PRIVATE WEALTH ADVISORY

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The Great Collapse

Short-Term Trends
-Markets Crashing on US downgrade, lack of QE, and excessive leverage
-European banking system in free-fall
- China inflation soaring

Intermediate Trends
-Fed Jackson Hole meeting in two weeks
-QE 3 towards end of year/ early 2012

Long-Term Trends
-US debt default
-China hard landing
-Civil unrest and Government shutdown in US

The Great Collapse has officially begun.

I've been warning of this for well over two years. My primary warnings were:

1) That 2008 was just a warm-up
2) That the REAL Crisis had yet to unfold
3) That the REAL Crisis would make 2008 look like a picnic

Well, the period I've been warning of is now here. What's happening right now is *not* just a market crash, bear market, deflation, or any other item related to just one asset class.

Instead, this is a collapse of the entire US monetary and political system and the mentality of spending one's way to wealth.

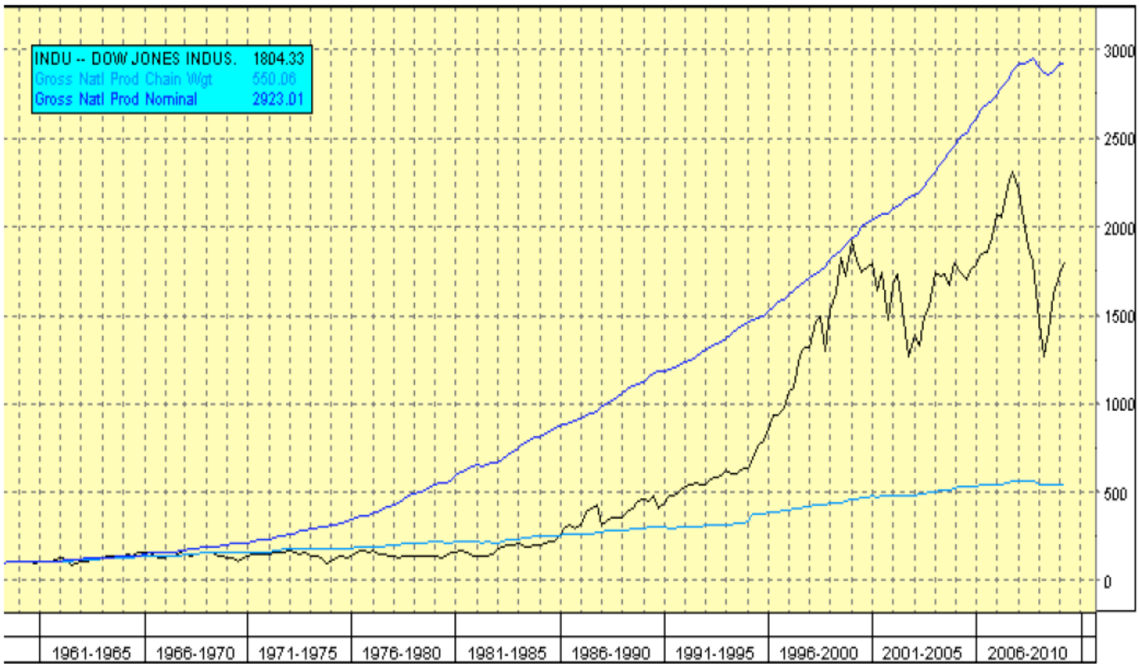
For 80+ years, the US has operated under a crony capitalist system in which politicians dole out political and economic favors to the chosen few whose bribes/donations funded their campaigns.

This system was aided and abetted by the US Federal Reserve, which dealt with any and all economic issues by printing more money. Whether it was the Asian Crisis, Long Term Capital Management, or the 2008 Crash, the Fed dealt with the issue by opening the floodgates and flooding the financial system with liquidity.

Aside from making moral hazard (the notion that those large firms who screwed up were never actually allowed to fail) the bedrock of the financial system, the Fed also blew a credit bubble which in turn funded bubbles in virtually every asset class: bonds, stocks, real estate, emerging markets, even some commodities.

Indeed, the vast majority of US economic growth over the last 40 years has been fueled by the Fed's loose money policies. Bill King, an analyst and investor whom I admire, shared the below chart with me a while back. It charts US GDP growth in nominal terms (the dark blue line), the performance of the Dow Jones Industrial

Average (the black line), and REAL GDP growth or growth that accounts for inflation (the light blue line).



As you can see, when we account for inflation, the US economic "miracle" of the last 30 years is in fact not all that miraculous. Take away easy credit and Fed funny money and the US GDP has barely grown at all since the '70s.

