PRIVATE WEALTH ADVISORY

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The Markets Call "BS" on Spain

The big news that the markets are attempting to digest this week is the €100 billion Spanish bailout. This action and the upcoming Fed FOMC meeting on June 19-20 will dictate the market's action over the next two weeks and possibly for the remainder of the year.

The first of these topics, the Spanish bailout, is an extremely complicated affair. The key takeaway issues that need to be considered are:

1) How the bailout was performed: who was involved and who wasn't.
2) The details of the bailout structure itself.
3) The financial implications of the bailout.
4) The political implications of the bailout.

Let's dive in.

Spain has been denying the need for a bailout for months now. Indeed, a mere two weeks ago, Prime Minister Mariano Rajoy stated that Spain would not need outside assistance. In fact, when France's President Francois Hollande implied that Spanish banks might need outside funds at an EU summit last month, Rajoy retorted, "Hollande does not know the state of Spanish banks,"

What's peculiar about this statement was that it was made when the Bankia nationalization was *already underway*. Indeed, two days after Rajoy's comment, Bankia asked Spain for <u>€19 billion in bail out funds.</u>

So we no know that's Spain's political leaders will **lie** right up until the point of systemic collapse. We also know that both Spanish banks and politicians are highly incentivized to not *quantify* the true extent of the risks inherent in the Spanish banking system (remember, Bankia was discussing paying its dividend in April… just one month before it requested a bailout and revised its 2011 €309 million profit to a €3 billion loss).

<u>Short-Term Trends</u>
-Dead cat bounce as the markets work off their oversoldness.
-Spain's bailout barely bought 48 hours' worth of gains.
-Italy now standing in the wings ready to take center stage.

<u>Intermediate Trends</u>
-Systemic risk to break up the EU before the summer's end.
-US Dollar rally and stock/commodity collapse.

<u>Long-Term Trends</u>
-Global debt implosion.
-Markets to go to new lows either nominally or in terms of purchasing power depending on whether we get hyperinflation or severe deflation.
-Trade wars and very likely REAL warfare

Thus, I would change the common phrase applied to the EU's political/ financial policies from "extend and pretend" to "lie until you are about to die."

This notion is illustrated by the fact that on May 28th, a mere week before Spain requested a bailout, Prime Minister Rajoy continued to maintain that Spain would not need a outside funding, stating, "there will be no rescue of the Spanish banking sector."

At this point, Bankia had already requested its bailout and Spanish banks' shares were in a free-fall. Moreover, Spain itself was just days away from requesting outside aid from the EU.

The timeline says it all:

- May 9th: Bankia requests €4.5 billion loan, Spanish Government states that the bank is "*solvent*."
- May 21st: Spain meets Bankia's request for loan and takes a 45% stake in the bank thereby instigating a partial nationalization.
- May 23rd: Bankia's bailout needs grows to €11 billion/ Rajoy retorts to France's Hollande, *"Hollande does not know the state of Spanish banks*."
- May 24th: Bankia's bailout needs grow to €15 billion
- May 25th: Bankia's bailout needs are now €19 billion (2011 profits revised to €4 billion loss)… the Spanish Bailout Fund has just €5 billion in cash.
- May 28th: Rajoy comments, *"there will be no rescue of the Spanish banking sector."*
- Weekend of June 8-10th: Rajoy texts to his finance minister: "*Aguanta, we are the fourth European power. Spain is not Uganda… If they want to force the rescue of Spain, they need to start getting ready €500 billion and another €750 billion for Italy, which will have to be rescued afterwards."*/ Spain informally asks for €100 billion bailout/ EU Finance Ministers OK the bailout.
- Sunday June 10th: Rajoy states that the bailout is a "*victory"* before commenting, *"This year is going to be a bad one: Growth is going to be negative by 1.7 percent, and also unemployment is going to increase."*

Thus, in just one month's time, Spain implements the largest bank nationalization in its history and requests €100 billion from the EU to recapitalize its banks. And yet, throughout this time, Spanish politicians maintain that Spain's banking system is "solvent" or in great shape… right up until they get the €100 billion at which point the truth comes out: ***"This year is going to be a bad one."***

As I said before, "Lie until you are about to die."

Regarding the Spanish bailout itself, a few key items need to be addressed.

First off, the IMF was NOT involved. I've stated many times that the IMF will no longer be staging large bailouts because it has neither the funds, nor the political backing (it's ultimately a US backed entity and US voters will not tolerate a bailout of Europe) to do so. So scratch the IMF off your list of potential bailout entities in the future (at least until the 2012 US Presidential election is over).

Secondly, it's not clear if the Spanish bailout is coming via the EFSF or the ESM. If the funding comes via the EFSF then the entire exercise is pointless. The EFSF, if you'll recall, is essentially a failed entity given that it couldn't even raise €10 billion via bond auctions without having to step in to make sure the auctions didn't *fail*.

Put another way, the EFSF doesn't have the funds to prop up Spain. So if the funding for Spain's bailout is to come from there, Spain's not getting any ***anything***.

However, if the funding comes from the other mega-bailout fund, the European Stability Mechanism (ESM), then ALL Spanish bondholders will become subordinate to the ESM.

Put another way, in the event of insolvency, the ESM's claims will be senior to every one else's.

Given that Germany's finance minister Wolfgang Schaeuble wants the funding to come from the ESM (you'll see why in a moment). It's likely it will be the ESM who funds" the Spanish bailout as Germany is in fact the real backstop of the EU. So what Germany says goes.

