SPECIAL REPORT

A Phoenix Capital Research Publication

Protect Your Savings

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Protect Your Savings

The purpose of these reports is to help you prepare your family/ loved ones, savings, and investment portfolios for the next round of systemic risk.

In order to understand why there will be a second round to the Great Crisis you need to understand how the global financial system truly operates. To do this, we highly recommend reading our Special Report ***The "C" Word: The Dark Secret the Fed Wants Hidden*** before you continue with this current report.

For those of you who have already ready ***The "C" Word: The Dark Secret the Fed Wants Hidden***, let's get started.

Today, the single biggest risk to your savings is the derivatives market.

As their name implies, derivatives are securities that are "derived" from underlying assets (homes, debt, etc.). There are two types of derivatives, the Over the Counter or OTC Derivatives, which are totally unregulated and Exchange Traded Derivatives Contracts, which are traded through exchanges.

For the purpose of this report, we'll be focusing on unregulated, Over the Counter Derivatives.

In plain terms, these are investment securities that are traded privately between banks, financial firms, hedge funds and others. No 3rd party exists to price these investments. No one regulates them or makes sure that they follow certain risk parameters. No one even monitors them except for the Bank of International Settlements, which occasionally publishes reports on them.

With that in mind, you should know that today the **OTC derivatives market is $639 *trillion* in size.**

To put this number into perspective, the entire Global GDP is $70 trillion. So we're talking about a market that is nearly ten times the size of the global economy.

And this market is totally 100% unregulated. Indeed, it is so unknown that even hedge fund billionaire George Soros, one of the most connected investors on the planet, won't use them because he says, "we don't really understand how they work."

And if that sounds dangerous to you, wait until you hear the following…

Back in 1998, the entire OTC derivatives market was just $80 trillion in size. At that time, Brooksley Born (who later would become chairperson of the Commodity Futures Trading Commission or CFTC), approached the three heads of economic policy in the US: Alan Greenspan, Bob Rubin, and Larry Summers.

Born was concerned that the OTC derivatives market was a danger to the financial system. She urged Greenspan and the others to regulate start regulating OTC derivatives by forcing the banks and others to begin passing these investments through an exchange.

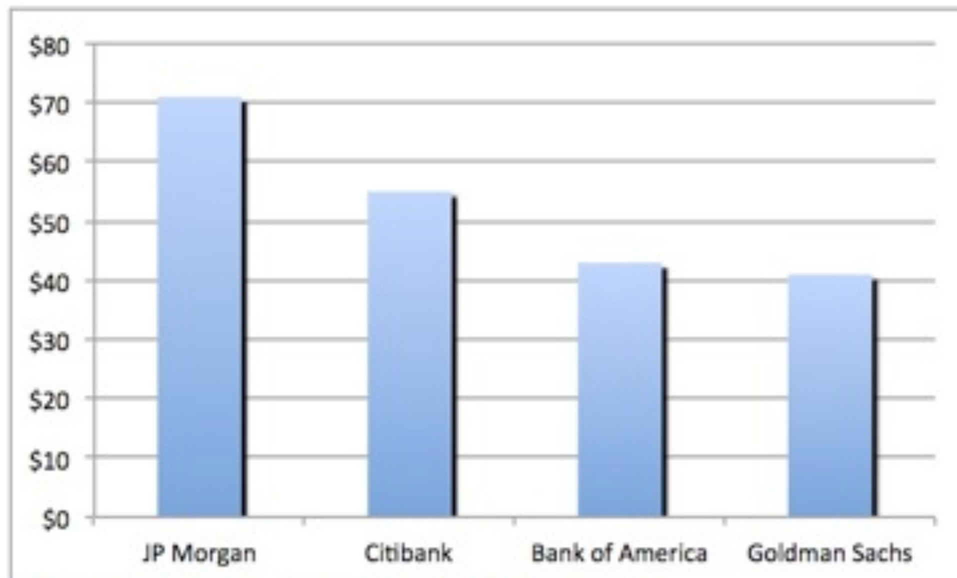

Figure 1. Derivative Exposure (in TRILLIONS)

Greenspan pushed back on the idea… as the others. Soon after Born approached the three men, she received a call from (then Assistant Treasury Secretary)Larry Summers in which he told her that he had 13 bankers in his office telling him that if they implemented her requested changes, it would trigger the worst financial crisis since the end of WWII.

Remember, this was back in 1998, a full DECADE before the 2008 Crash occurred, and already the bankers and regulators knew that OTC derivatives were such a big problem that trying to regulate them would ***destroy the market*****.**

And this was when the OTC derivatives market was just $80 trillion in size. Today it's $639 trillion, nearly eight times larger.

Today, derivatives remain largely controlled by the big banks. Indeed, while over 1,000 US commercial banks trade/ use derivatives, just four banks account for over 93% of total derivatives contracts in the US.

They are: JP **Morgan, Citibank, Bank of America**, and **Goldman Sachs**

Note that these are the four banks that received the bulk of the Fed's bailout money. It's no wonder: collectively they're sitting **over $200 trillion in derivatives** (Figure 1).

Total equity at these four banks is about $700 billion. So if you assume that only 1% of derivatives are "at risk" (meaning the bank is on the hook for that money) and 10% of that "at risk" money is lost, **you've wiped out nearly 1/3 of the banks' equity.**

If 2% of these derivatives are "at risk" and

10% of those bets go bad, **you've wiped out $400 billion or nearly HALF of the banks' equity.**

And if 4% of these derivatives are "at risk" and 10% of those bets go bad, **you've wiped out ALL OF THESE BANKS' EQUITY and they go to ZERO.**

Put another way, if even 0.25% of these derivatives trades go badly, you've erased the entire equity of the Too Big To Fail Banks.

