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ULTIMATE CRISIS PLAYBOOK

24 TACTICAL STEPS TO SURVIVING AND
THRIVING IN THE COMING MARKET CRASH

ULTIMATE CRISIS PLAYBOOK

Dear reader,

You have at your fingertips what may be the most important report our firm has ever published.

We wanted to get it out to everyone—completely free, no strings attached—as soon as possible. Here’s why...

On February 5, 2018, the Dow plunged 1,175 points—the biggest one-day point drop in history. At one point during the day, the Dow was down 1,579 points—the largest intraday point drop in the history of the index.

That record drop could be the start of a major correction. Or it could just be a blip. We don’t know... But we’re not going to wait to find out...

You see, no one knows exactly when a crash will hit. It could be tomorrow... or next year. But we do know one is inevitable.

A massive drop can come out of nowhere. We don’t want you to be caught flat-footed when it does.

That’s why we immediately put together this special *Ultimate Crisis Playbook*.

We polled a “brain trust” of some of the brightest minds in our industry—investors, speculators, and traders—across several franchises: Palm Beach Research Group, Bonner & Partners, and Casey Research.

Their collective ideas will tell you everything you need to be prepared for (and profit from) a crash—no matter when it strikes.

In this free report, you’ll learn how to protect your wealth with precious metals like gold and silver, and cryptocurrencies like bitcoin. We’ll also show you trading strategies that work in any market. Every entry is timely and extremely valuable for what lies ahead.

For instance:

- In Chapter 1, you’ll see why owning some gold and gold coins is always a good idea.
- In Chapter 13, you’ll learn how to profit “when blood is running in the streets.”
- In Chapter 15, we’ll show you which five assets you should own to protect your wealth from a crash.
- In Chapter 18, you’ll learn how to make money from the market... *when stocks are falling*.
- In Chapter 21, we’ll tell you the 10 items you need in your “bug-out bag” in case you need to flee your country of residence.
- And in Chapter 24, you’ll find out why you should put some money into cryptocurrencies.

ULTIMATE CRISIS PLAYBOOK

No one knows precisely when the carnage will happen. But there's no point in preparing for a crash...

AFTER it's already happened.

We encourage you to print this out and keep it handy. While everyone else is panicking, you'll be prepared to survive *and* thrive...

Sincerely,
Rachel Bodden
Managing Editor, Casey Research

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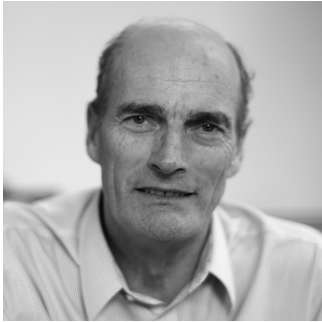
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Section 1

**THE IMPENDING CRISIS—AND
WHY YOU'RE RUNNING OUT
OF TIME TO PREPARE**



From Chris Lowe
Editor, *Inner Circle*



Bill Bonner
Founder, Agora Financial

Chapter 1

Bill Bonner on the Future You Won't Like

The following is an exclusive Q&A with Agora founder Bill Bonner... and what he believes is the single-biggest risk you face today as a builder of wealth.

Bill isn't buying into the bull market on Wall Street... or claims by the 45th president of the United States that a "middle-class miracle" is just around the corner thanks to unfunded tax cuts.

In fact, Bill reckons that something very different lies in wait.

Fair warning before you read on: It's a future you won't like. Because it will bring the biggest debt crisis the world has ever seen crashing down on the economy... and on unsuspecting investors.

Chris Lowe (CL): You were in London last year to talk to a group of investors. What was the topic of your speech?

Bill Bonner (BB): I talked about what we've learned in America over the last year or so – that politics trumps, if I can use that expression, economics.

We've had lots of discussion, and there's been lots of excitement, because of the election of Donald Trump, somebody who had no history in politics at all. It's a remarkable thing.

CL: What's your take so far on the Trump administration?

BB: The biggest promise made by the Republicans, and by Donald Trump, was the repeal of Obamacare. The GOP has been promising this ever since Obamacare became law. And on the stump, Trump promised this would happen on day one of his presidency.

This was dear to the hearts of many Americans because Obamacare is the most open-ended of our social welfare programs. Roughly 10,000 baby boomers retire every day in America. Every one of them is going to want some sort of healthcare. And there is no way to put a cap on that spending.

CL: So spending keeps going up along with government deficits. Is that your worry?

BB: Under Obamacare, everybody gets insured under this public-private partnership. Once you're insured, you can spend as much as you want... because you don't pay, your insurer does. This is an invitation to national bankruptcy, and everybody knows it.

But Republicans – who control the White House, Congress, and the Senate – have failed to make good on their promise.

We shouldn't expect cuts to the warfare state, either. President Trump has put a military *junta* – Generals Mattis, McMaster, and Kelly – in charge. Because the president knows nothing about foreign policy, he has put the *junta* in control of that.

We have a warfare state that spends about \$1 trillion a year trying to tell other people what to do. The imperial agenda was set many years ago. That's not going to stop under Team Trump. Wars that America has been waging for the last 15 years are not going to come to an end, either.

So we have welfare spending running wild. And we have a warfare state running wild, too. Meanwhile, the financial system is not going to be reformed because the president has put the "Goldmen" – Steven Mnuchin and Gary Cohn – in charge there. These guys are not going to reform the system that's made them rich.

So we have all these things that were promised. Things that we thought had to be brought under control. And so far, not one of them has been brought under control.

CL: What do you make of the Trump administration's tax cuts?

BB: First off, the tax system is terrible. Everybody wants it simplified. Let me give you an example of what I mean...

Several years ago, while I was living in France with my family, I was audited. I had a British accountant at the time. And he knew that we couldn't win this case on the facts. French bureaucrats are very diligent when they're trying to get money out of you.

So my accountant went in to a meeting with the French auditor armed with my U.S. tax return – all 120 pages of it. He plopped it down on the desk with a thud. And he told the auditor, "All right, you want to audit my client? You've got to work through this first." The guy trying to audit me said he didn't want to do that. It was too tough.

Reforming the tax system should be easy. But it can't be reformed. Because the people who need to do something to make it happen don't want it to happen.

CL: You have personal experience of this. You started your career lobbying Congress to cut taxes.

BB: That's right. When I was in my 20s, I joined an organization called the National Taxpayers Union, which lobbies for lower taxes. It was so poor and so thinly managed, I quickly became the executive director.

This was in the 1970s. We were trying to get control of taxes, because even back then, they were running wild. And we made some progress. For instance, we got the tax bands indexed to inflation. That was a big deal, because it stops income taxes growing faster than incomes – so-called bracket creep. And we almost got a constitutional amendment prohibiting the government from borrowing money, except in cases of national emergency.

So there I was in my office at the National Taxpayers Union. There were mice running around the corners. It was a pretty pathetic scene. But I did learn quite a bit about the way the government really works. I learned that taxes would always go up and up... and that the government would always get bigger and bigger.

That was the lesson of the Reagan years. When Ronald Reagan got elected in 1980, I thought it was just great. I was a young conservative. Finally, we had this white knight arriving from California with his troop of saviors. These guys were going to cut taxes and government spending.

It started out pretty well. In 1981, President Reagan passed major tax cuts. Marginal rates came down by about 25% across the board. The problem was that government spending didn't go down. It went up! And the national debt, which candidate Reagan had pledged to cut, ended up going up more during his two terms than under any president previous to him except for FDR during World War II.

CL: You've gotten a severe backlash from your readers over your criticism of Team Trump and its tax cuts. Why has that backlash been so strong, do you think?

BB: I've been amazed that so many of my readers are outraged that I would criticize Trump. What they may not realize is that I've criticized almost every major politician in America. I believed every one of them was a fraud in some way or another. I don't think I've been wrong about any of them. And I don't think I'm wrong about Trump.

But many of my readers were so mad that I had to ask myself: "Why are they so angry? Why are they taking this so seriously?"

CL: Did you come up with any answers?

BB: I think it's mainly for economic reasons. After adjusting for the effects of inflation, the average American worker hasn't had any serious wage growth for the last 40 years. And today, there are fewer working-age men with jobs than there were in 1975.

The situation is dire. Of course, you don't see it so much if you live in D.C., or New York, or San Francisco. But in the heartland of America, there are millions of people who feel strongly that something needs to be done.

That's why Donald Trump is president. So many people have been left out of the Fed-driven wealth creation program that followed the 2008 crisis. But if you owned stocks and bonds – or if you worked on Wall Street – you did spectacularly well. [See chart on following page.]

S&P 500 and Long-Term Treasury Bonds



Most people don't understand what's been going on. That's quite natural. It's not easy to understand what's been going on. I don't even understand what's been going on, and it's my job to figure these things out.

Then along came Donald J. Trump. On the stump, he talked as though he understood exactly what was going on and how to fix it. He was going to shake things up. He was going to drain the Washington "swamp." He was going to get better deals for Americans.

So all of a sudden, people who didn't know what was going on... whose wages have been flat or falling for the last 40 years... who didn't own big portfolios of stocks or bonds – they were putting on those red "Make America Great Again" caps and voting for Trump.

The only problem is that Donald Trump is not going to make America great again. Because he doesn't know what's wrong with America, he doesn't know how to fix it. And he couldn't fix it if he wanted to, because he doesn't have the support he needs in Congress.

That's another one of the lessons I learned during my time in Washington at the National Taxpayers Union. You need tremendous discipline, and you need a tremendous amount of support in Congress and from voters, to make meaningful changes. Trump doesn't have that kind of support. He's not even close. And he doesn't understand that he's not even close.

These systems are not self-correcting. You can't change them. So that's the reason the title of my talk in London was "The Future You're Not Going to Like." There's no way to make the changes you would need to radically reform the system and avoid catastrophe. And Trump doesn't change that.

CL: So Team Trump's tax plan is not the "middle-class miracle" it claims to be?

BB: Something else I learned when I was in Washington was to have a deep cynicism toward government. I thought my cynicism was up to the challenge. But these days, I find it's running a little short. To fully appreciate what's going on, you need a very, very deep well of cynicism.

The tax reform plan is phony, phony, phony. Team Trump says it will help the middle class. But the latest study by the Tax Policy Center calculates that many in the middle class will pay more in taxes, not less. Meanwhile, the plan would add another roughly \$21 trillion to the national debt by 2036.

As a business owner, I will see the top rate on my company's earnings go from 35% to 21%. So this will be a big deal for me. It'll be great. But it won't do anything it's advertised as doing for the middle class. And it's a total disaster in terms of the national debt.

CL: So where do we go from here? What should readers expect to see coming down the pike?

BB: If real reform is impossible, which I believe it is, what we end up with is a system that's going full speed ahead that's got to continue going full speed ahead... until it finally blows up.

Without meaningful reform, debt is going to go up and up. There's nothing that can stop it. We're living through a bubble in debt. And what comes after a bubble in debt? A crash in debt. A stock market crash. A depression. There is no other possible outcome.

CL: What will be the pin that pricks this bubble?

BB: This is where it gets really interesting. I believe the Fed is going to puncture this bubble by reversing course on eight years of monetary stimulus.

Under Janet Yellen, the Fed has raised rates three times during 2017. And it says it's on track to raise rates one more time this year and three more times in 2018 and twice in 2019. Meanwhile, it also has announced it will reduce its holding of bonds—acquired during three separate QE programs—by \$10 billion a month... and ratchet that number up until it reaches \$50 billion a month.