> **Schaeuble Wants Spain Aid To Come From ESM, Handelsblatt Says**
>
> **German Finance Minister Wolfgang Schaeuble wants aid for Spain's banks to come from the future permanent backstop, the European Stability Mechanism, to avoid greater risks for the German budget**, Handelsblatt said.
>
> Spain would not be able to guarantee loans from the current backstop, the European Financial Stability Facility, if funds for its banks came from the EFSF, the newspaper said, citing European Union diplomats it didn't name.
>
> **Germany's share of guarantees to the EFSF would rise in such an event, the newspaper said.** The ESM is financed by all 17 euro-region countries, including those that receive funds from it, the newspaper said.
>
> http://www.bloomberg.com/news/2012-06-11/schaeuble-wants-spain-aid-to-come-from-esm-handelsblatt-says.html

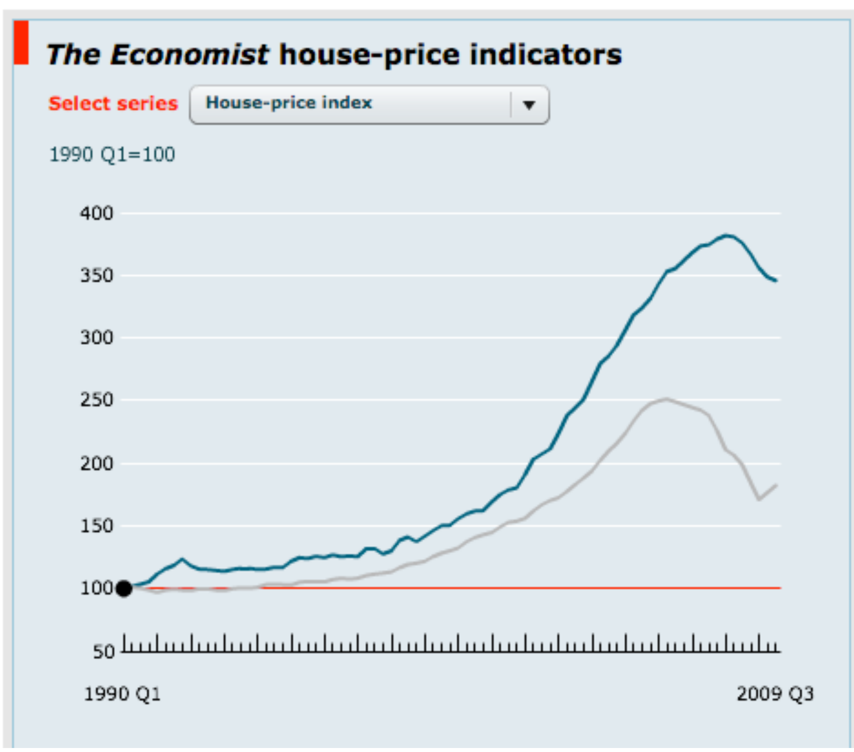
If this occurs, a Spanish bailout via the ESM will ultimately damage the Spanish banking system as private bondholders and other investors will flee Spanish bank bonds since they know that they are not likely to get much, if anything, if a Spanish bank fails (which the markets now know they will).

Indeed, one has to wonder… just ***how does a €100 billion bailout solve Spain's banking woes when its Prime Minister was suggesting the real damage is more to the tune of €500 billion in a text message to his Finance Minister???***

Indeed, if Rajoy's text is even remotely truthful, then we can assume that Spain's real capitalization needs are multiples of the €100 billion bailout… something that the EU media is picking up on already. As one example, JP Morgan believes that when all is said and done Spanish banks could be looking at €350 BILLION in capital needs.

> **Bank bail-out won't end Spain's property nightmare**
>
> In a recent research note, economists at investment bank JP Morgan estimated that despite the €40bn (£32.4bn) or so that many in the market believe Spain's banks need to be adequately recapitalised, **the full requirement could be as much as €350bn once all is said and done.**
>
> http://www.telegraph.co.uk/finance/comment/james-quinn/9321758/Bank-bail-out-wont-end-Spains-property-nightmare.html

It's highly likely JP Morgan is accurate or even underestimating here. Remember, we're talking about a banking system stuffed to the brim with loans made during the following housing bubble (Spain in blue, the US in gray).



According to the *Economist* in 2006, **Spain built FIVE TIMES as many homes as the UK** (FYI the Spanish population is 47 million… UK population is 62 million). Today, Spanish housing starts are down 90% from their peak and Spain is littered with unfinished projects.

However, instead of bringing their inventory to market, Spanish banks *continue* to offer loans of 95%-100% at low interest rates to attempt to sell these properties at inflated levels. Indeed, things are so desperate that literally every Spanish bank out there is launching English-speaking websites trying to lure buyers from around the globe into buying properties.

Those who buy will likely find themselves losing on the deal.

> **Bank bail-out won't end Spain's property nightmare**
>
> Recent data from the Knight Frank Global House Price index shows that Spanish residential properties fell by 7.3pc in the year to the end of March. **Official Spanish data state that prices are down 20pc from the peak, but <u>those figures are based on bank valuations, rather than actual sales.</u>**
>
> In spite of the small but growing number of articles in the British media that ask whether now is the time to buy Spanish property, it is likely, if the case of Ireland is anything to go by, **<u>that values will fall by as much as 50pc from the peak before they begin to bottom out.</u>**
>
> http://www.telegraph.co.uk/finance/comment/james-quinn/9321758/Bank-bail-out-wont-end-Spains-property-nightmare.html

In this context, the following data points make it more than obvious that Spain will need much more than €100 billion to recapitalize its banks… and that Spanish banks will be increasingly facing insolvency due to their bond issuance schedule for the remainder of the year.

