

**THE**  
**SECRET POWER**  
**WITHIN YOUR**  
**MORTGAGE**

Use Historically Proven Methods To Protect  
Your Net Worth Against A Fall In The Dollar &  
Prosper During Inflationary Times - Updated  
With Modern Hedge Fund Techniques &  
Optimized With Your Insider Knowledge.

**By Daniel R. Amerman, CFA**

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*(This is for the full book, not this Sample Chapter)*

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The Secret Power Within Your Mortgage

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## CHAPTER ONE

### PREPARING FOR ROUGH WEATHER

We've seen it happen before, just a few decades ago. The United States dollar under assault because of domestic budget issues, and international trade concerns. Inflation skyrocketing over the course of the 1970s, and reaching an annual peak of 13.5% per year by 1979-1980 (1-1). The price of oil soaring. The Dow trading below the peak of 1,000+ reached in the 1960s for the entire decade of the 1970s, with negative stock returns on an inflation-adjusted basis. Repeated recessions racking the economy, as the word "stagflation" entered the national vocabulary. Every year the dollar worth less as prices continued to soar, and savings continued to erode.

The turmoil was devastating for many industries, but few were harder hit than savings and loans, savings banks, and many of the smaller community-based commercial banks. Mortgage lenders had been following the old four, five and three rule – pay four percent on passbook savings, lend on thirty-year mortgages at five percent, and

be on the golf course by three o'clock. These financial institutions were completely unprepared for what would happen when the short-term interest rates they had to pay for money would rise above 15%, even while the amount they earned on their mortgage investments remained at 5%. The shortfall bankrupted many financial institutions, as they tried to carry over \$2 trillion of mortgages (2006 dollars) with an average interest rate of more than 5% under the current market rate. (1-2).

Something else was happening as well, something remarkable, and something rarely discussed. Tens of millions of homeowners were turning losses into gains, and reaping the full benefits of the \$2 trillion in below market mortgages held by the financial institutions. These benefits would stay with these homeowners for decades to come, and indeed, still form the basis for the much of the net worth of many millions of people today, particularly retirees. Put simply, when you buy a \$15,000 house with a \$12,000 mortgage, and inflation increases the value of the house to \$100,000, while the mortgage amount is slowly dropping – the mortgage borrower does very well. In a rare turnabout from the usual situation, the little guys won – and turned troubles with the dollar and the economy into the financial opportunities of their lifetimes.

This time of troubles for the economy is now a distant memory for most older and middle-aged people, and a mere historical footnote for younger adults. However, in the early years of the 21st century, many people are concerned that a time of new trials for the value of the US dollar is coming upon us, as the result of the convergence of a number of factors. There are many thoughtful

people who are quite concerned about the safety and stability of the United States dollar, of the financial system itself, and of the possibilities for a return of substantial inflation or even stagflation.

The intertwined budget and trade deficits are a major concern for many of us. There are numerous Americans who strongly believe in seeing a prudent government that spends no more than it takes in. They want to see the value of the dollar protected, to avoid a situation where even paying the interest on the national debt becomes an increasingly difficult burden to bear. Instead, they must watch helplessly as politicians move the other direction, running up huge budget deficits.

It does not take anything more than common sense to be terribly concerned about what is happening with trade deficits. Massive annual trade deficits totaling almost three quarters of a trillion dollars (1-3) are being run with the rest of the world, most particularly with Japan and China. While it may serve their short term interests for these nations to finance our trade deficit through the purchase of dollars, we have to ask whether they will necessarily continue to do this over the decades to come? The danger is doubled because of the peculiar way in which international capital flows work. Other nations have been keeping the prices low on the goods they sell to us by keeping the dollar high, and they've been keeping the dollar high by buying US Treasury bonds. This means that it is our trade deficit that has been financing our budget deficit. If this inherently unstable relationship ends, then there may be a one-two combination punch to the economy, with inflation rates soaring upwards even as the dollar spirals downwards.