[When the Fed engages in QE, it buys Treasury bonds from private hands using money it creates out of thin air. Then it adds those bonds to its balance sheet. This leaves cash in the hands of bond sellers—banks, pension funds, insurance companies, etc.—who can use it to buy stocks, bonds, and other financial assets.]

That means the Fed's balance sheet will be shrinking at a rate of \$600 billion a year... which is not tiny. If it sticks to that plan, interest rates will rise and the debt bubble will pop long before the Fed gets to its \$600-billion-a-year target. And that'll be the end of the whole thing.

CL: What advice do you have for investors, given your outlook on stocks?

BB: The Austrian School economists warned that every boom built on funny money – like this boom is – would end in a bust in which all the wealth that had been created during the boom would disappear. That’s what we’re going to see.

I’ll give you the same advice I recently gave lifetime members of *The Bonner-Denning Letter*. You want as much “reality” in your life as possible.

You probably want some gold. You probably want some gold coins. You probably want a garden. Or even better, productive farmland. And for the rest of your portfolio, you want to stay well diversified. Don’t just own U.S. stocks, for instance. Look for opportunities elsewhere.



By Doug Casey
Founder, Casey Research

Chapter 2

Making the Chicken Run

“Making the chicken run” is what Rhodesians used to say about neighbors who packed up and got out during the ’60s and ’70s, before the place became Zimbabwe. It was considered “unpatriotic” to leave Rhodesia. But it was genuinely idiotic not to.

I’ve written many times about the importance of internationalizing your assets, your mode of living, and your way of thinking. I suspect most readers have treated those articles as they might a travelogue to some distant and exotic land: interesting fodder for cocktail party chatter, but basically academic and of little immediate personal relevance.

I’m directing these comments toward the U.S. mainly because that’s where the problem is most acute, but they’re applicable to most countries.

Now, in 2018, the U.S. is in real trouble. Not as bad as Rhodesia 40 years ago—and definitely a different kind of trouble—but plenty serious. For many years, it’s been obvious that the country was eventually going to hit the wall, and now the inevitable is rapidly becoming imminent.

What do I mean by that? There’s plenty of reason to be concerned about things financial and economic. But I personally believe we haven’t been bearish enough on the eventual social and political fallout from the Greater Depression. Nothing is certain, but the odds are high that the U.S. is going into a time of troubles at least as bad as any experienced in any advanced country in the last century.

I hate saying things like that, if only because it sounds outrageous and inflammatory and can create a credibility gap. It invites arguments with people, and although I enjoy discussion, I dislike arguing.

It strikes most people as outrageous because the long-running post-WWII boom has been punctuated only by brief recessions. After 70 years, why should it ever end? The thought of a nasty end certainly runs counter to the experience of almost everyone now alive—including myself—and our personal experience is what we tend to trust most. But it seems to me we’re very close to a tipping point. Ice stays ice even while it’s being warmed—until the temperature goes over 32°F, where it changes very quickly into something very different.

First, the Economy

That point—economic bankruptcy accompanied by financial chaos—is quickly approaching for the U.S. government. With deficits over a trillion dollars per year for as far as the eye can see, the U.S. Treasury will very soon be unable to roll over its maturing debt at anything near current interest rates. The only reliable buyer will be the Federal Reserve, which can buy only by creating new dollars.

Within the next 24 months, the dollar is likely to start losing value rapidly and noticeably. Foreigners, who own over 6 trillion of them (including T-bills and other IOUs), will start panicking to dump them. So will Americans. The dollar bond market, today worth \$40 trillion, will be devastated by much higher interest rates, a rapidly depreciating dollar, and an epidemic of defaults.

And that will be just the start of the trouble. Since the U.S. property market floats on a sea of debt (and is easy to tax), it's also going to be hit very hard, again, this time by stifling mortgage rates. The next step is up for interest rates. Forget about property owners paying their existing mortgages; many won't be able to pay their taxes and utilities, and maintenance will be out of the question.

The pain will spread. Insurance companies are invested mostly in bonds and real estate; many will go bankrupt. The same is true of most pension funds. If the stock market doesn't collapse, it will only be because money is looking for a place to hide from inflation. The payout for Social Security will drop significantly in real terms, if not in dollars. The standard of living of most Americans will fall.

This rough sequence of events has happened in many countries in recent decades, and they've survived the tough times. But it has the potential, at least in relative terms, to be more serious in the U.S. than it was in Argentina, Brazil, Serbia, Russia, Mozambique, or Zimbabwe for two main reasons.

First, many people in those countries knew they couldn't trust their government and acted accordingly, even in contravention of the law, by accumulating assets elsewhere. So, there was a significant pool of capital available for rebuilding. Americans, on the other hand, tend to be much more insular, law-abiding, and trusting in their government. When they lose their U.S. assets, they'll have lost everything.

Second, those societies were significantly more rural than the U.S. is today. As in the America of 100 years ago, much of the population lived quite close to the land and had practical skills and habits that helped them get through the tough times. For 21st-century Americans, it's a different story. Shortages and disorder are going to hit commuters who live in suburbs, and urban dwellers who think milk appears in cartons magically, like a ton of bricks.

One thing you can absolutely count on is that everyone will look to the government to “do something.” Americans really do think governments control the way the world works. Another certainty is that the U.S. government will “step in” massively, because everyone will want them to, and the politicians themselves believe they should. This will greatly aggravate the crisis and make it last much longer than necessary.

Then It Gets Serious

But that's just over the short run. The long run is much more serious because the next chapter of the Greater Depression has every chance of radically, and at least semi-permanently, overturning the basic character of American life. Ice turned to water—suddenly and unexpectedly—in Russia in 1918, Germany in 1933, China in 1949, Vietnam in 1954, Cambodia in 1975, and Rwanda in 1995. Those are just the first examples that come to mind. There are scores more.

The economic events I've outlined are going to mean serious hardship and unpleasantness for many people. But that doesn't concern me nearly as much as the social and political reaction.

Everybody gets hurt in a serious depression, but if you understand what's going on and prepare for it, you can do well enough. Of course, political and social change always follow economic and financial upheaval, but I think it's going to be much more drastic this time because the U.S. has been on the road to becoming a police state for quite a while. The trend was supercharged by the so-called War on Terror, starting in 2001. And it's likely to go into hyperdrive in the months to come as the economy emerges from the eye of the storm. I know it seems asynchronous to think of a police state in a suburban country dotted with shopping malls. But not really.

Think in terms of science fiction, a genre that has far more predictive value than the work of any futurist or think tank.

Reality is mimicking art. In 1932, Aldous Huxley described a highly controlled utopia in *Brave New World*, where drugs made everybody think (actually feel, because thinking could only make you unhappy) that they were happy. The U.S. has pretty much done that drill, consuming massive quantities of everything on credit, watching *American Idol* and its clones in every spare moment, and using plenty of Ritalin and Prozac along the way.

Sixteen years later, George Orwell described an even more tightly controlled dystopia in *1984*. Everybody knows that story, even if they haven't read the book.

Interestingly, like good sci-fi writers, both authors were just a generation or so ahead of events. What we're likely to see in the next few years is elements of both their worlds.

Actually, we're seeing it right now, or at least a preview. Whenever I return to the U.S., dealing with Immigration and Customs makes my skin crawl. And they're no longer just at airports and the border; they now range many miles inland and make random stops to see if your papers are in order.

They're almost as objectionable as the TSA, which has developed a highly dangerous corporate culture, even as it's grown in numbers and power, now reaching into buses, trains, and soon the highways. The FBI, the CIA, the DEA, the ATF, the Secret Service, the Federal Marshals, FEMA, and literally scores of other national law enforcement agencies are all expanding rapidly.

They've long constituted a veritable Praetorian Guard, but now truly have lives of their own. Homeland Security is completing its new 400-acre campus in Washington, D.C. Police forces all over the country are increasingly militarized in both equipment and attitude. And the military itself, bloated on a budget of hundreds of billions a year, has come a long way from the slapstick world of Beetle Bailey, full of steroid-pumped Black Ops wannabes who've picked up plenty of bad habits in the government's numerous undeclared wars. All these types endorse the dozens of "fusion centers" that have been created across the U.S. to collect and correlate information from every source imaginable, for some purpose.

All these organizations are bureaucracies. They serve themselves first. Their prime impulse is to grow and increase their budgets. They tend to attract the wrong kind of person and drive out people of good will. And it's reached a stage where even if John Galt were elected president, he'd find them not just impossible to uproot but dangerous to confront.

So, here's another prediction. Riding the economic and social disorder, these new Praetorians, oriented as they are toward professional paranoia and the "national security" state, are going to become truly virulent. They're going to use the continuing economic crisis to increase their power, like it or not. The American people will demand it, since they are so degraded that they really do prefer the appearance of security to the prospect of having to take personal responsibility.

If I'm right (and I feel as sure about this as I ever have about anything), then it's not going to go well for libertarians, classical liberals, old-line conservatives, individualists, freethinkers, non-conformists, people who subscribe to letters like this or cruise suspicious websites, or gamma rats, generally. It was a dangerous environment for these types (not to mention those of Japanese or German descent and members of various religious groups) during America's past crises. When the chimpanzees are hooting and panting, you'd better join them, or they'll start wondering why not.

I expect what we're looking at is going to be much more serious than any past crisis, partly because America has already evaporated, like the morning haze on a hot summer's day. You're not in Kansas anymore. Kansas isn't in Kansas anymore.

Regards,
Doug Casey
Founder, Casey Research

Section 2

**THE BEST STRATEGIES TO
PROTECT YOUR SAVINGS
IN THE COMING YEARS**



By Teeka Tiwari
Editor, *The Palm Beach Letter*

Chapter 3

Your Market Crash Survival Guide

The worst market crash of my life wasn't the 2008 meltdown. It wasn't the collapse of the dot-coms. The worst crash I ever lived through was the 1989-1990 technology bear market.

The Nasdaq was still a young exchange back then. The total market cap was about \$900 billion. Today, it is closer to \$7 trillion. During the 1989-1990 bear market, the Nasdaq dropped 34%. It was a slow, merciless grind lower.

I was a newly minted 19-year-old money manager. There I was building a business in the absolute worst market since the 1987 stock market crash. Being young and attracted to tech, my portfolios were stuffed with names like Apple, Intel, and Oracle.

During the lows of late 1990 I was sitting on losses of 50% in Apple, 45% in Intel, and a whopping 82% in Oracle.

I'd love to tell you that I handled that bear market like a champ. I didn't. That market chewed me up one side and spat me out the other. I made all the wrong moves. I had no stop loss in place. I had no position sizing rules.

You can imagine what happened. I ended up selling at the absolute worst time. Pretty much near the lows. I compounded my error by not getting back into these names when it was clear the bear market was over.

On a split-adjusted basis, I ended up selling Apple at about \$0.91, Intel at about \$0.87, and Oracle at \$0.12. Today, Apple trades for \$156, Intel is \$44.50, and Oracle is \$48.

Regret is a great teacher.

I came into the market at a truly unique time. I've lived through some of the worst market crashes in living memory. The '89 junk bond market crash, the '91 recession, the 1994-1995 bond bear market, the '98 Asian crisis, the 2000 dotcom bubble, the 2008 financial crisis, the 2010 flash crash and a host of other smaller panics.

There are two key lessons I have learned:

1. **Financial assets such as stocks and bonds should only be one part of your investment strategy.** Having all your eggs in one or two asset classes is not smart. That's why at *The Palm Beach Letter* we take a holistic approach to wealth building.

We recommend also investing in real estate, private business ownership and alternative income investments outside of the traditional stock and bond markets.

- 2. Always have a plan for handling bad news.** When we invest in stocks we always use a stop loss. The stop loss is there to protect our capital from prolonged and violent moves lower.