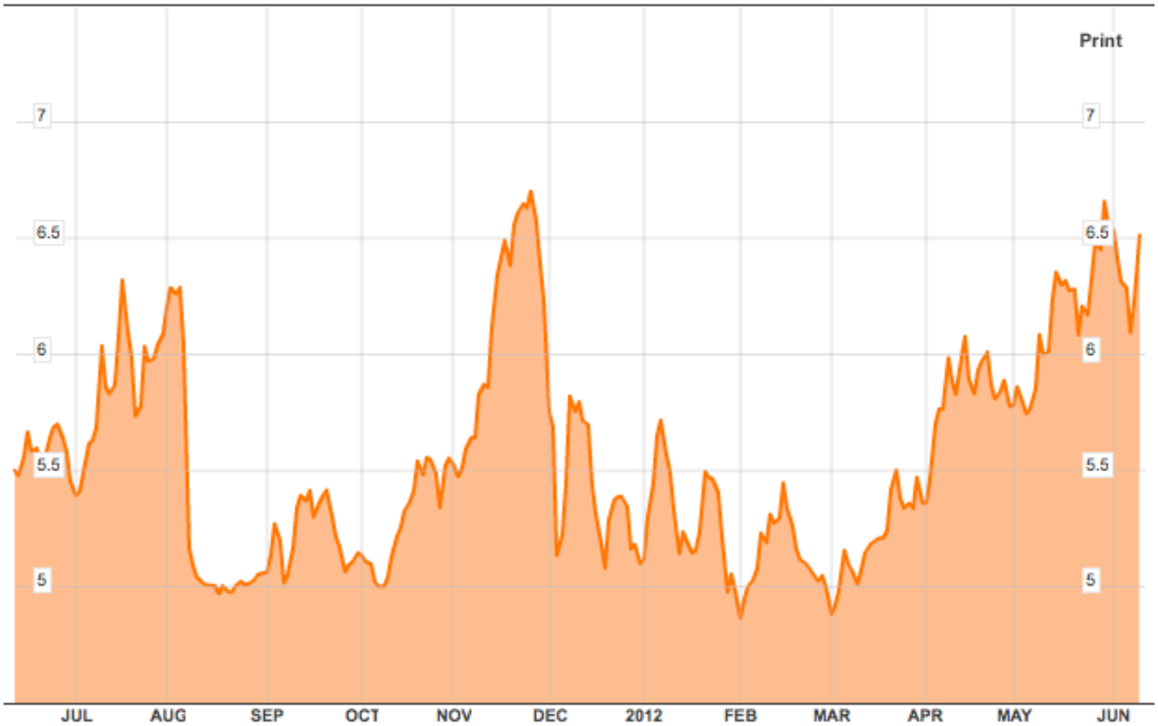
Consider the following…

1) Spain's banking system is roughly €3 trillion in size (3X Spain's GDP).
2) Spanish banks' gross borrowing from the ECB was €316 billion in April.
3) Spanish banks need to roll over 20% of their bonds (roughly) €600 billion this year.

Thus, by even a simple back of the envelope analysis it is clear that Spain will need a lot more than €100 billion to recapitalize its banks. How on earth Spanish banks can roll over €600 billion in bonds at a time when the global bond market has just learned that all private bondholders will be subordinate to the ESM is beyond me (*read:* it won't happen).

Finally, and this is perhaps the most critical point, this bailout has just put Spain's **sovereign bonds at risk** by blowing its Debt to GDP ratio to 146% (the €100 billion is going straight onto Spain's public balance sheet).

This is why Spain's sovereign bond yields continue to spike:



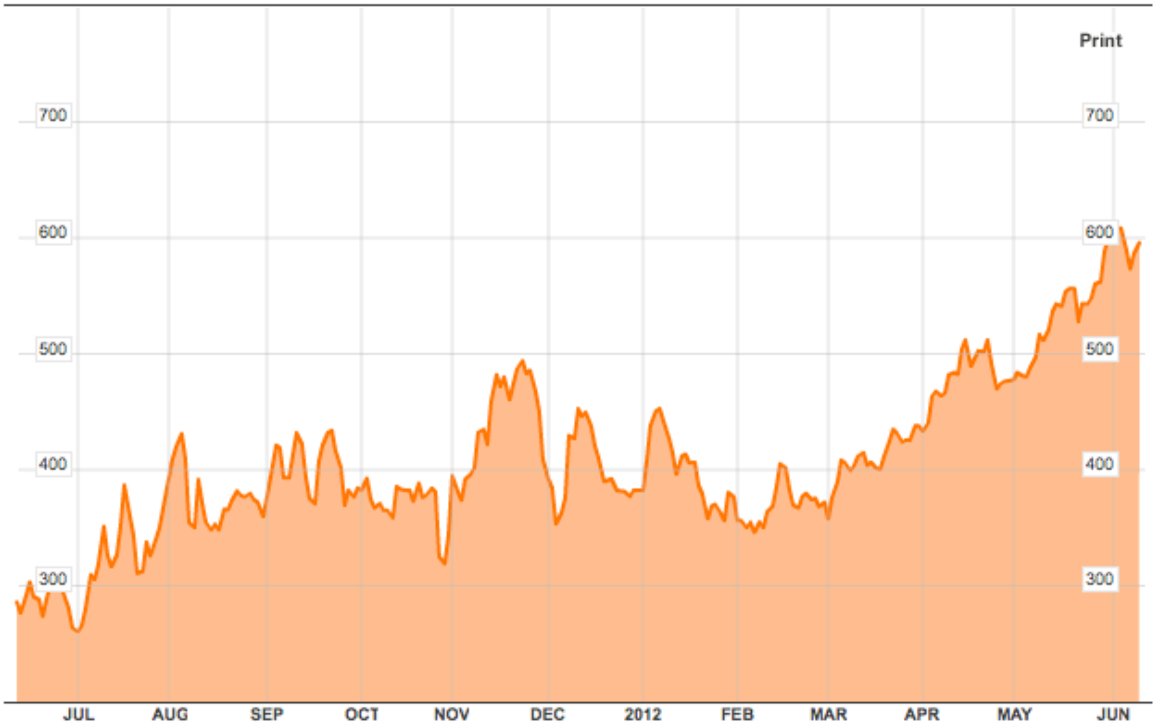
Take note… we are already above 6.5% here again… within two days of a €100 billion bailout.

