



PRIVATE WEALTH ADVISORY

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Special Market Update: 6-29-15

I wanted to take a moment to address the markets.

Firstly, we need to acknowledge that the crisis I've been warning about for months is finally upon us. The 2008 Crisis was *a* crisis. This is THE Crisis.

In this round we will see entire countries go bust, culminating in the current financial system collapsing and a new financial system being put into place.

This process will not occur overnight.

As I noted in *A Gradual Unfolding* (12/31/2014), the Tech Bubble, which was a bubble in a single asset class (stocks) that was obvious to EVERYONE (stock valuations were their highest in 100 years), **required two years to fully unfold.**

This time around, for this crisis, the bubble is in the senior-most asset class in the financial system: **sovereign bonds.** And over 98% of investors fail to grasp the severity of the problem.

In our current financial system, debt *is* money. At the top of the debt pyramid are sovereign bonds: US Treasuries, German Bunds, Japanese Government Bonds, etc.

These are the senior most assets used as collateral for interbank loans and derivative trades. THEY ARE THE CRÈME DE LA CRÈME of our current financial system.

So, this time around, when the bubble bursts, it won't simply affect a particular sector or asset class or country... it will affect the **entire system.**

For this reason the process will occur over years. And Central banks and Governments will fight tooth and nail against the markets and each other until the very bitter end.

In terms of individual countries, we now know the template for how this process will unfold.

This template was first used by Cyprus during its 2013 banking crisis. And because it happened without anyone in a major position of power losing their job or office, it's going to be the template for every other countries' leaders whenever things begin to spin out of control.

Here is the timeline for Cyprus Crisis:

- June 25, 2012: Cyprus formally requests a bailout from the EU.
- November 24, 2012: Cyprus announces it has reached an agreement with the EU the bailout process once Cyprus banks are examined by EU officials (ballpark estimate of capital needed is €17.5 billion).
- February 25, 2013: Democratic Rally candidate Nicos Anastasiades wins Cypriot election defeating his opponent, an anti-austerity Communist.
- March 16 2013: Cyprus announces the terms of its bail-in: a 6.75% confiscation of accounts under €100,000 and 9.9% for accounts larger than €100,000... a bank holiday is announced.
- March 17 2013: emergency session of Parliament to vote on bailout/bail-in is postponed.
- March 18 2013: Bank holiday extended until March 21 2013.
- March 19 2013: Cyprus parliament rejects bail-in bill.
- March 20 2013: Bank holiday extended until March 26 2013.
- March 24 2013: Cash limits of €100 in withdrawals begin for largest banks in Cyprus.
- March 25 2013: Bail-in deal agreed upon. Those depositors with over €100,000 either lose 40% of their money (Bank of Cyprus) or lose 60% (Laiki).

The most important thing I want you to focus on is the *speed* of these events.

Cypriot banks formally requested a bailout back in June 2012. The bailout talks took months to perform. And then the entire system came unhinged in one weekend.

One weekend. The process was not gradual. It was sudden and it was total: once it began in earnest, **the banks were closed and you couldn't get your money out (more on this in a moment).**

This is precisely how the current Greek crisis has played out today.

The current Greek Prime Minister, (the one spearheading the negotiations with the EU) took office January 25 2015, over six months ago).

Since that time, Greece has been in negotiations with the IMF, ECB, and EU (the Troika), concerning its debt issues. Throughout this period, there have been countless proclamations that “all is well” and that “a deal will be reached.”

So we’ve had six months of talks, negotiations, and proclamations. Then once again, the whole thing collapsed over a single weekend, a bank holiday was announced, and capital controls were imposed.

So once again we’ve had false statements from political leaders and deceitful news stories spinning developments to the positive, all culminating in a sudden crisis.

As current EU President Jean-Claude Juncker once famously stated, “*when it become serious, you have to lie.*”

It is now very serious for Greece and for the EU. There will be even more lies and scams than usual as the ECB and others try to hold the EU together. The chart suggests the Euro is going to 80.



Again, this process will take time to unfold. We are only just in the first chapter of a multi-volume set for this Crisis. Indeed, European Financials would need to collapse over 45% just to return to their 2012 lows... let alone breaking to new lows!



Globally, the first region to be in Crisis will be Europe (and possibly China, though I suspect that we'll see aggressive policies moves there to rein in the collapse in the coming days).

After Europe will be Japan, and finally the US.

This process will take years. But it HAS begun.

In terms of gauging how serious things are in Europe, I'm watching Spain closely. If we take out the recovery trendline going back to 2012 lows, then the crisis has spread beyond Greece and the Euro is going to 80 sooner rather than later.



Elsewhere in the markets, the S&P 500 has broken its rising wedge formation.



The important lines of support are 2,055, and 2,010. If those don't hold, the door is opened to the downside target of 1,700 predicted by the 2014 lows:



Elsewhere in the markets, Gold is falling. It absolutely HAS to hold current levels or deflation will have overwhelmed the precious metal and we're going to \$1,000 per ounce or even \$800.



China's bubble has burst, but we have a LONG ways to fall. FXI could drop 23% without even violating the long-term bull market trendline.



Brazil's bull market is over (green line). Once we take out the final line of support (blue line) we're dropping to 10 if not lower.



This concludes this Special market update. The BIG NEWS is that the next round of the crisis has begun. We'll adjust accordingly, but for now the focus is on Greece and possibly Spain and Italy.

I'm watching the markets closely and will issue updates as needed. Barring any new developments you'll hear from me Wednesday in our usual weekly market update of ***Private Wealth Advisory***.

Until then...

Best Regards

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Phoenix Capital Research

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