On some positions, such as our crypto investments, instead of using a stop loss we cap our position size. Cryptos are so volatile they would stop you out every other month. To handle that, we only put in as much money as we would be prepared to lose if the position went to zero.

In hindsight, the way for me to have played the tech market of the early '90s would have been to have had a lot of small positions in a widespread portfolio of tech names.

As an inexperienced 19-year-old, I underestimated both the volatility and the potential upside of the names I was in. Today I can tell you that have learned from my mistakes.

It's the reason why virtually every name we own in the *Palm Beach Letter* has a stop loss attached to it. And it's the reason why I made the decision to not use stops with my crypto picks but insist that we use small position sizes of \$400-\$1,000.

Just like the Apples, Intels, and Oracles of today, we will look back on the market carnage of early 2018 with fond memories of being well-positioned to weather any storm. Others will look back and lament on the names they once owned that would have made them millionaires if only they had a plan.

Friends, you have a plan and I urge you to stick with it.

Let the Game Come to You!

Teeka "Big T" Tiwari

Editor, *The Palm Beach Letter*



By Chris Mayer
Former Editor,
Bonner Private Portfolio

Chapter 4

Three Steps to Prepare Your Portfolio for a Stock Market Crash

When the next crash comes, they'll blame the machines. And they'll be wrong – again

October 19, 1987 is known as “Black Monday.” On that day, the Dow Jones Industrial Average lost more than a fifth of its value.

The 22.6% drop was the biggest one-day percentage loss in history – even bigger than the crash of 1929.

What caused it?

The popular explanation is to finger “portfolio insurance” – the strategy used the futures market to try to protect a portfolio against a decline. It's hard to explain exactly how it worked, but basically it meant selling stocks as the market went lower.

This was all done by a computer program. Thus, the selling happened automatically. There was no attention given to the fundamentals of individual stocks. There was nobody working to answer the essential question: “What is this stock worth?”

And so, the theory went, portfolio insurance selling snowballed out of control and led to that big decline in 1987.

Now, most people take the “portfolio insurance” story as a given. (The *Financial Times* matter-of-factly declared it “a leading contributor to the 1987 ‘Black Monday’ crash.”)

I say the theory is bunk.

Why Catastrophes Happen

There is no theory that really explains why the 1987 crash happened. Why that day? Why not the next day? Or the next week? What was the trigger, exactly? No one knows...

The portfolio insurance theory has some big holes in it, as one Wall Street observer noted:

The theory that gained the most credence [in explaining the 1987 crash] was that the crash was caused by so-called portfolio insurance computer programs, which in essence sold stocks as the market went lower... Unfortunately for the theory, it does not explain very well why markets around the world crashed simultaneously or why the decline stopped.

It is at an utter loss to explain why many indexes around the world that had no computer trading fell further than the Dow Jones Industrial Index.

This quote comes from a book titled *Ubiquity: Why Catastrophes Happen* by science writer Mark Buchanan. I recommend the book. Buchanan is a good writer and the ideas he covers apply to all areas of life.

Published in 2002, this book's thesis is timeless. Buchanan covers catastrophes of all kinds – earthquakes, wars, and yes, stock market crashes. He writes how we always have ready explanations for these big events *after* they happen.

But he shows us, using insights from physics, how our existence “must be punctuated by dramatic, unpredictable upheavals; and to see why all past efforts to perceive cycles, progressions, and understandable patterns of change in history have necessarily been doomed to failure.”

One of Buchanan's memorable examples involves using a simple sand pile to try to find out what causes an avalanche. If you take a grain of sand and then pile another grain of sand on top of it and another and another... How long before the pile collapses? What triggers it?

Three physicists from Brookhaven National Laboratory tried to answer this question in their lab. They ran lots of tests. And what did they find?

They found there was no way to predict an avalanche, or its size. There was no pattern. Sometimes the avalanches would be small, sometimes large. It seemed any grain of sand could trigger an avalanche at almost any time.

Buchanan writes:

[...] every avalanche large or small starts out the same way, when a single grain falls and makes the pile just slightly too steep at one point. What makes one avalanche much larger than another has nothing to do with its original cause, and nothing to do with some special situation in the pile just before it starts. Rather, it has to do with the perpetually unstable organization of the critical state, which makes it always possible for the next grain to trigger an avalanche of any size.

In other words, triggers are unpredictable. An avalanche can happen at any time.

Buchanan piles on more evidence of similar findings in a variety of fields to reach “the surprising conclusion that even the greatest of events have no special or exceptional causes.”

This is hard for most people to swallow. They want a reason why something happened. They want to have a theory. But most things happen for reasons we don't understand.

Three Ways to Invest in a World Prone to Catastrophe

When the 1987 crash happened, I was 15 years old. I remember being intrigued by the whole thing, but not really understanding what was going on.

The mystery of the crash partly helped fuel my interest in finance – and stocks specifically.

In the ensuing 30 years, I've lived through many more market catastrophes. They're never easy to get through. Here are three steps to help you:

- **Always invest carefully.** I always chuckle when I hear people say, “now is the time to be careful” – as if there is a time to be careless! You should always invest carefully in a portfolio of stocks in well-financed companies at good valuations with managers who have skin in the game.
- **Only invest with money you can afford to leave alone.** The longer, the better, but I think three years is probably a minimum. If you can do without the money you invest for at least three years, then this horizon will help limit the risk of having to yank your money out at a bad price just because of some stock market calamity like 1987. You can afford to wait for better prices.
- **Keep something in reserve.** You want to have the ability to add to your favorites if the market gives you a chance to do so at great prices. You can't take advantage of a crash if you have no money.

If you follow these three key points, you'll get through better than most everyone else.

Regards,
Chris Mayer

From Thompson Clark, former analyst, *Bonner Private Portfolio*: Preparing for a crash is really quite simple. The key is to have a low amount of debt and have cash ready to act and buy whatever comes on sale. A “low amount of debt” is really a low monthly debt service payment relative to your take home pay.

Great fortunes are made during panics. You need to have cash when no one else does. The hard part is holding cash during the bull market run up. All your friends, and the market more broadly, will outperform you and your cash, which earns zero. If you can get past this envy of others who are temporarily outperforming you, you should make it out OK.

We have a limited amount debt and plenty of cash. The other piece of advice relates to time horizon. My 401k is and will remain 100% S&P 500. I have a long enough time horizon (30+ years), where I can withstand a severe bear market and not get hurt long term. If you'll need cash to live off of in a few years, it's probably not wise to be heavily invested in stocks – regardless of where we are in the economic cycle.



By Chris Wood
Former Analyst,
Palm Beach Confidential

Chapter 5

Seven Proven Ways to Survive for the Next Market Crash

The most important thing to remember about a stock market crash is that it will happen. No one knows when. It could be next month. It could be two years from now. But I would bet that it does happen within that timeframe.

Big downturns in the stock market occur about once a decade on average. And we're about nine years removed from the financial crisis of 2007-2008 that knocked the market down more than 50%.

So it's important to have a plan in place and be prepared for these things.

Here are some key ways to prepare for the inevitable – and perhaps imminent – next big crash.

Diversify

It's important to diversify your investments as much as possible. And you don't just need to diversify your stock portfolio. You should diversify across different asset classes and geographies as well. How you allocate your investment portfolio will depend on your risk tolerance, time horizon, and goals. But remember that diversification gives you the best chance of weathering the storm relatively unscathed.

Invest for the Long Term

Stock markets rise over the long term. But they are interrupted often in the short term by downturns. The short term is more about investor sentiment and confidence (or lack thereof), while the long term is about real wealth creation as companies generate free cash flow and build a bigger wealth pie.

An often-cited general rule of thumb is that stock markets rise one-third of the time, fall one-third of the time, and recover one-third of the time. So the more long-term-focused your overall portfolio is, the better off you'll be.

Of course, that doesn't mean all of your trades, investments, or speculations need to look 20 or 30 years into the future. But you should keep your short-term plays should only make up a portion of your overall investment portfolio.

Take Emotion Out of the Game

It's important to have a set plan in place (written down) that you stick to when things go south to take emotion out of the game. That's because people (even very smart people and investors) do stupid things when they get scared. For example, if you had sold all your stocks during the last market crash and gone all cash, you would have missed out on the huge gains we've seen these past several years.

Having rules in place like hard and trailing stop losses and rules on position sizing, portfolio sizing, and rebalancing help mitigate risk and take emotion out of the equation.

Have as Little Debt as Possible

If you owe money before a crash, things don't get any easier during one.

Have a Good Bit of Cash on Hand

It's important to have cash on hand for two reasons.

If the stuff really hits the fan and you lose your job or something, you need cash on hand to pay your bills and buy food. Having a year's worth of cash is a good start. Two years is better. Three is outstanding. And that should be enough.

It's also important to have cash on hand to take advantage of the crash. Remember as Doug Casey likes to point out, the Chinese symbol for crisis is a combination of the symbol for danger and the symbol for opportunity: "The danger is what everybody sees; the opportunity is never quite so obvious as the danger, but it's always there. Speculating in crisis markets is the ultimate way to be a contrarian, which means buying when nobody else wants to buy."

The opportunity during a crash is simple: the good stocks get taken down with the bad when the market tanks, so if you have cash on hand you can pick up those good stocks for a bargain.

As Warren Buffett says, "Be greedy when others are fearful."

Look for Stocks That Will Hold Up Better Than Others During a Downturn

There are some types of stocks that tend to do better in a downturn than others, so look for stocks with that kind of profile. You also might want to make strategic trades in areas like small cap biotech, which is news driven, and can actually do well even in a down market.

So what types of stocks are we looking for here?

Producers of Staples: Traditionally, consumer staples are products such as food, soft drinks, alcoholic beverages, tobacco, personal-care products, and household products. Companies that make and sell these products, such as Procter & Gamble, comprise the "consumer staples" economic sector.

But the tech sector also markets products that meet the broad definition of a staple: a product that remains in demand, regardless of economic conditions, because people are unable or unwilling to cut them from their budgets. Pharmaceuticals and medical devices are examples. And we think some consumer electronic products, such as mobile phones and PCs, have become so integral to modern-day life, that they, too, have become staples.

Consider this: 47% of US consumers said they wouldn't last a day without their smartphone. And those aged 18-24 say a smartphone is more important than deodorant and even a toothbrush, according to a 2014 survey by Bank of America.

Pricing Power: While our discussion above on consumer staples pertains to the ability of product groups to remain in demand regardless of economic conditions, pricing power pertains to any particular company's ability to maintain sales prices, and therefore, margins, despite an erosion of price levels in the economy at large.

Conditions that indicate the existence of pricing power include: few competitors and high barriers to entry, an exceptionally strong brand, product features that are both preferred by customers and protected by patent, and an established network effect.

Also, consider that pricing power is really an ability to maintain margins. If a company is buying most of its supplies and a large part of its labor overseas, but is selling at home, then a strong dollar can drive down costs. So, a company only needs enough pricing power to keep consumer prices from falling faster than supply costs.

Strong balance sheets, long-term contracts, revenue profile, and growth catalysts should also be considered.

Develop Multiple Income Streams From Side Projects

Side projects generate cash for you while you're doing your everyday job. When it comes to this side of things, do something you know that could be easy and fun. In addition to finance and econ, I have a background in real estate, so I do some real estate investing on the side. Also, I love cars, so I recently bought a beat up quasi classic sports car that's in demand for next to nothing and I'm restoring it to its original glory. I'm going to end up putting \$10,000 in this thing total and easily selling it for more than \$20,000. That's a 100% return on a project that's not even work. The more streams of income you can develop, the better off you're going to be in a downturn.

