Wealth Protection Kit

Report #1: Survive a Crisis Four Times Bigger Than 2008

By now, anyone with a working brain knows the US economy is an absolute disaster.

- Over 15 million US jobs have disappeared from the face of the earth since the Greater Depression began in 2007.
- There are now over 44 million Americans on food stamps (that's north of 14% of the US population).
- More than one in four US mortgages are underwater (meaning the homeowner owes the bank more than the house is worth).

And against this abysmal backdrop, the central issue that created the 2008 Crisis (the derivatives market) continues to threaten to take down the entire financial system.

While the Fed and other regulators claim that they didn't see the 2008 Crisis coming publicly… the fact is that they KNEW how dangerous derivatives were nearly 10 years before the Crisis hit: as far back as 1999, former Fed Chairman Alan Greenspan admitted in private conversations that any attempt to rein in derivatives would "implode" the financial markets.

Indeed, the Fed didn't even TRY to hide this fact when the 2008 Crisis erupted: nearly ALL of its moves were aimed at propping up the four US banks with the largest derivative exposure. Indeed, the Fed insured that these four key banks not only *didn't* go under during 2008, the Fed actually gave them special privileges above and beyond all other financial institutions.

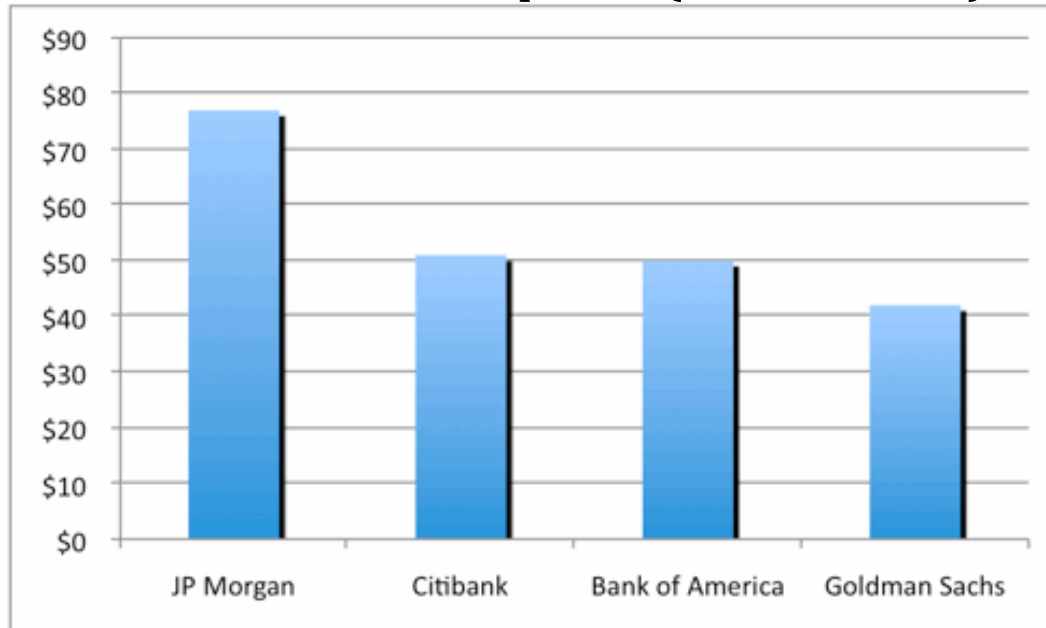
Those four banks are JP Morgan, Bank of America, Citibank, and Goldman Sachs.
As you no doubt recall, in 2008 the Fed:

- Helped finance JP Morgan's acquisition of Bear Stearns.
- Helped finance Bank of America's acquisitions of CountryWide Financial and Merrill Lynch.
- Backed up $280 billion worth of Citibank's liabilities and $180 billion worth of Bank of America's liabilities.

- Made Goldman Sachs whole from all of its AIG liabilities.
- Funneled $13 billion to Goldman Sachs.

Why did the Fed favor these four banks? The below chart will explain everything.

US Bank Derivative Exposure (In $TRILLIONS)



As you can see, these four banks have the largest derivative exposure of ANY banks in the US. In fact, combined, they're sitting on over $200 TRILLION in derivatives today.