Put another way, it's GAME OVER for Spain as it is now facing both a <u>banking crisis AND a sovereign crisis simultaneously.</u> **There is no entity on this planet that can shore up both the Spanish banking system as well as the Spanish Sovereign bond market.**

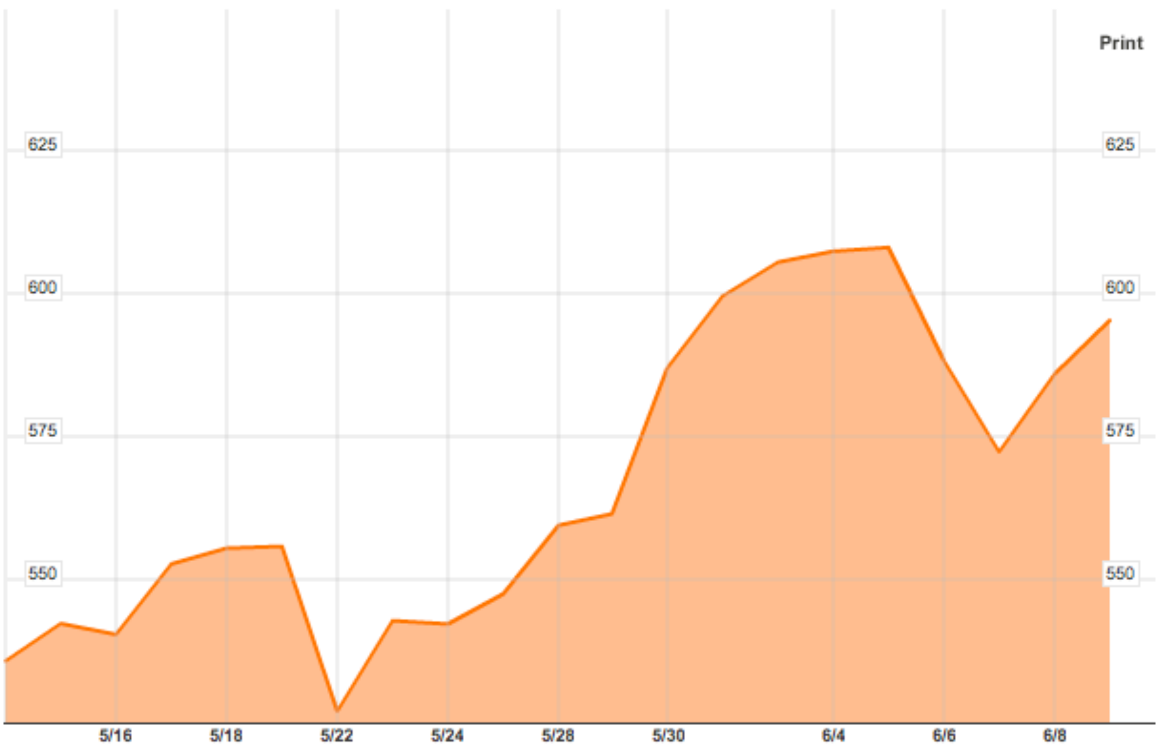
To be blunt, I fully believe that this €100 billion bailout for Spain's banks has put Spain in a "checkmate" position. With total unemployment at 25%, a housing bubble that continues to collapse, and an official Debt to GDP ratio of 146%, **<u>there is no way Spain will be able to grow its way out of this mess.</u>**

Put another way, Spain is a financial tsunami and the €100 billion is an emergency levy made of questionable materials built unqualified engineers: the move has bought some time, but the relief will be brief.

Have a look at Spain's Credit Default Swaps (essentially bets that Spain will default) and you'll see what I mean:



I realize this chart is a little difficult to read, **but Spain's CDS have nearly *doubled* in 2012 alone.** And the bailout has done nothing to assuage investors' beliefs that Spain is in BIG TROUBLE. Indeed, we're heading back towards all time highs already within 48 hours of the bailout being announced (see the close-up below):



Finally, and most importantly, we have to ask the question: *Just WHERE is the money for this bailout going to come from?*

The IMF?

As noted earlier, the answer here is a resounding "NO!" as Obama won't propose a European bailout during an election year (hence his desperate pleas to Angela Merkel to hold the EU together for the next six months).

The EFSF?

Germany won't allow the EFSF to fund the Spanish bailout as it would increase Germany's exposure to the Spanish fall-out. The public outrage regarding the EU is growing in Germany by the day (55% of Germans believe they would have been better off keeping the Deutschmark while another 78% believe the worst of the Euro is ahead)

The ECB?

The ECB has completely avoided any notion that it would fund the bailout. Indeed, at the ECB's most recent press conference, ECB head Mario Draghi stated,

> **Draghi Says ECB is Ready to Act as Growth Outlook Worsens**
>
> "We monitor all developments closely and **we stand ready to act**," Draghi told reporters in Frankfurt after the ECB left its benchmark rate at 1 percent. Downside risks to the economic outlook have increased and "a few" of the ECB's Governing Council members called for rate cut at today's meeting, he said…
>
> **"I don't think it would be right for the ECB to fill other institutions' lack of action," he said.**
>
> http://www.businessweek.com/news/2012-06-06/draghi-says-ecb-is-ready-to-act-as-growth-outlook-worsens

An additional item I want to note regarding the ECB… it hasn't actually bought any EU bonds in 13 weeks, signaling that while it may act in terms of providing liquidity to banks… it has ceased actually monetizing EU sovereign bonds (another indication that Germany is the REAL EU backstop as Germany was completely against monetization).