Following these seven steps will help you survive (and thrive) during the next market crash.

Regards,
Chris Wood



By Greg Wilson
Analyst, *The Palm Beach Letter*

Chapter 6

It's Time to Go Back to the Basics

When preparing for a crash, I like to go back to the basics.

First, you should review your finances and answering the following questions:

Are you living within your means?

Are there areas where you can cut expenses?

Have you reviewed your credit cards and statements? (Banks and financial institutions make mistakes... the onus is on you to get them corrected.)

Once your financial house is in order, it's a good idea to prepare for any potential emergency, including a stock market crash.

To that end, I like to:

- **Keep a small amount of cash at home.** And then I leave a set amount in my savings account as well that is for emergencies only.
- I also **hold some physical gold and silver**, including some junk silver. Physical and in your possession is the key here. The goal is to never have to use it.
- As for stocks take time to **review your portfolio and your plan for each position.** What I do depends on the plan for the stock.
- I hold a **portfolio of "Legacy-type" stocks.** These are world-class, safe companies that will do well in any environment. I have no intention of selling these, even in a crash. I'll continue to collect dividends and put the cash to work at bargain prices.
- For stocks that I don't plan to hold forever, I **set trailing sell stops.** This is important. By doing so you're taking the decision out of your hands later on when it will be emotionally difficult to pull the trigger.
- Also, while you are reviewing your stocks, it's a good idea to **take a close look at your position sizes.** See if any of your positions are too big. One outsized position can crash your portfolio even if the market itself doesn't crash.

- I also recommend **putting a small amount of money into bitcoin and cryptocurrencies**. This asset class will be a beneficiary of any traditional financial chaos.

Again... it's all about having a game plan and going back to the basics. This simple field guide should help you significantly during the next crisis.

Regards,

Greg Wilson

Analyst, *The Palm Beach Letter*



By Justin Spittler
Former Editor,
Casey Daily Dispatch

Chapter 7

Five Ways to “Crash Proof” Your Portfolio Right Now

The following are my top five tips for surviving a market crash. I encourage you to take these guidelines seriously.

If you have any money in the stock market right now, take a good look at your portfolio.

1) Get rid of any expensive stocks. They tend to fall further than cheap stocks during major selloffs.

2) You should also avoid companies that need a growing economy to make money. These include airlines, major retailers, and restaurants; basically any company that depends on a healthy U.S. consumer.

3) Avoid companies with a lot of debt. If the economy continues to weaken, heavily indebted companies will struggle to pay their lenders. You don’t want to own a company that falls behind on its loans.

4) We encourage you to hold more cash than usual. Setting aside cash will allow you to buy world-class businesses for cheap after the next big selloff.

5) Finally, we recommend you own physical gold. As we often point out at Casey Research, gold is real money. It has preserved wealth for centuries because it’s a unique asset. It’s durable, easily divisible, and easy to transport.

It has also survived every major financial crisis in history. This makes it the ultimate safe-haven asset.

These simple yet proven strategies will help “crash-proof” your portfolio in case the economy continues to weaken.

In 2018, that’s never been more important.

Regards,
Justin Spittler



By Jason Bodner
Editor, *Palm Beach Trader*

Chapter 8

The Most Obvious Tell of the Market Can Save You Thousands

Market crashes, like anything, have two sides of the coin.

They can be nightmares for many and opportunities for the few who are prepared. I'll get into specifics in a moment, but first let's discuss what typically happens during a crash. First of all, crashes are often sudden, and especially now with the "flash-crash" moniker fresh on the minds of investors, sudden crashes are expected by many pundits to be the new norm.

The truth is, there is a tale of the tape that—if read properly beforehand—can save investors a lot of frustrations, anxiety, and money.

The most obvious tell of the market is when the market fails to break-through to new highs, especially after several attempts. On the surface, everything may seem fine, but there are often stressors under the surface that are hard to spot at the time. Think dot-com in 2000 and real estate in 2008. Generally, these cracks begin to occur when investor consensus is very bullish on the market. When bullishness reaches extreme levels, the market eventually reaches its uncle point and a rush for the exits occurs.

The good news is that often there are hints in the market that can forewarn a potential crash. The "smart money" is usually first in line to realize something is amiss in the market. The retail investor is rarely the first out. As big institutions with sizeable positions in stocks get internal signals of what they deem to be the top of the market, they try and prepare to sell stocks into a strong tape.

This naturally begins pushing stocks lower. Now, it doesn't happen all at once, and to the untrained eye, these sell-offs represent a chance to scoop shares up in hopes of the rally resuming. But when big institutions start dumping stocks, they try not to impact the market so they can get the best prices. They are professional money managers who get paid based on performance, so they are likely not going to announce it to the world that they are exiting stocks, until they are done exiting.

But what is the average investor to do?

The key is to keep a sound head. Allowing emotions to take over your decision-making ability is a recipe for disaster. The usual cycle is witnessing price destruction, doing nothing, allowing fear and anxiety to build, and ultimately crying uncle at the worst possible time.

It's classic human behavior and it happens time and time again.

The real question is, *"How do I know when to begin reducing risk, taking profits, raising cash, and be prepared to swoop in when the market bottoms out?"*

The simple answer from my perspective is to let the institutional investment community tell you. Think about it: They move in large packs, and their investment actions become a self-fulfilling prophecy. If the exit signs have illuminated for the biggest investors out there, then their moving in concert will spell the top by way of their actions only. When the dust settles after everyday investors have liquidated their portfolios because they can't stand losing any more money, is when institutions come in and start buying back. This cycle has happened countless times.

Wouldn't you rather be on their side of the trade?

My whole focus is to monitor what the "big boys" are doing in an effort to try and understand where they see the opportunities and risks.

Here's how we look at the market: If signs point to heavy accelerated institutional selling while indices power higher or remain flat, this is a key divergence that sounds alarm bells and makes us take notice.

These are the times to reassess the market situation and have a game plan ready should equities appear as though they are about to reach a tipping point. When reinforcing signals of selling are occurring across the board with specific sectors leading the stress, we feel it is prudent to cut that risk out of our portfolio and use that cash for when opportunity strikes.

Opportunity can come in many forms, but in the case of a crash—having dry powder ready to take a position when others are selling recklessly is the ultimate goal.

Remember what legendary investor Warren Buffett always says: "Be fearful when others are greedy and greedy when others are fearful." This is great advice, but buying when there's blood in the water like Warren Buffett does is only possible if you have money available to buy with.

In my opinion, picking the ultimate top and bottom is impossible and out of our control. I'll leave that game for others to play. Keeping a sound head, however, is imperative to be able to make the best out of a scary situation. Part of keeping calm is having a fine-tuned eye on what the market is really telling us, even when it seems like it's merely a whisper.

Again, we look to big institutional buying and selling activity to tell us when markets are about to power higher or when they are about to get pounded lower.

The current environment supports continued strong stock performance, but being able to realize when things go afoul allows us to position ourselves with a "risk management and opportunity" frame of mind as opposed to one dominated by "fear and dread."

Because it is counter-intuitive, many might find it easier to buy into an aging bull-market and difficult to buy into a painful selloff. The fact is that all major crashes have preceded long bull markets with higher highs.

It is only possible to take advantage of a crash as an opportunity if you are ready.

We all instinctively know what to do, but the hard part is knowing when to do it.

We can take the guesswork out of it by letting the unusual institutional activity tell us when it's time.

Regards,

Jason Bodner

Editor, *Palm Beach Trader*



By David Forest
Editor, *International Speculator*

Chapter 9

Use This Proven Commodities System to Avoid Getting Wiped Out

Protecting against downside risk is a top priority in any investment.

Like legendary investor Warren Buffett said, “Rule number one is: don’t lose money. Rule number two is: never forget rule number one.”

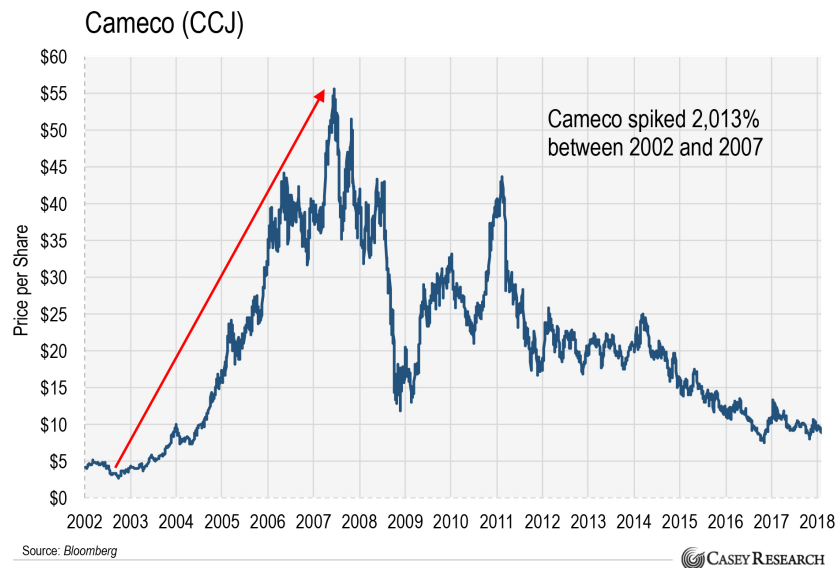
Our proprietary Casey Cost Curves system for analyzing commodities is just as much about reducing investment risk as it is spotting potential for triple-digit (or greater) upside.

Let me show you how it works.

The stock market crash of 2008 was brutal. It wiped out half the value of the Dow in a matter of months.

But some stocks fared much better than others.

Look at the chart below—showing the share price for Cameco (NYSE: CCJ), an industry-leading mining firm in the uranium sector.



This stock had a great run-up prior to the 2008 crash. Cameco gained as much as 2,013% between 2002 and 2007.

But what’s equally important is the performance *after* the crash.

As you can see, Cameco’s share price rebounded to pre-crash levels relatively quickly—within 24 months of the late 2008 bottom.

And there’s one simple reason for that strong bounce-back: The uranium sector was near cyclical lows just before the 2008 collapse.

In early 2008, uranium had already fallen from \$140/lb to nearly \$45/lb *before* the stock market collapsed. By buying uranium stocks at that time, you were buying into a sector near a bottom.

And when you buy cheap like that, there simply isn't as much room to fall. Yes, share prices can distort temporarily on panic selling. But pretty soon, investors realize a stock is trading below its intrinsic value—and they buy it back up to its proper valuation.

That's exactly what we see in the chart above, in the months following the 2008 crash.

That's why it's critical to buy low. In addition to maximizing your upside during a cyclical rebound, you're also reducing downside.

And that's exactly what our Casey Cost Curves systems analyzes... in a completely quantifiable and reliable way used by natural resource industry insiders around the globe.

Identify which commodities and companies are at cyclical lows—and represent good buys. And look out for those that are overpriced and in danger of being wiped out in a correction or crash.

Regards,

David Forest

Editor, *International Speculator*



By Jeff Clark
Editor, *Market Minute*

Chapter 10

How Will You Feel Next Month?

I have a single-frame comic strip taped to the bottom right-hand corner of my desk.

It's a picture of a man sitting at his breakfast table. He's slumped over in his chair, and his forehead is resting on the table. Behind the man is his wife. She's standing in her bathrobe, curlers in her hair, and holding a cup of coffee in one hand. Her other hand is pointed upright, with her index finger extended – as if she's lecturing.

The caption reads, "Last month you were upset because you weren't in the stock market. Today, you're upset because you are in it. How will you feel next month?"