When your entire financial system is built on debt eventually you hit a brick wall. We did this in 2008. The Fed *barely* held the system together by going "all in" and funneling over $11 trillion in bailouts, backstopping the major US banks, and transferring north of $2 trillion in garbage debt to the public's balance sheet (these are just the moves we *know about).*

This effort has now failed as the world collectively realizes that the Fed *cannot* hold the system together. This began to become clear when QE 2 spent $600 billion and the US got at *most* three months' worth of improved economic data (while inflation exploded throughout the global economy, leading to riots, coups, and more).

In simple terms, we've now entered the Real Crisis, the END GAME, for our current monetary system. Before the dust settles on this mess, the US and its political, economic, monetary structure will look very *very* different.

However, before we get there, we will see riots, civil unrest, possibly martial law, for certain a Government shutdown, bank holidays, a debt default/ restructuring, the re-instatement of the Gold standard or something like it (possibly a basket of commodities), food shortages, and more.

We will also see trade wars, possibly another World War, a temporary backlash against globalization, a de-consolidation or fragmentation of corporate America, and other items.

In plain terms, we're entering a period in history that will rival the Revolutionary war. This country will be very *very* different by the time it has ended.

If you have not yet taken steps to prepare for all of this, I HIGHLY suggest you read the ***Phoenix Investor Personal Protection Kit*** reports located on the ***Private Wealth Advisory*** website:

http://phoenixcapitalresearch.com/privatewealthadvisory/

I especially suggest reading the "Prepare Your Family" report as it contains specific instructions on how to stockpile food and safe guard your wealth against the collapse of the financial system.

Regarding the financial markets, stocks will be crashing to new lows in the coming months. When I refer to "new lows" I mean levels below the March 2009 low of 666 on the S&P 500. We *will* have short-term spikes similar to the one that began yesterday, but the COLLAPSE has begun.

On that note, from a technical standpoint, the S&P 500 fell to test the critical level of 1,100.

The Fed's interventions in the market can essentially be broken into two waves. They are:

1) QE 1: March 2009- April 2010
2) Q elite & QE 2: August 2010-June 2011

During wave one, the Fed managed to reflate the market to roughly 1,100 on the S&P 500. True we spiked above that temporarily, but the minute QE 1 ended, we were back at 1,100 on the S&P 500 in no time:

This is *also* where the market was when the Fed instigated its second wave of intervention (QE lite and QE 2) in August 2010.

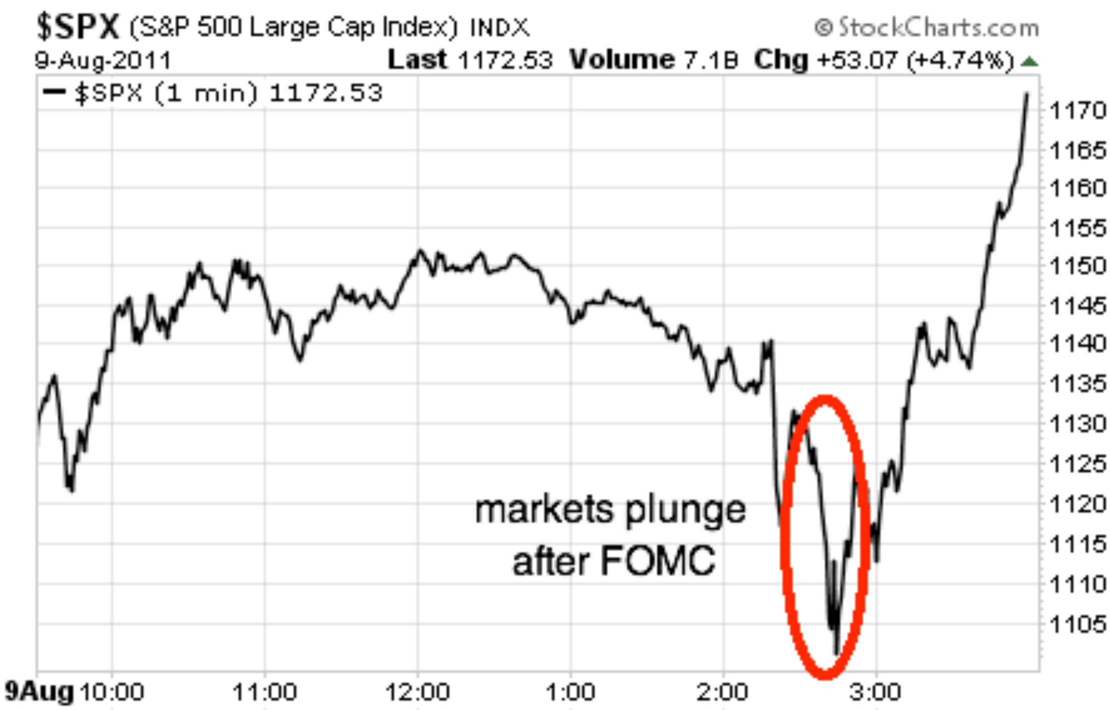
Put another way, 1,100 marked the peak of the Fed's first wave of intervention with QE 1 as well as the launch pad for the second wave of Fed intervention (QE lite and QE 2). The fact that we've seen the market plummet to this level in just two weeks means that we've wiped out ALL of the of the market gains that came from QE lite and QE 2.