> **ECB keeps bond programme on ice, pressure on govts**
>
> The European Central Bankbought no government bonds for the 13th week running last week, ECB data showed on Monday as the bank judges the

controversial programme of diminishing benefit in the face of the deepening euro zone debt crisis…

Two of the bank's German policymakers quit last year over the purchases, which critics say treads dangerously close to the ultimate ECB taboo of financing governments. The ECB also fears that its interventions **give countries less of an incentive to implement the necessary and sometimes painful reforms.**

http://in.reuters.com/article/2012/06/11/ecb-bonds-idINL5E8HBA6420120611

This ultimately leaves the ESM, the permanent European Stability Mechanism… which technically doesn't even *exist* yet (it's supposed to be ratified by July 2012).

Indeed, in order for the ESM to be ratified it needs the individual EU member states that will contribute 90% of its capitalization to first ratify it on an individual basis.

Here's the list of countries that represent *that* 90% of capital as well as the status of their individual ratifications and the percentage of funding they are to provide.

Country	Ratified?	Percentage of Capital
Germany	NO	27%
France	YES	20%
Italy	NO	18%
Spain	NO	12%
Netherlands	YES	6%
Belgium	NO	3%
Greece	YES	3%
Austria	NO	3%
Portugal	NO	2%
Finland	NO	2%
Ireland	NO	1%
Slovakia	NO	0.8%
Slovenia	YES	0.5%
Luxembourg	NO	0.2%
Cyprus	NO	0.1%
Estonia	NO	0.1%
Malta	NO	0.07%

To summate the above chart succinctly… only *four* of the required 17 countries have even ratified the ESM (it's supposed to be completely ratified in July 2012).

Moreover, you'll note that the **PIIGS as a whole are meant to contribute 36% of the ESM's FUNDING!!!! Spain and Italy alone are meant to contribute 30%!!!!**

So… Spain is supposedly going to be bailed out by an entitythat *doesn't even exist yet*… **<u>for which Spain is mean to contribute 12% of the funding</u>**. And to top it off… Spain hasn't even *ratified* the fund itself!!!

More importantly, neither has Germany. And it's not clear that it *will* either.

To whit, Germany's ratification of the ESM is buried in legislature that includes, among other things, the proposal of a financial transaction tax, which is extremely popular with the Social Democrat Party (SPD), the main opposition party to Chancellor Angela Merkel's Christian Democratic Union (CDU).

Thanks to recent elections, which saw Merkel's CDU party get trounced (again, German voters are FED UP with bailouts), the SPD now controls 11 of Germany's 16 states.

This is a big deal because the SPD is playing hardball regarding the passage of the ESM legislation due to the fact that Merkel is not viewed to have been serious about implementing the transaction tax proposal (which the SPD is pushing for along with various other growth measures for the Germany economy).

Merkel is scheduled to meet with the opposition leaders tomorrow. If they cannot strike a deal it is quite possible that Germany ***won't* be able to ratify the ESM legislation before the July 1 deadline.**

The SPD made it clear that it is willing to risk this just a few weeks ago:

> **German SPD Pushes Growth Saying Merkel's Crisis Policy Failed**
>
> **The timetable for passing the fiscal pact and associated legislation to set up the permanent bailout fund, the European Stability Mechanism, is "completely unrealistic,"** Steinmeier told reporters in Berlin today. The government underestimated the mechanics of getting the two-thirds majority in parliament needed to pass the legislation and it is "**very ambitious to assume" both bills pass before the summer recess,** he said.
>
> http://www.bloomberg.com/news/2012-05-15/german-spd-pushes-growth-saying-merkel-s-crisis-policy-failed.html

As I have stated many times in the past, politics trumps financial and economic issues in Europe. Germany's next Federal Election is scheduled for the autumn of 2013. And it is clear that the SPD is viewing the ongoing EU Crisis as a platform with which to claim Merkel's policies have failed (much as Francois Hollande did to Nicolas Sarkozy in France).

So, we have to consider that the SPD may in fact be willing to let Germany get an international black eye by failing to ratify the ESM legislation by its required deadline (in order to further tarnish Merkel's image).

IF this happens, then we may in fact witness my current worst-case scenario (systemic collapse starting in Europe) sooner than I initially thought.

Indeed, I've mentioned before the European banking system is literally teetering on the brink of collapse. Well, if you didn't believe me before, the following should absolutely confirm it:

> **Exclusive: EU floats worst-case plans for Greek euro exit: sources**
>
> **European finance officials have discussed as a worst-case scenario limiting the size of withdrawals from ATM machines, imposing border checks and introducing capital controls in at least Greece should Athens decide to leave the euro…**
>
> **As well as limiting cash withdrawals and imposing capital controls, they have discussed the possibility of suspending the Schengen agreement, which allows for visa-free travel among 26 countries, including most of the European Union.**
>
> http://money.msn.com/business-news/article.aspx?feed=OBR&date=20120611&id=15208663

This is not Gloom and Doom. This is reality. **Talks are already underway of suspending the Schengen agreement and implementing border and capital controls**. The fact that these stories are even *making it* to the media tells us point blank that the Powers That Be In Europe are absolutely terrified by the situation they have on their hands.

Indeed, the UK is implementing numerous contingency plans ranging from implementing border controls to literally preparing to help thousands of British **expats flee the Eurozone should the banking system collapse and Brits around the EU find themselves without access to cash.**

Again, this IS reality.

Indeed, the charts are forecasting something very VERY nasty is coming.

First off is the Euro, which has just confirmed a Head and Shoulders pattern. The target for this pattern is near parity with the US Dollar. Rest assured, we'll be making our way down there over the coming months.

This would pair well with the trendline the Euro set during its lows in '00-'03. Whether we get there sooner rather than later depends on how fast things unravel politically in Europe. But the below chart indicates we're going to at least 110 in short order.

With that in mind, I'd look to short the Euro by buying the **UltraShort Euro ETF (EUO)** as soon as the Euro breaks below 124 again.