Remember, I'm only accounting for derivatives here… I'm not even including ON BALANCE sheet risks, mortgage backed securities, and all the other junk floating around.

Suffice to say, if you've got your savings parked at one of these banks, you might want to consider shifting at least a portion of it to another bank with less derivative exposure.

Understand, I am in no way suggesting people start a "run" on these banks. After all, these are the very institutions that the US Government has refused to let fail (and likely will continue to do so given the massive derivative threats they pose to the system).

However, it is only prudent to consider that it might not be a good idea to park most of your wealth at a bank that is sitting on tens of trillions of Dollars worth of derivatives.

On the next page there is a list of the top 25 US Banks by Derivative Exposure.

I want to be clear here. The above chart MAY not be as bad as it looks. Remember, NOT ALL notional value of derivatives are "at risk." For instance, only 1% of the above derivative numbers might actually be REAL cash that would vanish if the bet went bad.

But, by the same token, NO ONE knows how much money is at risk here because OTC derivatives are totally unregulated.

Indeed, when you consider the nightmare that unfolded in 2008 due to investments that were *allegedly* regulated (mortgage backed securities, etc.)… as well as the fact that EVERY attempt to increase transparency in the OTC derivative market has resulted in threats of financial Armageddon from the banks, it's very difficult NOT to be deeply disturbed by the above numbers.

With that in mind, it's wise to avoid putting all of your savings in the above banks.

Aside from avoiding those banks that are most laden with derivatives, it's also a good idea to have some actual physical cash on hand because the FDIC will likely be overwhelmed with bank failures when the next round of the Financial Crisis hits.

After the Financial Crisis of 1929, the Government implemented a number of reforms meant to protector investors from losing their shirts if another Crisis ever occurred. One of the major pieces of legislation was the Glass-Steagall Act of 1933, which created the Federal Deposit Insurance Corporation (FDIC) among other things.

BANK	TOTAL ASSETS (in Billions)	DERIVATIVES (in Billions)
JP Morgan	$1,850	$71,076
Citibank	$1,365	$55,510
Bank of America	$1,448	$43,790
Goldman Sachs	$120	$41,230
HSBC	$196	$4,710
Wells Fargo	$1,218	$3,755
Morgan Stanley	$71	$2,531
Bank of NY mellon	$264	$1,264
State Street Bank	$200	$978
PNC Bank	$292	$383
Suntrust Bank	$168	$275
Northern Trust	$93	$213
US Bank National	$342	$126
Regions Bank	$120	$109
BB&T	$176	$81
Keybank National	$84	$78
Fifth Third	$114	$76
TD Bank USA	$200	$69
Union Bank	$87	$62
RBS Citizens	$107	$38
BOKF National	$26	$37
Capital One	$161	$32
Flagstar Bank	$14	$29
Ally Bank	$92	$27
Huntington National Bank	$56	$27

In plain terms, the FDIC is in charge of making sure that bank deposits are insured. Today it insures deposits of up to $100,000 per account.

In plain terms, what this means is that as long as you have $100,000 or less in a savings/ checking account or certificate of deposit, if your bank goes under you'll still keep all of your money. This is a matter of pride for the FDIC which publicly states that since 1934, no depositor has lost a cent of insured funds due to a financial institution failing.

To its credit, the FDIC was able to manage the Bank Crisis of the 1980s as well as the Savings and Loans Crisis of the early '90s. However, this recent Financial Crisis has proven to be a totally different animal. Since it began, over 470 US banks have failed.

Indeed, according to recent filings, the FDIC has 690 banks on its "problem bank list": its official list of banks that could go under due to bad loans. This means that nearly one out of every 10 banks the FDIC insures is in trouble. Collectively, these institutions have over $260

billion in assets.

And the FDIC's Insurance Fund, which is meant to guarantee deposits for all US banks, not just the troubled ones, is only $22 billion in size.

This is a huge deal because when the FDIC takes over a failed bank, it tries to auction off the failed bank's assets. If the assets are worth less than the deposits the FDIC insures, the **FDIC must cover the difference.**

So… if things ever get truly ugly in the banking system (as they likely will) it's quite possible the FDIC will be overwhelmed with bank failures.

This is why I recommend having some cash in a personal safe on hand.

Indeed, with interest rates at 0%, the only real benefit to having your money in a bank is because it's "guaranteed" up to $100K. But if the FDIC, which is guaranteeing your money, doesn't have the funds to truly insure deposits… it makes some sense to have actual money on hand.

Because of this, it makes sense to consider alternatives to maintaining ALL your money in a US bank account. At the very least you should consider having some actual cash on hand (say two to three months' worth of expenses) in a personal safe that you tell NO ONE but your most trusted loved ones about.

You could also consider opening a bank account outside of the US if you're an American.

Now, this is one area in which I am not an expert. Indeed, with the Feds beginning to implement capital controls, this process has become a lot more difficult, so I am hesitant to give specific ideas.

All I can say is that if you choose to do this, you need to do some SERIOUS homework. By this I mean consulting a lawyer who is well versed in these matters, performing your own due diligence on a given country, and taking steps to insure you know the bank extremely well.

This concludes the *Protect Your Family* portion of the ***Phoenix Investor Personal Protection Kit.*** To other two reports, ***Protect Your Family*** and ***Protect Your Portfolio***, can be downloaded at the Subscribers only ***Private Wealth Advisory*** website.

Best Regards,

Phoenix Capital Research