So the idea that the problems that caused the 2008 Crisis have been fixed is positively absurd. In fact, we're rapidly heading into another Crisis that will make the 2008 Crisis look like a picnic.

You see, the 2008 Crisis was caused by a particular type of derivative (Credit Default Swap or CDS) imploding. At that time this happened, the CDS market was roughly $50-60 trillion in size.

Well, the market for derivatives that are based on interest rates is over $196 TRILLION in size. Put another way, there is the potential for a Crisis FOUR times bigger than 2008 still lurking in the derivatives market.

If you've ever wondered why the Fed is so obsessed with keeping interest rates low and buying US Treasuries (to insure bond yields/ interest rates don't soar), you now know.

However, eventually this scheme will fail miserably. In fact, it's already beginning to happen.

By keeping interest rates low, the US Federal Reserve has made Treasuries unattractive to foreign Governments in a big way: Russia has sold off 30% of its US Treasury holdings. China (the former largest holder of US Treasuries) has lowered its Treasury holdings for five months straight and has even suggested selling off 2/3 of its holdings.

Other bond investors are beginning to shun US Treasuries as well. Bill Gross, manager of the largest bond fund in the world, has cut his exposure to US Treasuries to ZERO. That's correct, the world's largest bond investor, who has a direct line to the Treasury and the Federal Reserve, has absolutely NO Treasuries in his holdings.

All of this is happening at a time that the US must rollover trillions in old debt, while issuing $100-200 billion in new debt. So demand for US debt is collapsing… at the very same time that we're issuing record amounts of debt. **Put another way, we're heading into the perfect storm for a debt collapse in the US.**

When this happens, bonds will tank pushing interest rates through the roof. This in turn will trigger a collapse in the interest rate-based derivatives market, **kicking off a round of systemic risk that will be four times larger than 2008.**

When this happens, those investors who take calculated bets on the collapse will make literal fortunes. You can do this any number of ways, whether it be through futures, options, stocks, and more. However, the easiest options for most individual investors to profit from a market collapse are UltraShort ETFs.

UltraShort ETFs: How To Bank on a Market Collapse

If you're unfamiliar with UltraShort ETFs, these are investments that return 2X the inverse of a particular Exchange Traded Fund.

Let's take an example, the UltraShort Financials ETF (SKF).

SKF returns 2X the inverse of the Financials ETF (IYF). So if Financial Stocks (IYF) falls 5%, SKF rises 10%. If IYF falls 10%, SKF rises 20%. And so on.

In this sense, SKF is a great "hedge," or means of playing for a collapse in Financial stocks.

However, there's an added bonus to UltraShort ETFs like SKF: these investments ALSO trade based on demand from the marketplace. So if financial stocks collapse 30%, SKF might actually see produce gains GREATER than 60% (2X the inverse) due to investors piling in as they seek to profit from the collapse.

Consider SKF's performance in 2008, for example. In 2008, financial stocks (as measured by the Financials ETF: IYF), fell roughly 50%.

However, if you'd bought SKF once the Crisis really took hold (late September), you could have made MUCH MORE than 100% in two month's time:

This is what makes UltraShort ETFs so handy when a Crisis hits: because they can truly skyrocket as investors stampede like elephants into safety.

However, I MUST STRESS that these are not investments to "buy and hold". Instead, these are short-term trades you should ONLY make once stocks have begun to truly collapse. So don't rush out and buy them right this second. Simply add them to your "on deck" trades to make once the next Crisis hits.

With that in mind, here are some trades to put "on deck" for when the next round of the Crisis hits.

Trade #1: Short the Russell 2000

The Russell 2000 is perhaps the junk-iest index in the US. Many of the companies that comprise this index don't even MAKE money and should have never been taken public in the first place.

Put another way, this is the "risk" index, the index of companies that are garbage. For that reason, the Russell 2000 will collapse more than other, larger stock indexes once stocks truly begin to fall. Indeed, as the below chart shows, the Russell 2000 fell much further than the Dow Jones Industrial Average during the 2008 Crash.

For this reason, I suggest buying the **UltraShort Russell 2000 ETF (TWM)** when the market begins its next real collapse during the next Crisis.