The comic ran in my local newspaper back in late October 1987 – just after the crash. But it could have just as easily appeared yesterday.

Investors felt pressured to buy stocks in January. The stock market moved higher almost every day. Everybody else was getting rich. And the talking heads in the financial media kept telling us how foolish it was to be holding cash.

Today, holding cash doesn't feel so foolish.

The lesson here is that investors should resist the urge to buy stocks (or any other financial asset) when they feel pressured to do so. Chasing stocks higher into overbought conditions is usually a bad idea.

Trading the stock market is a game that never ends. It doesn't matter if you underperform the market for short periods of time. You'll have a chance to outperform as stock prices revert to the mean. As long as you don't run out of cash, the game continues.

It doesn't matter if all your friends are making more money than you. Be happy for them. Prosperity is a good thing. But don't let their success coax you into high-risk, low-reward trades. Envy is a horrible investment strategy.

So, the next time you're feeling anxious, frustrated, and upset that the markets are running away without you and everyone else is making more money than you are... think back to the action in the cryptocurrencies since Christmas, marijuana stocks since New Years, and the broad stock market over the past week.

Then, ask yourself... How will you feel next month?

Best regards and good trading,
Jeff Clark



By Nick Rokke
Analyst, *The Palm Beach Daily*

Chapter 11

The Dow Dropped 1,200 in a Day—And We Didn't Break a Sweat

Morgan Stanley's Wilson warns investors not to buy the dip.

Ray Dalio: Cash on the sidelines will pour in to stem the bleeding in this market.

On February 4, 2018, the Dow Jones Index had its largest one-day point drop in history.

At one point during the day, the index had fallen over 1,500 points. It finished down “only” 1,200— a nearly 5% drop.

As you can see from the headlines above, the talking heads on TV had mixed messages...

Morgan Stanley chief U.S. equity strategist Michael Wilson cautioned against buying the dip. But Ray Dalio, who runs Bridgewater, the world's biggest hedge fund, said there was a lot of cash on the sidelines ready to buy on the break.

One guys says the market is going lower... The other says higher.

It's no wonder investors are confused.

At Palm Beach Research Group, we didn't break a sweat. That's because we have a plan... and stick to it.

If you do that, it won't matter what the talking heads say... Your portfolio will be protected whether the market goes up or down.

Have a Plan, Don't Panic

The first thing you should do is to ignore the market pundits. Listening to them doesn't help make money.

To be honest, nobody really knows why the market dropped like it did on February 4. I'm guessing it was just a normal correction... The market had gone up too far too fast. And nothing goes up in a straight line forever.

The next thing to do is make sure you have a rational investing plan... That will help you avoid making emotional sales.

For example, anyone who panicked and sold stocks at the market open on February 5 missed out on a 7% move to the upside by close that day.

In other words, the market made back almost the entire loss from the previous day!

At Palm Beach Research Group, we use trailing stops to keep us from making emotional sales.

A “trailing” stop is a stop loss that automatically adjusts higher as the value of the underlying stock climbs. Then it stays pinned to the highest price.

To explain this, let’s use an example...

Let’s say we’re looking to buy Apple today. Apple is a large, stable company. So we’d use a 25% trailing stop loss. That should give us plenty of room for normal fluctuations in the stock’s price.

Assuming a \$120 entry price, our initial stop would be \$90.

As the price of Apple rises, so does our stop. If Apple goes up to \$200 per share, our 25% trailing stop automatically adjusts to \$150.

If Apple drops to \$150 or below, that means the investing thesis changed (or a bear market has begun). Either way, it’s a sign that Apple is likely heading lower.

At that point, we’d immediately sell our shares of Apple.

As you can see from this example, trailing stops keep you in a stock that’s rising... and exits you from a stock that’s falling.

It’s very important you stick to these trailing stops... And NEVER panic sell before the stop is hit.

When Is It Time to Sell?

Trailing stops are good for exiting individual stocks. But when is it time to exit the broad market?

There’s no tried-and-true method to time a market crash. But there are warning signs out there.

One way to read the signs is to follow technical indicators such as “trend lines.”

Drawing a line between the high and low points of a stock chart or index chart creates the trend line. It can show you key points of support and resistance.

As long as a stock or index stays above the trend line, the trend is going up. If the stock breaks below the trend line, that’s a sign it’s going down.

As you can see in the chart on the following page, the S&P 500 is still way above its trendline.

S&P 500



I also follow the 170-week moving average (MA).

An MA line is just a way to smooth out the price of a stock by taking the average price over a certain period of days or weeks.

The line below takes the average weekly price of the market over the past 170 weeks. As you can see, when the market stays above the trend line, the uptrend remains intact.

S&P 500



At the time of this writing, the MA line sat at 2,215. The market is still above that number. That means you shouldn't be panicking.

Stay the course and continue holding your stocks. Don't let pullbacks like this scare you away.

Regards,
Nick Rokke, CFA
Analyst, *The Palm Beach Daily*

Section 3

HOW TO TURN A CRISIS INTO BIG PROFITS



By Doug Casey
Founder, Casey Research

Chapter 12

The Crash-Proof Portfolio: How to Make Money When Stock Markets Crash

It's impossible to be sure, at any given moment, whether any market is going up or down. No matter how overpriced a market may be, there are always bulls with good-sounding arguments about why it could go twice as high. No matter how "cheap" a market may be, there are always convincing bearish arguments for it to go lower.

After all, for every buyer, there's a seller (and vice versa). The same is true for the economy, where a case can be made for both good times and bad times at almost any juncture.

How can you hedge yourself against being on the wrong side of the market? By using "hedge" strategies which are surprisingly little-known, though they're almost always lower risk and have higher potential than pure long or short positions.

A "hedge" is a position where you buy X dollars' worth of one stock or commodity and simultaneously short sell an equal dollar amount of a different stock or commodity. Since you're both "long" and "short" the market, you don't really care which way it goes. By choosing your positions intelligently, you can be right on both sides of your trade, regardless of overall market conditions.

As fashions change, the first tend to become last and the last to become first. This was recognized in biblical times, and it's equally certain in the investment markets. Regardless of the overall direction of the market, relatively overpriced stocks tend to decline and underpriced securities tend to rise. Indeed, both movements often happen at once. By being both long one investment and simultaneously short another, you can escape the need to second-guess the direction of the overall market and still profit in either a bull or bear market. The keys to profitable hedging are patience and consistency: patience because it doesn't make sense to be in any market all the time; consistency because your plan won't work if you don't follow it.

Most of the time, it's a 50/50 bet whether something is going up or down, and you need better than 50/50 odds to make money. The idea is to be in a given investment only when the odds of it going up appear to be 90% or better and to be short when the odds of it going down are equally strong. It is fortunate that odds that strong usually identify investments that are getting ready to move 10 for one or more as well.

Suppose, for instance, you like the prospects of Stock X. You're sure the underlying company will do well. But you're afraid of the market as a whole, which could take Stock X down despite the company prospering. How do you solve the dilemma of whether to buy or to wait?

A hedge might be the answer. Find another company in the same industry, Stock Z, which you feel has terrible prospects and perhaps will lose business because of Company X's success and whose stock looks to be overpriced. Then, buy Stock X and short an equal dollar amount of Stock Z.

If your assessment is correct, it will not make any difference how the market in general, or the industry in particular, does. You'll make money as long as X does better than Z—whether they both go up or they both go down. And, if their prices move in opposite directions, you can make money on both and double your profits, even while you've reduced your risk.

Value is relative, not absolute. In other words, you want a position not only because of what it is, but because of *what* price it is.

It's never a question of how many dollars you can get for something you want to sell. The real question is how many shares, or contracts, or acres, you can exchange it for. It might, for instance, be hard to say whether corn is cheap or dear at, say, \$4 a bushel unless you know what to compare it with. But we know that wheat usually sells for about twice the price of corn and soybeans for about triple—because of factors like production costs and protein content. If soybeans sell for \$6 while corn is at \$4, you can be pretty sure corn is dear, at least relative to beans. By selling corn and buying beans, you're likely to make money.

The idea is to pick out very cheap stocks or commodities to buy, and very dear ones to sell simultaneously, with the intention of protecting yourself from general market moves. Buy and sell respectively equal dollar amounts of each and wait for the inevitable without caring whether the market in general booms or busts.

An Example

In 1991, I recommended such a hedge in the thrift industry. It provides an ideal illustration of the principle.

Continental Federal, a savings and loan bank based close to Washington, D.C., was selling for \$5—less than a fourth of its \$22 book value, and about a fifth of its previous high of \$27. An analysis of its balance sheet showed it could even then have been liquidated for \$15. It exceeded all regulatory capital requirements by at least two to one. All but a few of its loans were in the relatively low-risk residential market, and it had already charged off most of its bad loans.

Although management had been competent in making good loans, their overhead expenses were very high at 320 basis points of their \$1.1 billion of assets (i.e., about \$35 million or 3.2% of assets). Typically, for a public company, management was treating themselves quite well at shareholders' expense. Why? They owned only 100,000 of the 2.9 million shares outstanding.

Overhead should be no more than 250 basis points (2.5% of assets), and a difference of 70 points on \$1.1 billion is about \$8 million per year. If management were forced to tighten their belts by only that much, the stock could easily sell for at least \$12 per share.

A group of shareholders, including myself, joined together to make it happen. Still, because of my misgivings about the economy at large, I did not want to be long Continental Federal without being short an equal dollar amount of something likely to join the choir invisible. GlenFed, the third-largest thrift in the United States, with most of its assets in California, seemed like a good choice in that category.

GlenFed had about \$16.5 billion in assets and \$950 million in stated capital, which was satisfactory on the surface. But about 80% of its capital was debt, on which the interest clock continued to run. At the same time, almost any portfolio losses could quickly wipe out shareholders' equity since non-performing assets were already over \$700 million, and in California's depressed real estate market, it was clear they could easily suffer large losses.

In addition, GlenFed owned numerous hotels, shopping centers, and business parks through a subsidiary, the very worst things to be in at the time. It was all for sale, but there were no bidders because it seemed likely that the Resolution Trust was going to wind up with GlenFed's properties and potential buyers could get them more cheaply later.

The hedge worked out well. GlenFed crashed 80%, from \$5 to \$1, while Continental rose to \$22, where it was bought out by Crestar Bank. I wound up making more money using a hedge than I would have simply being right about Continental—and I took much less risk, to boot.

As longtime readers know, I think we're just now exiting the eye of the giant financial hurricane that we entered in 2007, and we're going in to its trailing edge. It's going to be much more severe, different, and longer lasting than what we saw in 2008 and 2009. For reasons I've explained elsewhere, we're headed for an economic disaster that in many ways will dwarf the Great Depression of 1929-1946.

Given this bearish outlook, most U.S. stocks are likely to be money-losers in the coming years. Although most financial advisers would gasp at the notion, it's a perfectly reasonable strategy to avoid owning U.S. stocks today.

Instead of owning U.S. stocks, conservative investors who don't want to spend much time managing their portfolios can keep a 50/50 allocation of cash and gold. This is a conservative allocation that will hold up well during tough times. It might not make you a lot of money in the coming years (although it could if gold soars), but it certainly won't make you lose much either.

However, if you'd like to own U.S. stocks, consider hedging your holdings using the strategy I've described. I don't mean hedging just a few of your stocks by pairing them with short positions. I mean hedging your entire portfolio of stocks.

Here's how. Take a look at your present holdings. Identify those positions in the most inflated industries and those unlikely to survive a financial collapse. Sell off the most overpriced half of these, then take that cash and use it to short issues that are wildly expensive or buried in debt or run by people of bad character.