Put another way, the market has proven, in just two weeks, that QE lite and QE 2 accomplished nothing. These efforts (which accounted for over $1 trillion in Fed money printing) were nothing but a temporary prop.

The issue now, is when the market realizes that ALL of the Fed's efforts (not just QE lite and QE 2) were failures. Judging from the current market action we're getting close to that point.

Yesterday, the market had a sharp bounce after the Fed's FOMC announcement. I realize that the financial media is pronouncing this move as the start of a new bull market. It's not.

Remember, the market actually *fell* after the Fed announcement was made.



So what caused the ramp job into the close?

Manipulation.

My sources tell me that Goldman Sachs was buying the S&P 500 futures non-stop yesterday afternoon into the market close. Given Goldman's closeness with the Fed (the NY Fed Governor is a former Goldman exec and Bernanke has also proven to favor the firm), we can safely assume the Fed was the one behind the buying spree.

There is precedent for this action. I also want to alert you to the fact that the New York Post published a story containing the following quote just 3 hours before yesterday's market ramp job.

> *Back in October 1989,* ***a guy named Robert Heller, who had just quit his post as a Fed governor, suggested that the government should purchase stock index futures contracts to calm the markets in times of distress****.*
>
> *"The Fed could support the stock market directly by buying market averages in the futures market, thus stabilizing the market as a whole," Heller wrote in an op-ed piece in The Wall Street Journal after saying the same thing in a little-noticed speech. "The stock market is certainly not too big for the Fed to handle."…*

This is a rather odd turn of events… a former Fed official urges the Fed to step in and buy the stock market… just three hours before the markets mysteriously reverse and rally hard as the Fed's darling, Goldman Sachs, buys everything in sight…

If the Fed is indeed actively buying the stock market to try and put a floor under it, we can assume three things:

1) The Fed is becoming *truly* desperate
2) The Fed realizes QE isn't helping
3) QE 3, if it arrives, will be coming later down the line

If the Fed did in fact buy the market yesterday through Goldman Sachs, then the Fed is getting *extremely* desperate. We know the Fed has been supplying juice to key Wall Steet firms who then bought the market, but never before has it been so obvious that the Fed itself may have been buying the market.

Remember since March 2009, QE has been the primary tool the Fed used to deal with the Financial Crisis. QE 1 was something of a success in that in restored investor confidence in the system. However, as noted in previous issues of ***Private Wealth Advisory*** by the time we got to QE 2, the negative consequences of QE (inflation) far outweighed the positive consequences (stocks rising).

So the fact the Fed did not announce QE 3 yesterday but chose to buy the market (at least it looks that way), indicates then we're are DEFCON 1 RED ALERT for the entire financial system as it indicates that the Fed is abandoning its more traditional monetary tools and simply trying to buy the market it means the Fed is losing control of the system in a big way.

It also indicates that the Fed realizes that the benefits of QE come at too high of a cost for it to engage in more of this for now. Instead, the Fed will save QE 3 for a little further down the road as a final Hail Mary pass.

Which brings me to the most important point from yesterday's Fed FOMC: there were three dissenting votes (an 18 year high). This tells us that Bernanke's "inflate or bust" mentality is coming up against serious friction at the Fed. And it also tells us that there will be fierce resistance to QE 3 if the Fed chooses to unveil it down the road.

The take home point here is that the Fed is not as market friendly as before. There is growing dissent amongst Fed officials. And we're beginning to see signs of desperation.

In plain terms, the situation in the markets right now is very VERY dangerous. It is easily the most dangerous market I've ever seen. We are going to see greater losses *and* sharp rallies. But the overall trend is now down.

Regarding the rallies, no investment goes straight up or straight down. Indeed, we had very sharp snapback rallies during the 2008 Crisis. In fact, during the two months of October-December we had three sharp rallies of 11%, 17%, and 20% respectively. Every time the market rolled over hard soon afterwards.