Regarding individual markets, Spain looks to have been rejected at resistance (amazing given the fact they were just granted a €100 billion bailout) and is now starting to roll over again.

With that in mind, I'd short Spain again now via the **Spanish ETF (EWP).**

Action to Take: Short the Spanish ETF (EWP).

For those of you who cannot short EWP, Brazil remains a decent proxy for Spain:

With that in mind, you can play Spain's collapse via the **UltraShort Brazil ETF (BZQ)** which we have already opened.

Regarding specific Spanish Banks, Santander is staging a small bounce. However, once we break below $5, we're going to $0.

We've already gone short here. Just sit tight. This bank is going to ZERO.

Lest you think that the EU's problems are specific to the PIIGS, take a look at France which is on the verge of breaking a Head and Shoulders pattern within a truly MASSIVE Head and Shoulders pattern:

Once we take out 17.5 here, the only line of support before we go to the sub-10 region is 15. I'd look to establish a short here once we get a confirmed break in the smaller H&S pattern.

As for safe haven Switzerland, while most of Europe plows their funds into that country, the two largest Swiss banks look well on their way to collapse.

Credit Suisse (CS), which we are already shorting, is staging a small bounce after having *just* managed to set a slightly lower high than its 2009 lows. Once this bounce ends, it's GAME OVER.

The same goes for UBS (UBS), which looks like a zombie bank:

When we take out $10, this bank is going to ZERO. Get ready, as it will be time to go short here very soon.

The same goes for Barclays (BCS): once we break the trendline we're going to ZERO:

As well as HSBC (HBC) which we are already shorting (feel free to short it here).

In the emerging market space, the Emerging Market ETF (EEM) is on the cusp of confirming a large Head and Shoulders pattern while simultaneously breaking the trendline that has supported it since its 2008 lows:

We're already short here via the **UltraShort Emerging Market ETF (EEV).** We were a little early, but once these lines are broken we'll see fantastic profits as EEM falls to 20 in short order.

WHEN THIS HAPPENS, THE BULL MARKET IN EMERGING MARKETS IS OVER.

Indeed, we're seeing RED FLAGS for emerging markets across the board, particularly the BRICs (Brazil, Russia, India, China)

As noted earlier, in the near term the Brazil ETF is tracking Spain's ETF closely. However, long-term, we're about to break a large H&S pattern that forecasts a move to the 2008 lows:

We're already short here via the **UltraShort Brazil ETF (BZQ).** If you have not bought it yet, feel free to do so.

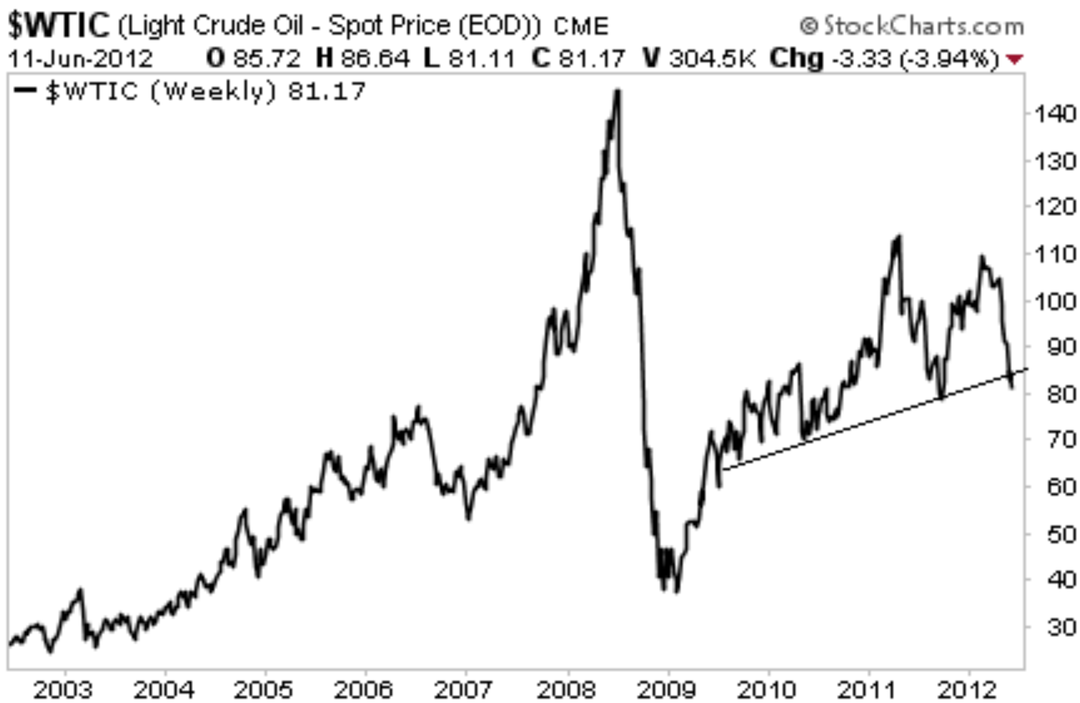
Russia is about to confirm an H&S pattern while *also* breaking out of a MASSIVE triangle pattern to the downside:

Once we take out $12.50, I'd short Russia.

A large component of this play is based on the fact that Oil just broke the trendline that has supported it since 2009.

Russia is the world's biggest crude producer and largest energy exporter. Oil and energy account for nearly 20% of Russian GDP as well as 40% of Government revenue. By Russian Finance Minister Alexei Kudrin's own estimates, Russia needs oil above $60 in order to maintain a recovery.

With that in mind, Russia will be falling hard as Oil makes its way to $60 per barrel in the coming months (as the below chart shows).



Let's play for this drop in Oil via the **PowerShares DB Crude Oil Double Short (DTO).**

Action to Take: Buy the PowerShares DB Crude Oil Double Short (DTO).