By taking these steps, you'll make your stock portfolio "market neutral." A portfolio is market neutral when it doesn't have a bias toward higher or lower prices. It's a portfolio with an equal amount of long positions (that profit when prices rise) and short positions (that profit when prices fall).

If you have \$30,000 invested in positions that profit when prices rise and \$30,000 invested in positions that profit when prices fall, you have a market-neutral portfolio.

With a market-neutral portfolio, you don't have to rely on the market going up to profit. And if you select your longs and shorts well, you'll make money even when stocks crash. If your portfolio is market neutral, you need not worry if the broad stock market rises or falls. To make money, you only need the assets you buy to perform better than the assets you sell short.

Let's go over an example...

Say you buy \$10,000 worth of Lockheed Martin (LMT)—a bet on more foreign wars and adventures—and sell short \$10,000 worth of Bank of America (BAC)—a bet on financial chaos... If Lockheed Martin climbs 10% and Bank of America falls 10%, you make \$2,000. (That's 10%, or \$1,000, on each \$10,000 position.)

If Lockheed Martin climbs 10% and Bank of America also climbs 5%, you make \$500. (That's a \$1,000 gain on Lockheed Martin and a \$500 loss on the Bank of America short position.)

And if Lockheed Martin drops 10% but Bank of America also drops 15%, you also make \$500. (That's a \$1,000 loss on Lockheed Martin and a \$1,500 gain on Bank of America.)

The only way you lose on this market-neutral position trade (often called a "pairs trade") is if Bank of America outperforms Lockheed Martin.

Although I think most industries will struggle in the bad times ahead, a handful of industries could actually do quite well. Whatever you choose to do, the most important thing to keep in mind is this:

You're very unlikely to do well with a conventional "long only" portfolio in the coming years. Again, conservative investors can keep a 50/50 allocation of cash and gold. This is a defensive strategy that should protect you from losing much money.

Not losing money is a worthy goal. In a bear market, the guy who wins is the guy who loses the least. He's the guy who has cash at the bottom. He's the guy who buys assets from desperate sellers. He's also the guy who ends up owning the best assets.

But if you're an experienced investor with time to spend managing your portfolio, you could do very well with a market-neutral portfolio.

Regards,
Doug Casey
Founder, Casey Research



By Nick Giambruno
Editor, *Crisis Investing*

Chapter 13

The Most Powerful Wealth-Building Secret in Investing

What is the greatest secret in all of investing?

What really separates amateurs from professionals?

Losers from winners?

If you search the Internet, you'll find dozens of people with dozens of answers to this question. Some will say the secret is their proprietary trading system. Some will say it's their method of picking stocks.

I'm sure some of those ideas are useful. But they're not nearly as useful as something I call "the most powerful wealth-building secret in investing."

Master this skill and you'll consistently spot opportunities to make five or 10 times your money on **safe** investments.

I know that's counter to the conventional investment wisdom that says you have to take big risks to make big returns.

Well, after learning this secret, you'll know that you most certainly do not have to take big risks to make big returns. You'll know most people have it backwards. You simply have to know how to apply this one skill.

It's a skill that helped make Warren Buffett one of the richest men in the world. A skill that helped make Casey Research founder Doug Casey millions of dollars in the stock market. And a skill that made Sir John Templeton a rich man and one of the most respected investors of all time.

I'll tell you what this skill is in a moment. First, I want to show you three real examples of how it has made investors rich.

• **In 1939, legendary investor John Templeton made a fortune betting against the crowd...**

At the time, millions of Americans were in poverty due to the Great Depression. And Nazi Germany had just invaded Poland to kick off World War II.

There was an incredible amount of fear in the world. But Templeton, a recent college grad, invested \$10,000 in U.S. stocks. That's the equivalent of \$167,000 today.

Amazingly, Templeton didn't even study which companies to buy. He didn't need to. He knew that the extreme fear in the world had pushed U.S. stocks down to ridiculously cheap prices. So, he simply bought any stock selling for less than \$1 on the New York and American stock exchanges.

Four years later, Templeton sold his portfolio for a 300% gain. Today, he's known as the greatest stock picker of the last century.

- **In 2008, iconic U.S. bank Lehman Brothers failed...**

It was the biggest bankruptcy in U.S. history. U.S. stocks crashed more than 50%...the biggest crash since the Great Depression. And the stock prices of many great businesses dropped 80% or more.

People were terrified of losing everything: their jobs, their houses, their life savings. There was an incredible amount of fear in the markets.

But the fear was masking an incredible opportunity...

It was the best time to buy quality stocks in 30 years.

Investors who purchased quality stocks in late 2008 made a killing.

For example, an investor who bought stock in the coffee chain Starbucks in late 2008 has made more than 1,900% on his money. An investor who bought technology company Apple made as much as 966%. Ford Motor Company's stock gained more than 1,200% in just over two years after the financial crisis.

The list goes on. Many quality companies gained at least **10x in less than two years** from February 2009, including Ruby Tuesday (+1,072%), Crocs (+1,347%), La-Z-Boy (+1,016%) and Gulfport Energy (+1,227%).

- **In 2010, an oil rig named Deepwater Horizon exploded off the coast of Louisiana...**



The blast instantly killed 11 workers and eventually spilled 4 million barrels of oil into the Gulf of Mexico. It was the worst environmental disaster in U.S. history...and the biggest oil spill in world history.

The negative media coverage was nonstop. Newspapers ran pictures like the one on the left.

As partial owner of the oilrig, British oil giant BP (BP) became one of the most hated companies in the world.

In a matter of weeks, BP's stock price collapsed from \$59 to \$27...for a stunning loss of value of **\$105 billion**.

At that point, hardly anyone would touch BP stock...but smart investors asked, "Are BP's assets really worth \$105 billion less today than they were a month ago...or are investors overreacting?"

It turned out investors were overreacting. Buying BP stock near its bottom made an 80% gain in just a year. It also locked in a safe 6% (and growing) dividend yield.

• **Although these stories of massive wealth creation are all very different, they have one thing in common...**

They show the power of buying assets during times of maximum pessimism...when no one else wants to buy.

You see, from time to time, an extraordinary opportunity comes along to buy a dollar's worth of assets for a dime.

If you can spot these opportunities, you can make gigantic returns without taking big risks.

After all, the gains we just discussed didn't come from investing in speculative biotech stocks or tiny gold companies. Many of them came from just the opposite: **iconic, blue-chip American companies that have been around for decades**.

According to Wall Street, you must take big risks to earn big returns.

But these stories show that's not true. Buying valuable assets for pennies on the dollar is one of the least-risky investments you can make.

Warren Buffett, Jim Rogers, and generations of Rothschilds got rich using this strategy.

I believe this is the most powerful wealth-building strategy available to anyone.

Amateur investors run from crisis. Great investors run toward it.

Regards,
Nick Giambruno
Editor, *Crisis Investing*



By E.B. Tucker
Editor, *Strategic Investor*

Chapter 14

The Power of the Barbell Strategy

I spend 0% of my time worrying about—or preparing for—a crash. Here's why.

I run a “barbell strategy” with my personal assets.

Picture a metal bar with weights on it.

On one side, I have real assets. These are physical gold, unleveraged property (if you owe on it you don't own it), and cash value on whole life insurance. These assets are incredibly boring, but they represent real wealth. I think it's also fair to include some stalwart stocks on this end of the barbell. I also own world-class, dividend-paying stocks. These blue-chip stocks are so boring, I don't even look up the quotes—they're not about making huge gains... they're just equity in big, stable firms.

The other side of the barbell is much more exciting and carries more risk. I'm in tons of private placements. I must have done six to eight last quarter... I have a massive position in a Canadian-listed gold royalty firm where I'm on the board and chair of the executive committee. The takeaway here is I have a lot of very high-risk investments that right now are paying big for me.

But, these two ends of the barbell must be balanced to avoid catastrophe. When I have ABC mining stock shoot up 300% after I do a placement, I sell half of it, or more. I take that money and split it between the ends of the barbell. I want to keep the real asset side balanced, then keep taking risk with the other side.

Real assets are real wealth. That's why I advised my readers in December if they have excessive crypto profits to sell at least the cost basis and buy real assets with it. When the tokens return to their actual value, \$0, you'll have the real assets. In some cases this could be \$50-\$100 million for young guys. They should consider buying a massive apartment complex with cash... this can always generate income through rent. As people age they learn real assets are more important than speculative fliers.

There are always speculations out there—real assets are much harder to get control of.

Over time, you'd be surprised how good this strategy feels. If the stock market takes a 20% dive overnight, I don't care. I probably won't buy more... I'd sit back and see what happens in the ensuing weeks, then make a buying decision when everyone is panicking.

Keep in mind that in 2009 I liquidated my retirement accounts (modest funds here as I was 29 years old) and bought single-family rental homes in Ybor City, Tampa. I paid \$10,000 for one home that had a mortgage on it for \$165,000 the year prior. I paid \$25,000 for a seven-bedroom home that had a \$250,000 mortgage default judgment on it. My point here is... people were panicking and nobody was buying—that's a market bottom.

If I didn't have some cash then, I would have just been a guy who watched the real estate rot until someone started buying it a year or two later.

The third piece of my barbell strategy is the bar. That's me... My job is to determine what will generate new capital. I have to decide where to put new weight on the bar.

I have an office in Tampa shared with two of my friends. They worked at logistics company DHL years ago and came up with an idea related to cross-border shipping fulfillment. They took \$20,000 in savings and started a company... seven years later selling it to FedEx for \$45 million.

The funny thing is, these guys have no clue what to do with money. Worse yet, they're resistant to any guidance.

To be clear, I do not offer guidance to anyone, ever. If people ask, I tell them what I think which usually makes them uncomfortable. That's a sign I'm right.

One terrible trade my suitemates can't get enough of is shorting the S&P 500. Their logic is, they'll get a huge payday soon and be able to roll that payday into index funds for the next upcycle.

In the meantime, I'm running my barbell strategy producing returns laughably higher than them.

With so much money, you'd think they'd have a plan, but they don't. They're blown around from idea to idea trying to outsmart the market... Over time, this ends in tears.

So, in closing, I'd encourage you to consider my barbell management strategy.

It helps me sleep soundly knowing I'll still be wealthy if things collapse tomorrow. And, if they don't, I'll capture upside as long as the boom lasts.

Regards,
E.B. Tucker
Senior Analyst, *Strategic Investor*



By Dan Denning
Coauthor,
The Bonner-Denning Letter

Chapter 15

Try This Five Asset- Class Solution

Diversification and asset allocation can help you reduce that risk.

For your kids and grandkids, a depression could be just the tonic they need. In a world where real wage growth is stagnant and the robots are taking all of our jobs, your best chance to build a fortune is to buy assets cheap. You can only get them at that price after a crash.

Do you think it's a coincidence that famed investor and economist Ben Graham wrote his investment classic, *Security Analysis*, in 1934, just five years after the crash? The Dow Jones Industrial fell by 89% between September of 1929 and July of 1932, dropping from 386 to 41. Stocks and bonds weren't just cheap... they were destitute and unloved.

If you had any skill at reading a balance sheet and doing a bit of math, you stood a good chance of being able to buy future earnings at a deep discount. Most investors find that hard to do emotionally. For most investors, expectations are high when prices are high and expectations are low when prices are low.

If you teach one thing to your kids and grandkids – or if you hope to come out of this market with your wealth intact – remember that it should be the opposite: **Your expectation of future returns should be low when prices are high and high when prices are low.** This is another way of saying “be fearful when others are greedy and greedy when others are fearful.”