So sharp snapback rallies in the markets during times of Crises are quite normal. And they usually end quickly (just as today's action wiped out all of yesterday's gains).

The reason I am so certain that the new trend is down is because the charts make it clear. I know the Financial Media is trying to spin the situation as a "buying opportunity" but does this chart *really* look like a minor stock market correction that will be followed by a new bull market?

Of course not. The market has been showing clear signs of topping for months. In fact, the collapse we've just staged looks quite a bit like another famous market drop: the great Crash of 1987.

Notice that during the 1987 collapse we also saw a sharp bounce back before stocks rolled over again. I wish to stress that in this situation however, the market was in the midst of a secular bull market and the US economy was roaring.

In contrast, today the market is in a clear bear market/ credit bubble collapse and the US economy is in the toilet. We also have a global debt meltdown underway, so the financial and economic backdrop is far, far worse that during the 1987 Crash.

My point is that there are going to be sharp snapback rallies in the market. However, these are not the beginning of something major, they are simply the market snapping back from oversold conditions and short-covering.

Indeed, when I consider the sheer number of negatives in the markets today, I'm nearly speechless. Among them are:

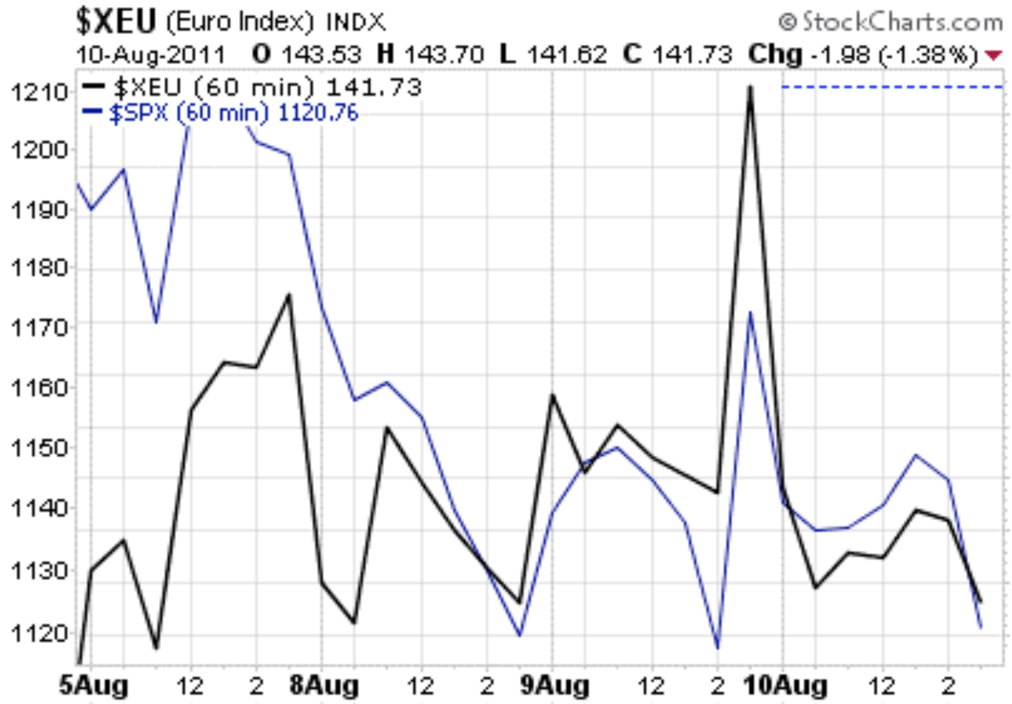
1) The US downgrade (more coming here)
2) The upcoming French downgrade (France has the most exposure to Greece)
3) China's inflationary collapse
4) The US economic depression (even the Fed admits it's abysmal)
5) The UK economy rolling over (and riots)
6) The ongoing riots/ war in the Middle East

And I'm certain I left some items out.

I really want to be blunt here: we are literally on the verge of systemic failure. The market came close to officially breaking today (the NASDAQ was *this* close to simply closing down and cancelling all orders). What's coming is going to be bad, bad, BAD.

With that in mind, let's take a look at the charts:

The most important chart in the world right now is the Euro. This is Ground Zero for the debt collapse and banking system. And the markets are following this currency quite closely over the last few days as the chart below demonstrates.



With that in mind, I want to alert you that the Euro is in a giant triangle pattern. These patterns can break either up or down. The fact this pattern has been building for over three months tells us that when this pattern finally *does* break, we're going to see a MAJOR move.

