Stagflation Coming In 2010! How To Cash In On The Worst Inflation Since The '70s

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By Sean Hyman

Investors are in for a rude awakening this year.

The fact is we are about to enter a very strange, rare period in financial history. If the past is any indication, this new period in history will affect every investment you place this year. But unfortunately, most investors have no idea it's coming yet.

It's called stagflation – something we haven't seen in the U.S. since the '70s. But it's very likely we will see it again later this year.

Let me explain. You see, economies usually react to market influences in two ways. Either economies expand and spur inflation or they contract and encourage deflation. But stagflation doesn't fit neatly into either definition.

Instead, stagflation happens when you have declining or stagnate growth in an economy and high inflation at the same time. Hence you have stagnation with inflation or "stag"-"flation."

Why Stagflation Is So Dangerous to Your Wallet

If you lived through the 1970s, then you already know how dangerous stagflation is. In fact, even if you knew nothing about economics in the 1970s, you undoubtedly still felt the effects of stagflation.

What does stagflation do? As I mentioned, stagflation happens when there is no growth in an economy. If there's no growth, then there is no reason for companies to grow and expand. That means they won't create more jobs or give big raises.

But at the same time, inflation keeps rising, so everything you need to buy costs more. So your cost of living continues to soar, but there are no new jobs or raises to support those new expenses.

But how can that be? I think Wikipedia explains it best. See what they say below:

...Stagflation can result when an economy is slowed by an unfavorable supply shock, such as an increase in the price of oil in an oil importing country, which tends to raise prices at the same time that it slows the economy by making production less profitable. This type of stagflation presents a policy dilemma because most actions to assist with fighting inflation worsen economic stagnation and vice versa.

Secondly, both stagnation and inflation can result from inappropriate macroeconomic policies. For example, central banks can cause inflation by permitting excessive growth of the money supply, and the government can cause stagnation by excessive regulation of goods markets and labor markets. Together, these factors can cause stagflation.

The second paragraph sounds familiar doesn't it? It definitely sets off warning bells for me considering that is exactly the environment we are living in right now.

Technically, the Charts Are Predicting Stagflation Too

Need more proof? All the charts are also predicting stagflation right now.

Just this past month, the U.S.

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