By now you're probably wondering what the plan is. So let's get on with it. I'll take you through it asset class by asset class.

No investment or allocation strategy can protect you from the worst type of financial calamity.

However, maintaining a diversified asset portfolio is one good way of reducing how much damage you'd sustain when the next calamity occurs.

The important thing to remember is that your capital is always at risk. As Sarah Connor says in *The Terminator*, “No one is ever safe.” If you have time to stay invested through the calamity, you may come out on the other side. That means with a little planning now, you may be able to pass your fortune on to your family.

But do keep in mind, asset allocation is not a substitute for stock selection. You can dramatically improve your returns by owning stocks in a bull market and NOT owning them in a bear market. Being in the right asset class at the right time, or out of a dangerous asset class, goes a long way in meeting your investment goals. It will also make you look like an investment genius to your friends and colleagues.

But within each asset class, you still have decisions to make about what to buy. Make those decisions carefully. Bonner & Partners has some of the world's best investors and market tacticians to help you. Our goal in this month's letter is to help you with the strategy. Let's begin.

How Many Asset Classes Are Enough for True Diversification?

In *Security Analysis*, Ben Graham suggested allocating your wealth in just two asset classes: stocks and bonds. He recommended a 50:50 split. Both were cheap at the time. And more importantly, Graham set out a rigorous analytical process to help you figure out which stocks and bonds to buy and which to avoid. And it was all informed by his famous "margin of safety" dictum.

That was enough in 1934. There were good companies and bad companies. But all of them were cheap. No one knew when the recovery would be. The investor's challenge – assuming he had cash to put to work – was stock selection, which came down to reading balance sheets, cash flows, and income statements.

When two-time Libertarian Party candidate Harry Browne took up the asset allocation problem in the late 1970s, the investment challenge had changed. Richard Nixon officially closed the gold window in August of 1971. Dollar devaluation kicked off a period of global inflation.

The investment returns on the four main asset classes of the time – **cash, bonds, stocks, and commodities** – began to diverge. Browne broke it down into four possible economic scenarios. In each scenario, one or two asset classes were likely to do much better than the others. But which assets and which scenarios?

Scenario No. 1

If the economy was chugging along without any overheating, he reckoned it was good for stocks and bonds. That's pretty much the same scenario Graham envisioned, although by then the threat of higher inflation had caused Wall Street to change the allocation to a 60:40 ratio, with stocks getting the larger share based on the higher returns (the equity risk premium).

Scenario No. 2

Recessions were supposed to be good for cash. You waited until earnings recovered before buying back into stocks.

Scenario No. 3

If it was more than a recession – deflation with falling prices – Browne recommended bonds and cash, with both maintaining (or even increasing) their value.

Scenario No. 4

And for inflation, Brown recommended gold with a bit of cash.

It's slightly more complicated than that. But not much. The strategy – which was called “The Permanent Portfolio” – called for a 25% weighting to each asset class (stocks, bonds, gold, and cash) and annual rebalancing. We have our own take on this, which I'll get to in just a bit...

Weighting each asset class equally and rebalancing annually was based on the same idea Paul Samuelson had mentioned, not being able to know the future. It's a kind of deliberate strategic ignorance or modesty, where you admit you don't have a crystal ball.

Rebalancing meant that at the end of the year you'd sell down the winning positions and buy up the losing positions so you owned an equal nominal amount of everything. Here's a quick illustration to show you how it works...

Say you started the year with a \$100,000 portfolio. You had \$25,000 in stocks, \$25,000 in bonds, \$25,000 in gold, and \$25,000 in cash. Now assume that by the end of the year, the values had changed so that now you had \$50,000 in stocks, \$15,000 in bonds, \$35,000 in gold, and \$25,000 in cash. That'd mean your total portfolio was worth \$125,000... and a 25% allocation to each was now \$31,250 instead of \$25,000 (\$31,250 being 25% of \$125,000).

Still with me?

OK, so to rebalance, you'd need to get each asset class back to \$31,250. So you'd have to sell \$18,750 of stock and \$3,750 of gold, buy \$16,250 of bonds, and put the \$6,250 difference in cash.

The total value of your portfolio would be higher. But you would've rebalanced, so you'd have 25% of your money in each asset class.

This may seem counterintuitive. If you're a momentum investor, for example, you're inclined to believe that last year's winners will be next year's winners as well.

That's not how the Permanent Portfolio works, though. It assumes different asset classes are negatively correlated (they behave differently from each other under the same economic conditions). The simplest and best approach, Browne believed, was a portfolio that accounted for most possible economic conditions with four distinct asset classes.

The only further complication was the investments available for selection within each asset class. You knew 25% of your portfolio was going to be in stocks. But which stocks? Foreign ones? Domestic ones? Small caps? Value stocks? Again, this is not what we do at *The Bonner-Denning Letter*, but we have plenty of other services that focus exclusively on telling you which stocks are the best to own.

The same selection dilemma is true for bonds. Do you buy cash-like short-term bills and notes? Inflation-adjusted bonds? Municipal bonds? What about junk bonds?

Even gold and cash have become more complicated.

There have to be at least a dozen different ways to own gold. But which is the best?

And what about cash?

Today, does it really make sense to have 25% of your wealth in cash with low interest rates?

Not only that, but cash is under siege. Do you really want it in the bank, subject to possible negative interest rates, or under the mattress, where it could be rendered worthless by sudden demonetization?

As you can see, the asset allocation solution – once simple – is now more complicated. And when all asset classes are positively correlated (benefitting from central bank balance sheet expansion) does the strategy even make sense anymore?

And what about a potentially new asset class altogether? What about cryptocurrencies?

A Five-Asset-Class Solution

Please note that there is no stock selection here. This isn't intended to be specific investment advice.

It IS intended to get you thinking about a diversification and asset allocation strategy. That strategy can help you manage the risks we see in each asset class, while still admitting that anything could happen and there are genuine opportunities to be had.

By the way, that's not a cop out. You know our position on what we think SHOULD happen and what we think WILL happen. Bubbles pop. People get what they deserve, not what they expect.

But if we've learned anything in the last 10 years, it's to not underestimate how resourceful the authorities are in preserving the system they benefit so much from. As Rick Rule says, just because something's inevitable doesn't mean it's imminent.

What we propose is below. I've changed the allocation percentages from Harry Browne's equal weighting. I've also added an entirely new asset class (which you may dispute). A brief discussion follows for each asset class.

And, by the way, I'd like it to be a two-way discussion. There's no more important issue right now for investors.

In the meantime...

Cash: 25%

The cash allocation stays the same. And if you believe the market (or earnings) are going to go up, your cash is going to underperform (be very lazy). In a low-interest-rate world, your cash won't be earning you any money. True, it won't be at risk in the market. But inflation won't be kind to your purchasing power.

Still, the biggest benefit of cash is what's called "optionality." If you have it, you can trade it for something you want when that thing becomes cheap. A 25% cash position assumes you'll be able to put it to better use when assets become cheap. Your risk is that assets may stay expensive for a much longer time.

It may not naturally occur to you that you also have options about what kind of cash to own. I'm not just talking about whether you want to own hundred-dollar bills, fifty-dollar bills, or twenty-dollar bills. I'm talking about *which* cash?

The U.S. dollar? The Swiss franc? The Singapore dollar?

Everyone should own cash denominated in foreign currencies.

It's not hard to do. You can exchange your dollars for euros or British pounds at major banks. Obviously you'll want to do so when exchange rates are favourable. But it shouldn't be too difficult to accumulate \$5,000-\$10,000 worth of cash in a foreign currency.

A more ambitious, but better, plan is to open a foreign bank account.

Thanks to FATCA (the Foreign Account Tax Compliance Act), this is not as easy as it used to be. Some foreign banks no longer allow U.S. citizens to open accounts. They don't want to deal with the hassle. You'll be obliged to report that account to the IRS each year if you have more than \$10,000 deposited overseas.

I have bank accounts in both the UK and Australia. Once they're set up, it's not difficult to move money with wire transfers.

Again, moving cash across borders has to be done within the oversight of the US government. But it's not illegal. At least not yet. If don't mind filling out the extra forms at tax time, it's an achievable goal.

As to which foreign currencies offer you the best chance to make money, or even speculating on foreign currency moves in the options or foreign exchange markets, those issues are both beyond the scope of this essay. But I would suggest that the local currencies in traditional financial centers like Singapore (dollar) and Switzerland (franc) are good places to start.

Bonds: 19%

Bill and I weren't sure about this one. The widely held idea that government bonds are risk-free is one we fundamentally disagree with.

Don't ever forget that, despite all their assurances, governments can and do default on their debts. And with huge unfunded liabilities to go along with their official debts and deficits, the situation is far more dangerous than the feds would have you believe.

That's why the bond market is ground zero for the explosion in global debt since 2007. In an inflationary scenario, bonds will be consumed in a hellfire of wealth destruction.

So why own bonds at all if we think the world will inevitably enter another debt reckoning?

Well... we can't entirely rule out the possibility that central banks will continue to purchase bonds for years. For example, even if the Fed reduces its bond portfolio by \$15 billion a month, it will take nearly 25 years for it to clear off the bonds it's already purchased. That's assuming that in the next crisis, they don't resume adding bonds (funding Washington's ever-expanding deficits).

There is no theoretical limit to how big a central bank balance sheet can get. When you're the one printing all the money, you cannot be insolvent. And the Fed isn't a "going concern" anyway.

For that reason, we reluctantly suggest you keep some bonds in your portfolio. Although, you'll notice that we've lowered the proportion to 19%.

You should own some inflation-adjusted bonds or short-term bills and notes.

Those instruments are quickly and easily redeemable for cash but still have the perception of safety (and liquidity) for most investors. Hold your nose and buy.

Stocks: 25%

The worst advice I could give you is to sell everything now and go straight into cash. Emotionally, it's tempting. But we usually make our worst decisions when we invest emotionally. That's why most investors tend to buy high and sell low. Even in bull markets, research shows that investors underperform the indices by trading too much.

Unlike bonds or cash, a stock is a claim on a for-profit enterprise. That enterprise can increase its earnings, even (or especially) in challenging circumstances. Think, for example, of a company that sells generators during hurricane season. Wall Street is full of "factor investing" models today that aim to slice and dice the market by investing style (momentum vs value), market cap (small or large), or volatility (beta, so-called "smart beta," or alpha).

If you were going back to Ben Graham's basics, you'd look for companies selling at less than one times book value. You can find them in the U.S. But many of them are financial stocks (like banks). Those are precisely the kind of investments we want to avoid in a financial crisis.

That means you have to be willing to buy foreign stocks or exchange-traded funds that give you access to foreign markets.

Every active investor in every country exhibits a "home country bias." You buy the things you understand, even if the valuations and the expected returns are higher in other markets. Challenge yourself on this. If you can buy the entire Vietnamese market at less than one times book, why are you buying Amazon?

You might have a good answer and STILL buy Amazon (believing the company will fundamentally change the face of retail investing forever).

But my point is to not passively accept owning a basket of stocks in whatever country you live in. There are other and better ways to build your 25% allocation to equities so you can get better returns, and buying foreign stocks is an important piece of that.

Tangible Assets: 30%

Browne liked gold. But what about other tangible assets? What about oil? What about silver? What about real estate? Aren't those tangible assets too? And does buying a real estate investment trust for income qualify as buying a tangible asset for the purposes of the portfolio?

That's why we've broadened our version of the Permanent Portfolio...

And you can see that we've increased this percentage to 30%. We believe tangible assets – a claim on something real – will be more valuable than purely financial assets (claims on future cash flows) as the stock market mean reverts.

