my father evaded over his entire lifetime, according to the government. So you figure they can give him credit for that. But no, I mean, he's really a political prisoner. I don't think he's done anything wrong. I don't think there's any evidence that he's done anything wrong. You can say that my father was mistaken. On most of his beliefs, I don't think he was mistaken. I think he's actually correct, and I've talked to a lot of lawyers and judges who even that said they agree with my dad, but they just said, well, the government's not going to let him get away with it because there's too much at stake. So I think there's a lot to be said about his being right on his issues, but even if you approach it from the fact that he's wrong, he is mistaken, he's misreading these court cases, he doesn't understand the internal revenue code—if you just say that he's made a mistake, well, that's not a crime. It's not a crime to be wrong. If you have a good-faith belief that what you're doing is right, that you're not breaking the law, then that's not a crime. It's not supposed to be a crime. It can be a civil. You can have to pay a fee, a fine. The government can try to collect the taxes anyway. But they can't just put you in jail.

But the thing with my father is, his most recent trial—and you put that in quotes because it's more like a star chamber—but the government didn't even have any witnesses to testify against him. They didn't even have any evidence that they could submit. They just basically say, he hasn't paid his taxes, so send him to jail. And they don't even put any evidence, any witnesses. And if my father tried to put evidence up on his behalf, they just refused to allow him to submit it. It's all: you can't admit that, you can't admit this. They basically don't let you put up a case. And the only people that you have on the jury are people who have never been audited. Most of them, because if you've been audited, you can't be on a jury for a tax case. Now that's going to let almost every small businessman, you can't be on a tax case. Who's there? Retired teachers. People on Social Security. And then they get all these to jurors and they say, if you acquit Irwin Schiff, the government's not going to have the money to pay your Social Security benefits. So you'd better convict him, otherwise you're going to be out on the street eating cat food. So they basically stacked the jury, the prosecutor lies to the jury and then the judge lies to the jury, and basically says, he is guilty. Convict him. That's basically what happened if you read the transcripts. So there's no real justice. He's a political prisoner, the same as they have political prisoners in other countries. He is there because it's convenient for the government to keep them there because the government wants to shut him up.

WOODS: Well, this most recent time that he was put in jail, how long has he been there?

SCHIFF: He's been there eight years. They said it was a 13-year sentence so he's got, whatever, four more years left. And he is 86.

And you know, the funny thing—I mentioned this on my radio show today—is that people want to know about government health care: my father's got government health care because he's in a prison. So he had a problem, he had to go to the emergency room because he had some pain, like a boil had just come up on his leg, and he had to sit in the emergency room for 18 hours before a doctor even saw him.

WOODS: Unbelievable.

SCHIFF: The prison system is a disaster. And they don't keep them in a prison that's anywhere near where his family is. They make it very difficult for him to get visitors. There's plenty of prisons within driving distance of all of his family, yet they won't let them go to one of those. So he's in Dallas, Texas, and they just transferred him there not too long ago because he was in Indiana. But you'd think they'd put him in a prison in Connecticut or New York or New Jersey. No, no. Why would they do that? Why would they make it easy for his children and grandchildren to visit him?

WOODS: Yeah. And you get the feeling that if he were a murderer, they probably would.

SCHIFF: Well if he were a murderer, he would've been acquitted. They had no evidence. I mean if they don't have evidence against you, and if he was a murderer, he would've had a fair trial. I mean the government doesn't give a damn if a murderer goes free. But if a tax protester goes free, that's scary.

WOODS: Peter, we're out of time, but I appreciate your being with me and taking some listener questions. We all love watching you on TV, smacking the bad guys down. Keep on doing that. I hope everybody's tuning in for SchiffRadio.com, Monday through Friday, 10 to noon Eastern. Where are you going to get better listening than that? Thanks again, Peter. I appreciate it.

SCHIFF: Thank you. Thanks again for hosting for me when I'm not around.