This oil forecast is also based on the Oil giants who are all posting very ugly charts:

Conoco Phillips (COP) is going to $25 easily once it breaks its trendline.

Exxon Mobil (XOM) will be going to $55 when it breaks its trendline:

French Oil Giant Total (TOT) sports an ugly H&S that will take it to the mid-20s.

BP (BP) when it takes out its trendline, will be breaking down to its 2010 Gulf Oil Spill lows at the very least:

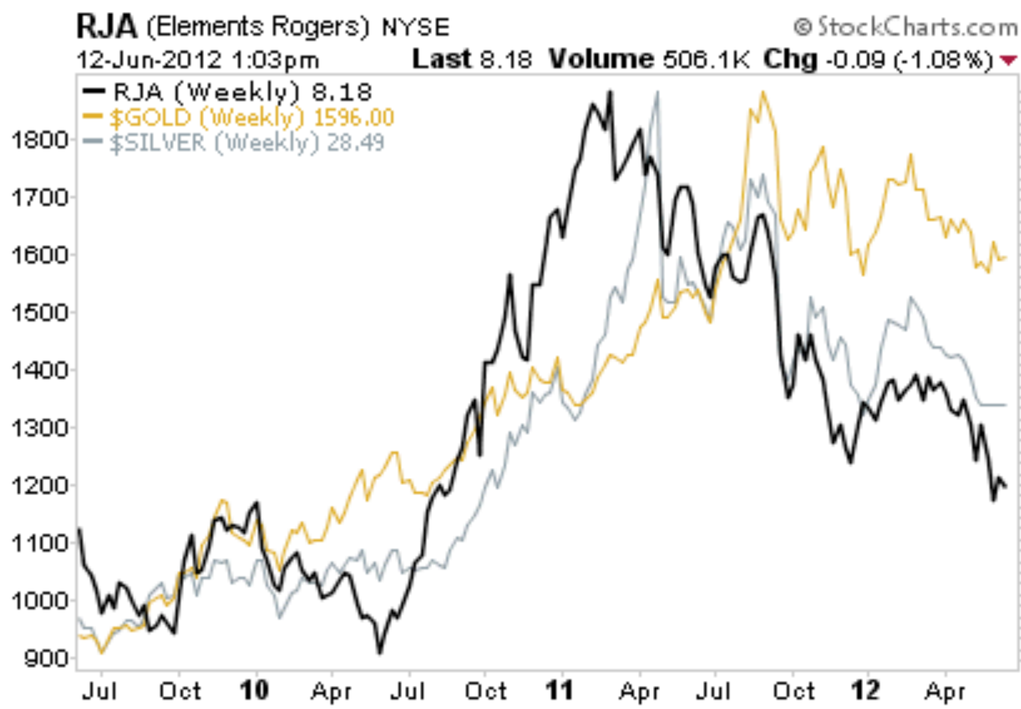
Elsewhere in the inflation hedge space, Gold has triggered a weekly "sell." If it doesn't rally hard soon, we're going to $1,250-1,300. **I'd view this as a fantastic buying opportunity.**

Similarly, Silver is approaching “do or die” time: rally hard or we’re going to $15 per ounce, **which I would ALSO view as a terrific buying opportunity.**

I want to make a disclaimer here. I am SUPER bullish on both Gold and Silver long-term. But if we get a full-scale sovereign crisis as I expect, then both precious metals will take a hit based on institutional liquidations. VIEW THESE DROPS AS BUYING OPPORTUNITIES.

The reason I continue to believe that we could see a nasty deflationary collapse that would sink the precious metals sector is because agricultural commodities (which have lead inflation hedges in general) have broken support AND failed to reclaim it:

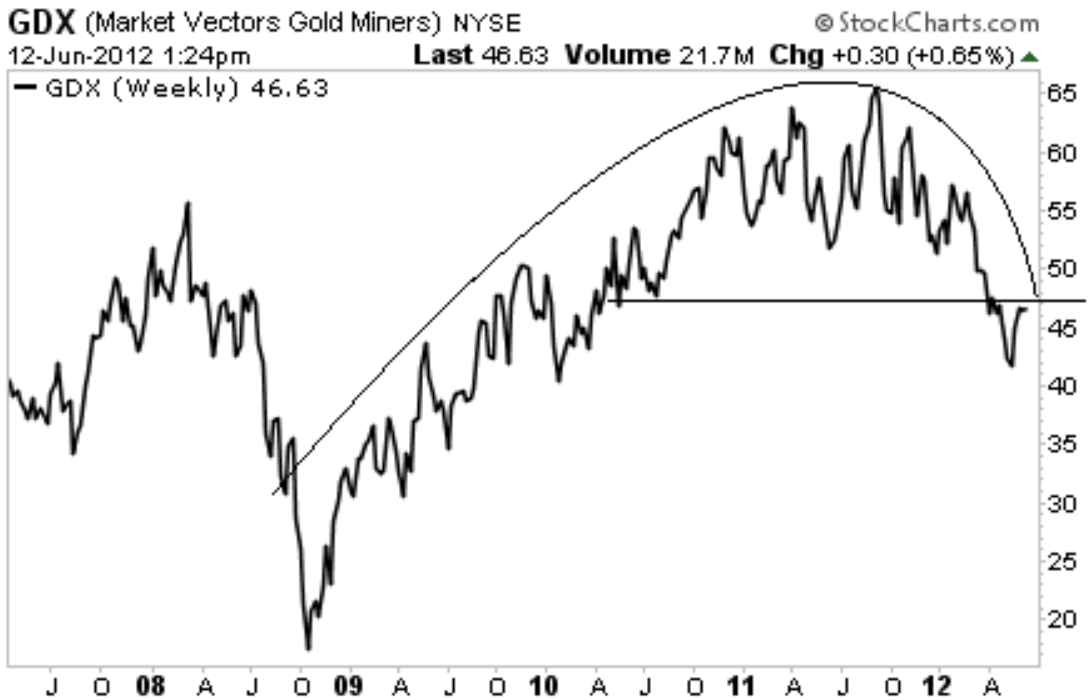
Have a look at the chart below and you'll see what I mean:



With that in mind, I'd also short the **Rogers Agricultural Commodities ETN (RJA).**

Action to Take: Short the Rogers Agricultural Commodities ETN (RJA).