Another concern has been the massive amount of liquidity that has been pumped into the system from the Federal Reserve and other central banks over the last several years. Yes, this has been successful in averting a recession after the popping of the tech bubble – but at what long-term cost? The world has been flooded with cheap and easy dollars, and what will that ultimately do to the value of the dollar?

(As you read through these concerns, keep in mind that we are not predicting what will surely happen, but discussing what reasonable people think might possibly happen. This book is about hedging, not speculation. The reason you hedge is that you don't know what the future holds, so you try to protect yourself against a variety of possible futures.)

Adding to the concerns, has been the explosion in the dollar value of the financial derivatives markets. With a nominal value of derivatives contracts outstanding of \$445 trillion (1-4), these esoteric financial contracts are more than 9 times the size of the actual total global economy of about \$47 trillion (1-5). We know these contracts can be quite dangerous, with the financial system already having had one close brush with disaster with the collapse of Long Term Capital Management. Yet, we do not even know just what the true risks are to the system – no one knows. For, this massive experiment with the world monetary system is an essentially unregulated one, run by a small group of self-interested market insiders, who have been racking up enormous personal profits even while resisting all calls for

more regulation and disclosure. There are those who fear that the foxes are not only in the henhouse – they're running it.

The United States and much of the rest of the world are also facing another series of unprecedented experiments, which are coming on fast. These experiments are demographic experiments and they can collectively be called The Great Retirement Experiment. We are simultaneously going to be funding unprecedented amounts of Social Security and Medicare payments, even as we place unprecedented demands on the pension system, even as unprecedented numbers of people worldwide try to simultaneously liquidate their personal stock and bond portfolios. More fundamentally, we are going to be shifting the ratio of workers to retirees, even as we shift the ratio of investment buyers to investment sellers. Each one of these experiments is unprecedented in their scale, and the world has seen nothing like the combination of all these experiments together (1-6).

There are also concerns that the inflation and recession combination seen as a result of OPEC's actions in the 1970s is but a pale precursor of what will happen if and when Peak Oil does indeed come upon us in the coming decade. For if the accessible supply of oil that we depend upon for everything from transportation to our food supply cannot keep up with rapidly growing demand – everything goes up in price, as we bid amongst ourselves, the Asians, the Europeans and the rest of the world for what is available. This time around (if it happens) it will be upward spiral in price that won't end unless and until a genuine substitute for oil is found.

Perhaps most important of all, is the consideration that none of these experiments or challenges are happening in isolation. Instead, we have unprecedented budget deficits, unprecedented trade deficits, the financial derivatives experiment, the Social Security experiment, the Medicare experiment, the cashing out the Baby Boom's investments experiment, the pension experiment, and possibly the Peak Oil experiment – all happening simultaneously. If even one of these challenges or experiments goes wrong, the financial results could be devastating for the value of the dollar, and the value of many people's investment portfolios. If several go wrong together – then we could see a degree of financial turmoil that would make the 1970s and early 1980s look calm in comparison.

The question for many millions of people who see these challenges, and are quite rightly concerned about them, is – what can we do? The Boomers are simultaneously investing for retirement in huge numbers through their Keogh's, IRAs, and pensions, and have been bidding up the prices of many asset classes at the same time. This makes it very difficult for individual investors to find a low-priced investment to buy. Stocks appear overvalued, with dividends below the rate of inflation. Bonds bear irrationally low interest rates compared to current inflation levels. Residential real estate markets appear to be in the midst of a hangover. Precious metals are fine for preserving wealth, but they generally don't really earn anything. With all the boomers investing at the same time today and then ever-increasing numbers of them selling at the same time in the future, how do you step outside that cycle? How do we protect ourselves against inflation? Against risks to the dollar and to

the financial system? How do you protect yourself if you plainly see risks that are not reflected in current investment pricing?

The answer to this question, can very much depend on the type of investor. For the average individual investor, the problem is that all you can do with investments is buy them. If an investment is priced too high, you just don't buy it. Which is a truly difficult dilemma, if you are in a market situation, like many people believe we currently are in, in which most investments are overvalued, with irrationally low risk premiums.

