Wealth Protection Kit

Report #4: The Coming US Default

We have officially entered Round Two of the Financial Crisis.

Round One took place from 2007-2008, consisting largely of private debt (derivatives, credit default swaps, etc) taking down private companies (banks, financials, insurance companies), etc. The US Government response to this was to nationalize various entities (mortgages, insurance, etc) and to shift this debt onto the public's balance sheet.

The Fed and other Central Bankers like to dress these moves up in fancy language and financial terms, but in reality they all boil down to one of three strategies:

1) Printing money/ pumping it into bankrupt financial entities.
2) Shifting garbage assets from the private sector onto the public sector's balance sheet.

In plain terms, the world's Central Bankers, particularly the US Federal Reserve, bet the farm that their countries could swallow trillions in garbage assets without bond investors catching on and demanding higher yields (interest rates).

They're wrong.

Debt Defaults for the Holidays

Remember, the world was already awash with debt BEFORE the Crisis began. Indeed, excessive debt was what *caused* ROUND ONE of the Crisis. For decades, world economies, most notably the developed ones (Japan, Europe, and the US) spent way beyond their means via various social entitlement programs.

Central bankers opted to try and fix these debt problems by… issuing MORE debt.

It's total insanity, but it worked temporarily because investors had not yet caught on that Round One of the Crisis was a "game changer." Remember, the monetary interventions, bailouts, and stimulus plans implemented between 2007-2009 were *unprecedented*. In just three years the world spent more money than WWI, WWII,

and the New Deal combined. So it's no surprise that it took a couple years for the "dumb money" to catch on.

Which they did with a vengeance in late 2009.

Every debt transaction involves two parties: a lender and a borrower. The latter can only go into debt if the former is willing to lend to him/ her. However, if the borrower keeps borrowing, at some point it becomes clear to the lender that he/she is never going to get his/ her money back. When this happens, lenders:

1) Lend for a much shorter time period (hopefully insuring that they get their money back before the inevitable bust).
2) Demand higher interest on the loan to compensate for the risk.

And if things get really bad, the lender will simply stop lending to the borrower.

During Round One of the Great Crisis, this happened in the private sector. During Round Two it's going to happen for entire countries.

It's already started.

Indeed, Round Two of the Great Crisis, the **Sovereign Debt Round**, began over Thanksgiving of 2009 when Dubai had a "virtual default," asking for a six-month extension on $60 billion worth of its debt.

The issue then spread to Greece over Christmas 2009. It will not end there. Ireland, Spain, Italy, Japan, and the US are all going to see debt defaults in the future. Indeed, with Deficit to GDP and Debt to GDP numbers of 12% and 100% respectively, the US is comparable to Greece when it comes to insolvency.

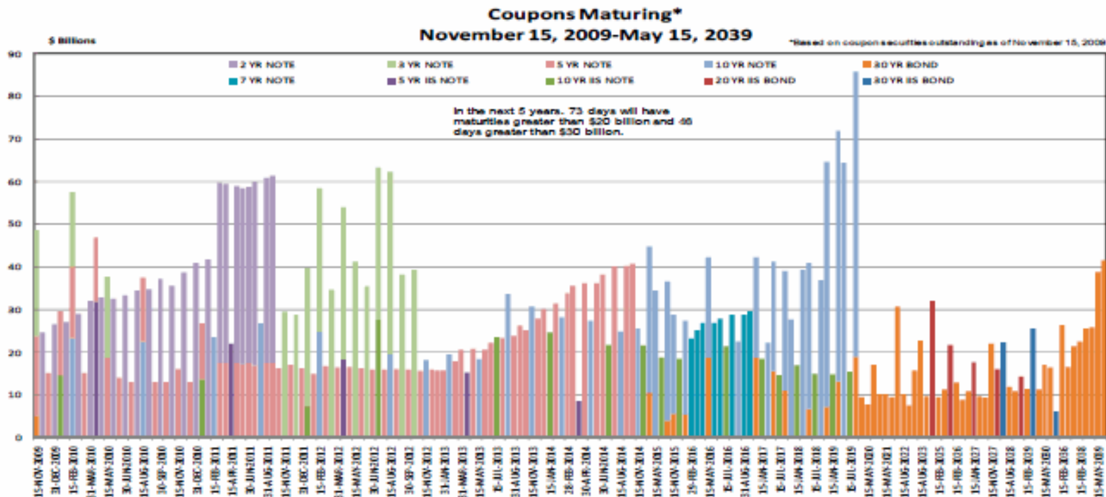
The reason the markets have yet to identify this is because they are currently focused on Europe, where we are likely to see a series of sovereign defaults. However, eventually the smoke will clear on the EU. Then it will likely be Japan's turn, and then the US's.

Indeed, the US has already begun to show signs of entering a debt spiral: a situation in which more and more debt needs to be issued at the same time that lenders are unwilling to lend to the US for any lengthy period of time (greater than three years).

All of this is happening at a time when the US must to roll over trillions in old debt while also issuing an additional $150 billion in debt per month to finance its current deficit.

I've pasted a graph courtesy of the US Treasury which shows the US's debt rollover needs for the next 30 years. I apologize for the small size but there are so many debt renewals coming up that you simply cannot easily fit them in one chart.

Indeed, in the next 5 years alone the US will have 73 days in which it needs to roll over $20+ billion in debt and 46 days in which it needs to roll over $30+ billion.



Again, we are in a debt spiral. And the US will eventually default on its debt obligations. However, before we get there,

When that happens, smart investors will make a fortune.

How to Play the US Debt Default

For individual investors, the best, easiest, and most liquid means of playing the US debt default is with the **UltraShort 20+ Year Treasury ETF (TBT).**

TBT trades 2X the inverse of an ETF that tracks the performance of long-term (20+ years) Treasuries. So if long-term Treasuries fall 5%, TBT should to return 10%. And if long-term Treasuries fall 10%, TBT should to return 20%. As such it's a great means of playing a drop in long-term Treasuries with a little extra "juice."

We cannot tell you exactly when to buy TBT because market conditions can change between the publication of this report and the time when the US finally does default. However, put TBT on your watch list. Sometime down the road this investment will be *extremely* useful.

What You Learned In This Report

- Despite political rhetoric to the contrary, politicians and central bankers did *not* pay off debt or allow the guiltiest entities to default during Round One of the Great Crisis. Instead, they simply moved the debt from one place to another.
- When all the numbers are added up, the USA's fiscal condition is actually as bad if not worse than Greece's.
- You can profit from a US debt collapse by buying the UltraShort 20+ Year Treasury ETF (TBT)

Good Investing!

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