Moreover, Gold miners look to have formed a dome top and are struggling to regain support. If they *don't* rally hard soon, we're going to the 2008 lows. This would present some absolutely outstanding opportunities (in 2008, it was not uncommon to find Gold miners trading for less than cash… anyone who bought then made a killing).



While Gold miners in general have yet to really collapse, Junior Gold Miners (GDXJ) have already taken out support and are now rolling over after failing to reclaim it:

I'd short this ETF now.

Action to Take: Short the Junior Gold Miners ETF (GDXJ).

A few final notes on the markets...

Perhaps the only thing keeping the markets afloat is the hope that Bernanke and the Fed will announce some major program during the Fed's June FOMC from June 19-20.

First off, even the Fed doves such as Charles Evans and Bill Dudley have begun to state *in public* that the consequences of more QE outweigh the benefits. *Bernanke's* been saying this since May 2011. The fact that his more dovish colleagues now agree with him makes the likelihood of more QE minimal.

Moreover, the Fed has already become a political hot button for the 2012 Presidential Election. For the Fed to launch a new major program so close to the election now would be a death knell for Obama whom the Fed has been moving to support throughout his Presidency (Obama did re-elect Bernanke after all).

Indeed, all of the primary arguments for QE have now been rendered moot. In terms of liquidity, banks are sitting on over $1.5 trillion in excess reserves. Interest rates are at record lows. And as for boosting the economy, the Fed now realizes that QE pushes the cost of living up which will in turn make the Fed a target of political outrage (again, this is an election year).

Finally, we have to consider the Spanish €100 billion bailout.

NO US entity was involved in this move (neither the IMF nor the Fed). This puts the "prop up the system" job squarely on the EU's shoulders for now. Americans will not stand for a US bailout of Europe, so until a major bank fails or we enter a full-scale crisis head on (which hasn't happened yet), I believe the Fed will continue to resort to more symbolic and verbal interventions.

In simple terms, we've gone from a time in which the Fed can unveil new massive programs to help the US economy to a time when the Fed can only act when it absolutely *has* to (a major bank collapses or the system begins to collapse a la 2008).

Of course, the Fed could simply throw the bulls a bone by lengthening its Operation Twist 2 program or making some other re-arrangement of its balance sheet. However, the effects of any such moves will be muted as the market literally needs a "shock and awe" move in order for it to launch a sustained rally.

With that in mind, I believe the market has topped and we will be heading lower in the coming months, culminating in the collapse of the EU in its current form and very likely the EU banking system.

If you have not already take steps to prepare for this, I highly recommend reading the *Prepare Your Savings* and *Prepare Your Family* Special Reports located on the *Private Wealth Advisory* website.

This concludes this week's issue of ***Private Wealth Advisory***. I continue to monitor the markets closely and will issue updates as needed. Otherwise, you'll next hear from me on Wednesday June 27the after the market closes.

Until then…

Best Regards,

Graham Summers

Watch List (Positions we are close to opening)

Investment	Symbol
UBS (SHORT)	UBS
Barclay's (SHORT)	BCS
Deutsche Bank (SHORT)	DB
Goldman Sachs (SHORT)	GS
JP Morgan (SHORT)	JPM
Citigroup (SHORT)	C
Bank of America (SHORT)	BAC
UltraShort Euro ETF	EUO
France ETF (SHORT)	EWQ
Russia ETF (SHORT)	TRF
Conoco Phillips (SHORT)	COP
Exxon Mobil (SHORT)	XOM
Total SA (SHORT)	TOT
British Petroleum (SHORT)	BP

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	$1,611.00	44%
Silver bullion	N/A	3/17/10	$17.50	$28.94	65%
Centamin Mining	CEE.TO	5/25/11	$2.01	$1.19	-41%

Deflation Portfolio (OPEN BUYS NOW)					
Company	**Symbol**	**Buy Date**	**Buy Price**	**Current Price**	**Gain/ Loss**
Dollar ETF	UUP	5/23/11	$21.79	$22.76	4%
Rydex Strengthening Dollar 2x Strategy	RYSDX	12/14/11	$14.39	$14.60	1%
HSBC* (short)	HBC	12/14/11	$37.07	$42.13	-5%
UltraShort Gold ETF**	GLL	12/14/11	$19.61	$17.53	-11%
UltraShort Brazil	BZQ	5/23/12	$92.62	$86.40	-7%
UltraShort Emerging Markets	EEV	5/23/12	$34.41	$31.71	-8%
Societe General (Short)***	SCGLY.PK	5/16/12	$4.00	$6.05	-13%
Santander (SHORT)	STD	5/30/12	$5.25	$19.81	-2%
Credit Suisse (SHORT)	CS	5/30/12	$19.34	$86.40	-7%
Spain ETF (SHORT)	EWP	6/12/12	$23.28	NEW	SHORT
PowerShares Double Short Oil	DTO	6/12/12	$53.78	NEW	BUY
Rogers Agricultural Index (SHORT)	RJA	6/12/12	$8.19	NEW	SHORT
Junior Gold Miners ETF (SHORT)	GDXJ	6/12/12	$21.10	NEW	SHORT

- **Opened 12/14/11 at 11:13AM, averaged in second prices on 1/27/12**

**** Opened 12/14/11 at $19.76 averaged in second price of $19.46 on 5/23/12 at 11:50AM**

***** Paris stock symbol GLE.PA**