For the professional investor, the institutional investor, or the hedge fund, such an environment of overpriced securities can spell opportunity. Because many major investors can do something that individual investors find difficult, and that is to go "short" investments. We will simply explain what is meant by "short" in Chapter Four, "Hedges, Shorts, Sleds & Bicycles", but for now just remember that going short an investment means that you make money when the investment goes down in price, rather than rising.

Indeed, the ability to make money when investment prices fall is what separates hedge funds from many other types of investors. Hedge funds play both sides of the market, and will often go "short" some investments which they consider to be overpriced, while simultaneously going "long" (purchasing) other investments that are correlated in some fashion to the investments being shorted.

In general, individual investors can only wishfully look at the kinds of strategies that hedge funds enter into, because it is both

difficult and expensive for the average investor to enter into a short position. This is particularly true over lengthy periods of time, as conventional short positions tend to be expensive to maintain. Many types of shorts are effectively impossible within the investment restrictions of for instance, a typical Keogh plan. There is however one very important exception, and that is the subject of this book.

It was this exception that was key to the more than \$2 trillion in financial advantages (in 2006 dollars) that tens of millions of homeowners ultimately enjoyed as a result of the financial turmoil of the 1970s and early 1980s. It is the same exception that may very well be the key to your own financial prosperity over the next decade or two, if we do indeed enter another time of inflation and economic turmoil, where the value of money itself is rapidly eroding.

The purpose of this book is to take the same benefits almost unintentionally realized by tens of millions of homeowners in the 1970s and 1980s, and make those benefits available to you on an entirely intentional basis. Through increasing your knowledge and understanding, we will unlock the "Secret Power" within your mortgage, and thereby enable you to reap three distinct kinds of financial benefits.

The first benefit you will explore is a financial strategy that will enable you to not just withstand inflation, but to prosper with a fall in the dollar. We will show how judicious use of your mortgage can give you the power to financially survive in potentially troubled future economic times. In Chapters Two through Five, we will revisit what happened thirty years ago, and discover the real sources of wealth

that worked for so many people. We will simply explain “hedgies” and “shorts”, discuss the portfolio and lifestyle protections that can be found through genuine hedging, and then explore the basics of setting up our own home mortgage hedge.

The second benefit is that you will find the knowledge to separate your mortgage from your home, which will enable you to use your mortgage to set up your own investment hedge strategy. In Chapters Six through Ten, we will look at blended asset and liability portfolio strategies, and explore how these strategies can thrive if inflation rises sharply in the future. We will also discover the unique advantage of using our mortgages as a portfolio hedge under non-inflationary scenarios, and why our downside is limited even if the economy and dollar thrive in the future. Putting it all together, we will see how the superior performance of this unique hedge can protect us across a variety of future inflation and interest rate scenarios.

The third benefit is that you will learn how to utilize your own insider knowledge about your place in life. “Insider knowledge” because mortgages are offered on generic terms, but you are unique. Where you are in life, your age, plans and career, all of these factors can dramatically affect the financial characteristics of your mortgage hedge. Which thereby gives you the power to essentially legally trade on and profit from insider information that only you have. In Chapters Eleven through Fourteen, we separate hedging from speculation, determine wise mortgage exposures for prudent financial planning, and look at how you can optimize your mortgage

hedge to correspond with your place in life, whether it is young and stable, middle aged and mobile, or already retired.

Finally, in Chapter Fifteen, we will go beyond the three benefits, to briefly discuss taking the concepts covered in this first book to the next level. To use the combination of cash flow generating properties such as duplexes, apartments or other commercial properties, combined with carefully structured mortgage borrowings, in order to construct our own "Reality Hedge", that is long Reality (in the form of real estate) and short the Dollar (in the form of the financial markets). A hedge that cannot only be lucratively profitable in its own right, but is negatively correlated with most other investment portfolios. This unique ability to offset systematic risks makes such a "Reality Hedge" invaluable for high net worth investors, or people seeking to become high net worth investors.