The UltraShort Russell 2000 ETF (TWM) returns 2X the inverse of the Russell 2000. So if the Russell 2000 falls 5%, TWM returns 10%. If the Russell 2000 falls 10%, TWM returns 20%. It's a terrific means of playing the collapse in small cap stocks.

Again, wait for stocks to enter a free fall before opening this trade (more on this later).

Trade #2: Short Financials

By now you know that the current Crisis has centered on the financial sector, specifically the banks with the greatest derivative exposure. And while four banks in particular have the majority of derivative exposure, most big name banks have plenty of exposure as well.

Bank	Total Assets (in Billions)	Derivatives (in Billions)
JP Morgan	$1,723	$79,459
Citibank	$1,161	$54,122
Bank of America	$1,451	$52,504
Goldman Sachs	$84	$44,979
HSBC	$192	$3,699
Wells Fargo	$1,093	$3,583
Bank of NY Mellon	$200	$1,477
Morgan Stanley	$68	$1,211
State Street Bank	$166	$1,067
PNC Bank	$251	$335
Suntrust Bank	$164	$334
Northern Trust	$79	$243
Regions Bank	$127	$121
US Bank National	$305	$84
Fifth Third	$108	$83
Keybank National	$86	$68
TD Bank National	$175	$66
Branch Bankings	$150	$59
Union Bank	$80	$47
RBS Citizens	$113	$41
Ally Bank	$72	$34
TD Bank USA	$11	$34
Deutsche Bank	$44	$26
Capital One	$128	$25
Harris National	$49	$25

To say that there is high systemic risk here would be a gross understatement. Which is why when the next Crisis hits, the financial sector will be one of those hardest hit by the collapse. For that reason, when the next Round of the Crisis hits, I suggest buying the **UltraShort Financials ETF (SKF).**

SKF returns 2X the inverse of the Financials ETF (IYF). So if the IYF falls 5%, SKF returns 10%. If the IYF falls 10%, SKF returns 20%. It's a terrific means of playing the collapse in financials stocks.

Again, wait for stocks to enter a free fall before opening this trade.

Trade #3: Short the Emerging Markets

Emerging markets have lead the US indexes during this current bull rally: they bottomed back in November 2008, while US stocks continued to plunge until March 2009. That's not the only "leading" emerging markets have done. While the S&P 500 is up some 95% from its March lows, China, Brazil and their kind have all more than DOUBLED from their November 2008 lows.

This relationship will reverse in the next Crisis.

During times of Crisis, institutional investors dump their foreign shares and pile into Treasuries or other perceived "safe havens." Consequently, emerging markets are hit hardest when the markets collapse.

For that reason, when the next collapse begins I suggest shorting emerging markets via any number of inverse Ultrashort ETFs. The most popular ones are:

1) **The UltraShort Emerging markets ETF (EEV)**
2) **The UltraShort China ETF (FXP)**
3) **The UltraShort Brazil ETF (BZQ)**

All three of these return 2X the inverse of an underlying index: the MSCI Emerging Markets ETF, the FTSE/ Xinhua 25 ETF, and the Brazil ETF, respectively. As such, they represent a great way to pocket major gains when the emerging markets collapse along with the rest of the financial world during the next Crisis.

As with the other trades, only enter these shorts when the market begins to enter a free fall. My next report, which will arrive in your inbox in two days, will show you how time a market Crash via my proprietary Crash trigger with you.

This trigger caught the 1987, 2000, and 2008 Crashes perfectly. It even caught the 2010 Euro Crisis. And it will help you to know when to open the above trades.

In the meantime, here's a brief recap of the most important issues from this report.

What You Learned In This Report

- The derivatives market issues that caused the 2008 Crisis can still take down the entire financial system because the problems still haven't been fixed. In fact, the next Round of the Great Crisis will likely be much worse than 2008.

- Four banks: JP Morgan, Bank of America, Citibank, and Goldman Sachs will be at the center of the upcoming debt collapse storm – these are banks to steer clear of when it hits.

- You can play the next crisis with the following instruments:
    - UltraShort Financials ETF (SKF)
    - UltraShort Russell 2000 ETF (TWM)
    - UltraShort Emerging Markets ETF (EEV)
    - UltraShort China ETF (FXP) and
    - UltraShort Brazil ETF (BZQ)

Best Regards,

Graham Summers
Chief Market Strategist
Phoenix Capital Research