Given the financial backdrop in the EU (France about to be downgraded, Germany facing political upheaval, etc), the most likely breakout will be downward. When this happens, the stock market will come completely unhinged.

With that in mind, Dexia, the large Belgium bank, just broke to a new low:

The same goes for the Spanish Bank Santander (which we sold for a 6% gain):

These are MAJOR red flags that the financial system is on the brink. It's very reminiscent of 2008 when Citigroup, Bank of America, and the other large US banks dragged the entire market down.

Do not discount what's happening in Europe. As the below chart shows, as France goes, so goes the US:

As you can see, the S&P 500 has been trailing France very, VERY closely since the Crisis erupted in earnest in mid-July. With that in mind consider that the French stock market has broken to new lows and shows no sign of letting up:

On that note, the Dow established a new low today.

We also see China breaking to new lows:

As well as the Banks:

So there are THREE market leaders breaking to new lows. And if you think those charts are scary, take a look at the long-term charts for China and the Banks. As far as China is concerned, the last two years NEVER happened: we're right back to June 2009 levels.

The same goes for the banking sector:

This latest drop has brought banks right back to where they were in June 2009. It's literally as though the last two years NEVER happened.

Consider what's going on in long-term Treasuries, where we've already surpassed Euro Crisis of 2010 levels and are now closing in on Crash 2008 levels:

My primary point with everything I've written in this issue is that *THIS IS IT.* We may have a snapback rally, but the REAL CRISIS is here. And it's going to be terrible.

This is why we've shifted into our Crisis Trades. It's also why I'm not making additional recommendations at this time. There is simply too much uncertainty in the markets. I strongly suggest getting as defensive as possible. This means shifting to cash, bullion, and keeping some money in our Crisis Trades.

Regarding our Gold miners, these are asset plays. And quite frankly a drop in their price is attractive to me more than worrisome. They were cheap when I recommended them. They're even cheaper now.

So I view these corrections as potential buying opportunities. I say "potential" because I'd wait for the smoke to clear before adding to our positions. True, these are long-term value plays… but there's no reason to catch a falling knife.

This concludes this week's issue of ***Private Wealth Advisory***. I will be issuing alerts as needed in the coming days. But for now, get defensive and buckle up because things are going to get VERY ugly soon.

Good Investing!

Graham Summers

OPEN POSITIONS

Inflation Portfolio (OPEN BUYS NOW)

Company	Symbol	Buy Date	Buy Price	Current Price	Gain/ Loss
Gold bullion	N/A	3/17/10	$1,120	$1,808.00	61%
Silver bullion	N/A	3/17/10	$17.50	$39.42	125%
IamGold	IAG	5/25/11	$20.95	$20.12	-4%
Centamin Mining	CEE.TO	5/25/11	$2.01	$1.71	-15%

Deflation Portfolio (OPEN BUYS NOW)

Company	Symbol	Buy Date	Buy Price	Current Price	Gain/ Loss
Dollar ETF	UUP	5/23/11	$21.79	$21.25	-2%
UltraShort Euro	EUO	7/28/11	$17.32	17.35	0%

Crisis Portfolio (Bought on August 9th at 3PM

Investment	Symbol	Buy Date	Buy Price	Current Price	Gain/ Loss
UltraShort China	FXP	8/9/11	$36.58	$38.24	5%
UltraShort Emerging Mkts	EEV	8/9/11	$40.30	$40.53	1%
UltraShort Brazil	BZQ	8/9/11	$23.40	$22.73	-3%
UltraShort Russell 2000	TWM	8/9/11	$62.75	$60.79	-3%
UltraShort Real Estate	SRS	8/9/11	$19.50	$17.58	-10%
UltraShort Financials	SKF	8/9/11	$88.73	$87.18	-2%

RECENTLY SOLD

Crisis Portfolio (SOLD on August 5th at 10:53AM)

Investment	Symbol	Buy Date	Buy Price	SELL Price	Gain/ Loss
Ultrashort Brazil	BZQ	8/4/11	$17.05	$18.29	7%
UlraShort Materials	SMN	8/4/11	$18.31	$19.50	6%
UltraShort Emerging Mkts	EEV	8/4/11	$34.25	$35.79	4%
UltraShort Russell 2000	TWM	8/4/11	$49.78	$54.33	9%
UltraShort Real Estate	SRS	8/4/11	$16.19	$17.45	8%
UltraShort Financials	SKF	8/4/11	$71.72	$76.71	7%
Santander (Short)	STD	8/2/11 (2:34PM)	$9.55	$8.94 8/9/11 (11:46AM)	6%