For the average person, his or her home is the single most important asset in his or her life. For most people, the mortgage on that house is the single most important financial obligation they have. Yet, the norm is to put more time into trying to understand a stock that we will purchase for \$5,000 or \$10,000 and hold for a year or two, than we do into understanding a \$200,000, \$300,000 or much greater liability (our mortgage) that may dominate our finances for decades. This book aims to change that, and to do so in such a way that you can directly benefit.

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To continue reading this book, click on this link and go to [MortgageSecretPower.com](http://MortgageSecretPower.com) where you can purchase a copy of your own. An alternative, if you would like to read some more of the book first, you can sign up for the free mini-course "Turning Inflation Into Wealth" with the details being available at the website above. Your best option is to both sign-up for the course and buy the book. Because the course contains quite a bit of material not in the book, that may help you to make some important connections, that can be of substantial financial benefit. However, what the course lacks is the thirteen chapters of detail on the best ways to safely and practically optimize the particulars of the strategy in the book. The risk-reward analysis on the book purchase is summarized below.

### **Your Risk/Reward Analysis**

The risk to you is that one or more of the financial storms currently on the horizon do strike the economy and the dollar, with potentially devastating results for your net worth. The reward for you is a historically proven net worth builder that has benefited millions of households, updated with modern financial techniques and optimized with personalized applications for your situation, that could be worth as much as \$50,000 to \$200,000 or more to you – if you make better mortgage decisions because of what you learn in this book. The cost to you of that knowledge is \$20 - \$30 (\$19.95 e-book, \$29.95 print edition) – the price of a good lunch. Do your own risk/reward analysis, and discover why this new website for a new book jumped over nearly a million other web pages to go from zero to Number One on Google in barely 2 weeks (as documented here).

The text below is from the home page of the web site:

This is a mortgage book like you have never seen before, with a different goal than other mortgage books. **The Secret Power Within Your Mortgage** is not about how to get the cheapest or largest loan – but how to use your mortgage to protect your net worth and investment portfolio against financial turmoil. It is about the use of historically proven methods that are available to the average homeowner, updated with modern financial techniques, and optimized with your insider information about your own life.

There are strong reasons for concerns about the future of the dollar, and the value of many investment portfolios. Some of the big issues include:

Massive and intertwined budget and trade deficits

Paying for the Baby Boom's retirement promises

The \$450 trillion financial derivatives experiment

Peak Oil & other imported natural resources threats

None of these concerns may be individually certain to lead to major problems over the next five to ten years, but neither can we be sure that they won't. The problem is that we face major uncertainties about multiple dangers, each of which carries the risk of eroding the value of the dollar, and possibly dramatically increasing the rate of inflation. Risks that could destroy much of the value of many people's savings and investment portfolios.

**The Secret Power Within Your Mortgage** is not about those potential problems – but about providing answers to how we can survive these problems and possibly even financially benefit from them. For our answers – we look straight into the past, at the last time the United States went through a prolonged bout of inflation.

## **Back To The 70s**

We return to the 1970s, a time when inflation was running out of control. In Chapter 2 of the book, "The 70s and 80s Revisited: A \$2

Trillion Windfall” we specifically focus on the period from 1972 to 1982, when the dollar lost 57% of its value in 10 years (this chapter is available as a [free download](#) through the “Sample Chapter” link on the left). This was a time when inflation was simultaneously devastating stock and bond market valuations, creating a near decade long bear market even as it drove down economic growth. As you can read in the sample chapter – this prolonged bout of inflation also worked out to be an extraordinarily profitable event for many millions of average Americans, in one key aspect of their lives. You might think it was the soaring home prices that made all these people wealthier – but you would be only partially correct, and this could lead to [an expensive misunderstanding](#) should another major bout of inflation be on the way.

## **The Great Misunderstanding**

As we show with historical statistics, the 70s were not a time when soaring house values by themselves made people wealthy – because during the height of the inflation, housing prices weren’t even keeping up with inflation. No, the underlying main source of new homeowner wealth for millions was not about assets – it was about debts. Even as inflation was soaring – it was [shredding the value](#) of all the home mortgages. The same destruction of mortgage values that nearly bankrupted the Savings & Loan industry was simultaneously and directly benefiting millions of mortgage borrowers.

These homeowners were “short” their mortgages – and the dollar – at a time when the value of a dollar was plummeting and mortgage values were imploding. Almost accidentally, they were using a long term and low cost variant of the [same type of risk protection techniques used today by hedge funds](#), and favored by many of the most sophisticated investors in the world. Many millions of average homeowners were benefiting from the “Secret Power” within their mortgages to protect and increase their net worth during times of inflation – and are still benefiting today.

## **Your Mortgage Like You Have Never Seen It Before**

**The Secret Power Within Your Mortgage** will show you your mortgage in an entirely different light – and may change your personal financial strategy in the process. In the over 170 pages of the book, we follow a step by step, chapter by chapter logical

sequence, using simple explanations and common sense examples, to reintroduce you to your mortgage. We will show you the hidden financial characteristics of your mortgage, the way a hedge fund manager would view them. Using simplified versions of a professional's asset/liability management tools, we will demonstrate how taking the perspective of a household chief financial officer will open up whole new ways for you to protect your net worth and even profit from adversity.

Using simple, common sense examples, you will learn just what "hedges" and "shorts" are, why hedging is the opposite of speculation, and how these concepts can help us thrive in a time of inflation, whether we are investors or not (Chapter 4, a full book table of contents can be found with the sample chapter).

We will explore how we can use the mortgage hedge to effectively help subsidize our lifestyle in a time of inflation – as millions did in the 70s and 80s (Chapter 3).

We will discuss what real financial protection is, and the differences between avoiding some risks, and deliberately offsetting other risks that can't be avoided (Chapter 5).

## **Uncovering A Powerful Hedging Tool For Uncertain Times**

If you are an investor, we will learn how to turn the mortgage on your house into your own personal hedge fund, and how to use carefully selected liability management as a form of portfolio insurance for your assets (Chapters 8 & 10) .

We will look at what happens with our hedge if there is nothing to worry about after all. If inflation stays low and the economic weather stays warm and sunny – we will uncover some unique and highly positive advantages to using the mortgage hedge strategy, and the historically demonstrated reasons why it doesn't hurt us when rates fall, even while it helps us if rates rise (Chapter 9).

We will explore how the mortgage hedge works in periods of low, significant, high and very high inflation – and how the effectiveness of the hedge can vary with homeowners in various circumstances (Chapters 6 & 7).

## Who Benefits The Most

We will learn about the current workers for whom mortgage hedges are a very bad idea – and the types of homeowners who have the most to gain (Chapters 11, 12 & 13).

## Mortgages In Retirement

We will discuss the prudent use of mortgages in retirement, and learn why a mortgage hedge is a bad idea for many retirees. We will also explore why a mortgage hedge is an essential financial survival strategy for many other retirees, and is perhaps more important than with any other age group (Chapter 14).

## Profiting From Your Insider Information

Your mortgage is likely the largest financial contract in your life, and it is a contract whose value is acutely sensitive to your personal circumstances. For professional investors, mortgages represent one of the most popular and carefully studied investments in the world. These investors who go “long” (buy) your mortgage as an investment use highly trained quantitative analysts and sophisticated computer software to try to statistically anticipate your behavior. You don’t need any of this, because you have something much better. You have the insider information they lack – you know who you are and what your life is like. **The Secret Power Within Your Mortgage** gives you the power to optimize your “short” of your mortgage, to structure your best possible individualized mortgage hedge based on your individual age, job, income, net worth and objectives (Chapters 12 & 13).

## About The Author

Daniel R. Amerman is a Chartered Financial Analyst, with BSBA and MBA degrees in finance, and almost 25 years of experience in working with mortgages and mortgage securities. He is the author of two previous works on mortgage securities that were published by major publishers, books that were praised as being some of the easiest to understand books written on this subject. Mr. Amerman was an investment banking vice president working with distressed savings institutions in the 1980s, and worked with restructuring portfolios totaling billions of dollars, of mortgages whose values had been crushed by inflation. He is also the author of another current

book dealing with the upcoming financial challenges posed by the retirement of the Boomers, more information is on the [Author page](#).

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