The bulk of this position will be made up by real estate which you either own and occupy or rent and generate an income from. As real estate values are local and affordability depends on your income, interest rates, and the size of the mortgage, I don't have anything specific to say about where to buy. That is up to you.

But don't confine yourself to real estate speculation. After all, real estate prices can get bubbly, too. Think of this as your investment in physical assets. A place you can live. A bolt-hole you can flee to when the madness of civilization is a bit too much.

About a year ago, our analyst team put together a whole report on this topic. It's called "How to Get Your Very Own Homestead on the Cheap," and you can read it right here.

Of course, precious metals and collectibles are included here, too. And again, be creative. For example, at Sharps Pixley here in London, you'll find some gold and silver gift items that are both valuable and beautiful. Made by Degussa, the silver bull and bear below on the left would look great on any desk. On the right is a 25 oz. replica of a 20mm bullet you can buy at fine bullion providers or on eBay.

Of course, the value of the objects goes up when the underlying metal price goes up. And that doesn't include any "premium" you can get for owning a collectable item (something rare or beautiful, which buyers are willing to pay for over and above the value of the metal in the object).

I bought one of those silver bullets a few years ago, when travelling through Coeur d'Alene, Idaho. I was there to empty out a storage unit rented by my late father. The unit was full of items he'd somehow forgotten he owned. What do you think I found?



I found an old silver set (no bullets), some Navajo rugs that hung on the wall in my grandmother's summer house in Colorado, a Kranich & Bach baby grand piano, and an item we'd only ever referred to as "the Spanish Chest."

All beautiful. And all, it turns out, still valuable. For example, I showed the Navajo rug to a Native American art dealer in Denver. Because he could identify the pattern and trace the heritage of the rug, he reckoned I could get close to \$5,000 for it if I wanted to sell it.

Incidentally, the Spanish Chest turned out to be an old apothecary's chest, with lots of intricate woodwork and designs. And I learned later that during the Weimar inflation, pianos became a relative "store of value." You could trade out rapidly inflating cash for them. And they were certainly tangible, especially if the keys were made of ebony and ivory.

I don't think my grandmother bought or owned these things because she viewed them as stores of value, or items to populate the "tangible asset" category of her asset allocation strategy. But that kind of proves the point. All these years later, those tangible goods had economic value (in addition to aesthetic and sentimental value).

What about art? Most people believe art is too expensive to buy or store for the average investor. But look at the lithographs below. These became popular in Melbourne when I lived in Australia from 2005 to 2014. Why? For young professionals with their first taste of discretionary income, it was an easy way to buy art without having a lot of money to start with.

Can you guess which one I bought? I'd seen it first in a lithograph store near the old office in Paris in 2003. I'd promised myself that when I was debt-free, I'd find one and buy it, which I did. Those lithographs are advertising posters from the early years of the 20th century. It's hard to believe advertising used to be art!

Of course, not everyone would agree that it IS art. But these lithographs retain their value well, rising with the rate of inflation.

The *Green Devil* (pictured in the middle) I bought in 2013 sells for nearly twice what I paid for it on vintage poster auction sites. Variables like size, condition, rarity, and authenticity will account for different values for different prints. But they can get quite expensive.

For example, in 2010, Christie's auctioned a collection of rare and vintage posters. One poster by American-born graphic designer Edward McKnight Kauffer fetched \$48,286. The poster was called *Soaring to Success! – The Early Bird* (pictured on the right). It was an advertisement for a daily newspaper. But collectors viewed it as a particularly worthy example of early 20th-century style.

That's an extreme example. But my point is that you don't have to buy *The Starry Night* to add art to your portfolio. You can add other collectibles too, like bottles of wine or whisky.

Is this wealth? Well, it's not liquid wealth in the way cash is. And it's not going to appreciate in value the way Amazon shares might. But if the purpose of having a diversified portfolio is to extract some of your retirement money out of financial markets so it's neither captive nor at risk, explore your options. You have them.



Cryptocurrencies: 1%

Perhaps controversially, we've added a fifth "asset class" to the plan: cryptocurrencies. Neither Bill nor I are prepared to say we fully believe that cryptocurrencies are actually money. But then, the definition of what money is and who gets to produce it is one of the recurring subjects of this letter.

And we're not alone in our confusion...

The U.S. government considers cryptos to be an asset. But Japan declared bitcoin to be a legal form of payment, and India and Russia are taking steps to legitimize it.

Even still, cryptos are a speculative position. But they're one with potentially huge upside – several cryptos have soared thousands, even tens of thousands of percent in recent months – and thus worth including.

You could also view the interest in this asset class as I do, namely a rebellion against a financial and monetary system that's rigged by and for the elites. Real people want sound money. They want a vehicle they can safely save in, transact in, and accumulate for retirement without worrying that it will be inflated away or confiscated.

Think of it this way: cryptocurrencies are to the Fed and central banks what the Texas shale drillers are to OPEC, a massive disruptive threat to an entrenched and powerful position. Cryptos may amount to nothing. Or they may be the vanguard of a revolution in money. And as investments, rather than as money, it's probably the one asset class where you could make 10 times your money (or much more) in the next five years.

Practical Financial Tips for Perilous Times

You may not be an investor or have a large portfolio, in which case the above advice is useless. But there are practical steps you can take that go beyond purely financial advice. Part of what I'm hoping we can help you do is have the right frame of mind to deal with a fragile financial system.

When a system is so complex it could break at any moment – from its own complexity or from an external attack – you need to prepare. Here are five personal tips I practice in my own life. They don't make me any wealthier. But I think they may give you a bit more peace of mind when you're dealing with a turbulent system.

Defer consumption no matter what. Save more than you think you need to. It's a good moral habit too. When you defer consumption, you accumulate capital. You resist the urge to gratify every desire. As the Stoic philosophers would say, you free yourself from enslavement to your passions.

A little walking-around money. Carry enough cash on you each day to eat a meal or get a cab ride or Uber over a long distance if you need to. You never know when the cash machines will break down or you might not be able to get back to your home.

Cash insurance. Have enough accessible savings (in cash) for six months to survive if you lose your job or are ill. If this seems insurmountable now, see rule number one. Americans have fallen into the dangerous habit of mistaking full grocery store shelves with wealth. We ARE a wealthy culture. But don't live with "just-in-time" cash management.

Establish a family disaster recovery plan. Each of your family members should know how to contact one another in the event of an emergency which affects any or all of them. They should know important phone numbers, addresses, and, if necessary, the name of a family friend or lawyer to contact in a legal or medical emergency.

A "bug-out bag." The 10 items you'll want in a bag if you have to leave your home in a hurry. (More on this in Chapter 4).

Regards,
Dan Denning
Co-Author, *The Bonner-Denning Letter*



By Louis James
Former Editor, *International Speculator*

Chapter 16

How You Can Make an Absolute Fortune in the Turbulent Years Ahead

True story: when I was welcomed to the Casey team in 2004, I barely had two quarters to rub together in my pocket. My credit cards were charged to the hilt. My rust bucket was on its last gasp. My future was very uncertain.

But I was willing to learn what Doug Casey had to teach.

Flash forward to 2008. Thanks to Doug's lessons, I had a lovely home in the mountains. I was driving a sports car. I enjoyed traveling around the world to be with family and friends (not just work).

When the crash of 2008 hit, thanks again to what Doug taught me, I suffered negligible losses. I was still driving my sports car while others were hawking theirs. Best of all, I was able to see the speculative opportunity in oversold assets. Flash forward again. I now have an even nicer home—on the beach this time. And my net worth has increased substantially.

This matters, because...

A) If I can do it, you can, too.

B) There are opportunities you can take advantage of now, just as I did in 2004 and 2008...and, indeed, am doing again right now, myself.

I can teach you what Doug taught me...

Market Cycles Are Our Best Friends

“How predictable!”

These words are usually said in exasperation or disgust. Whether it's bureaucratic stupidity or in-laws in bad moods, predictable = bad. “He's so predictable!” is an insult.

But for investors, predictability is the Holy Grail.

Whether it's the price of coffee, a new Apple product, or the next decision by the Fed, if you know what's coming, you can make a fortune.

The future cannot be known, of course, but some markets are highly cyclical. That makes them very predictable.

It's like the annual flooding of the Nile. This highly predictable event refreshed the soil, the basis of ancient Egypt's wealth. The ability of the elite to predict this made them godlike kings of phenomenal wealth and power.

For better or worse, the Nile in Egypt was dammed in 1970 and it no longer floods.

Fortunately for us, resource commodity markets are perhaps the most cyclical markets in the world. No force in the world has been able to stop their floods. This is the key fact used by legendary speculators like Doug Casey to make literally millions of dollars each cycle.

It's vital to understand this...

Commodity Cycles = Stock Market Time Machine

Imagine what it would be like if you could travel back in time and buy Apple shares when the stock was trading for a dollar. Or if you could travel back to sell Enron, before that scandal broke. Or identify Bernie Madoff's Ponzi scheme.

When you can predict a market, it's almost as though you own a time machine.

That's where the key fact mentioned above comes in: resource markets have a well-established, highly predictable pattern of extreme ups and downs.

Periods of low prices cause mines and other sources of the essential raw materials the world depends on to shut down. Exploration virtually stops. And the resources that stay in production are depleted. This causes shortages, which causes prices to go back up.

Because new mines, oil fields, and such have to be discovered, it takes time for supply to catch up with demand, even with the incentive of higher prices. That makes prices surge dramatically, often hitting new records. Those record prices cause overinvestment and eventually oversupply. And that (you guessed it) causes prices to crash. Then the whole cycle starts over again.

When it comes to surviving a crash, the man who literally wrote the book on the subject is Doug Casey. His best-selling book [*Crisis Investing*](#) is a classic. The essential formula is simple enough to summarize here: Liquidate, Consolidate, Speculate, Create, and Diversify.

- **Liquidate.** Sell off excess property and underperforming assets. Build your liquidity.
- **Consolidate.** Simplify your life. Focus on what you do best—and what and who works best for you.
- **Speculate.** You see the crash coming, so what goes up when other things go down? Quality gold and silver stocks are one obvious answer (one we specialize in, but that's not the only way to go. Anything real will become more attractive than paper or notional assets.

- **Create.** The world will be different after the crash. What worked before may not work afterwards. Look to create new business, new ways of living that will work better in the new world.
- **Diversify.** The greatest risk to your health and wealth is not the markets, but the governments that will predictably turn predatory when things start falling apart. It is imperative not to put all your eggs in one country basket. The ideal is to work in one or more countries, bank in others, invest in others, and live in yet others.

Not all markets that rise and fall are cyclical. Once the market for pet rocks crashed in the 1970s, it never came back. But if the price of something absolutely essential, like oil or iron, crashes, you know it must come back. It's either that or we all go back to the Stone Age. Literally.

And there's nothing in the world like knowing what must happen, when you're an investor.

Take copper, for example. Back at the turn of the millennium, copper was selling for about 70 cents per pound. That was below the cost of production for most mines. But the world wasn't done with copper. Can you imagine? No copper basically means no electricity. Something had to give, and so it did. Copper shot up to \$4 per pound by 2008. It corrected along with everything else that year, then rebounded to more than \$4.50 by 2011.

But here's another key point successful speculators understand: **Resource company stocks offer leverage to their underlying commodities.**

So, when copper was up 5.7 times in 2008, shares of major copper miner Freeport-McMoRan soared from \$3.98 to \$58.60. That's a 1,372% gain. And while copper rose about 2.5 times from 2008 to 2011, Freeport shares shot up four times, from \$11.99 to \$60.

Fortunately for you, our predictable markets are cycling again. There are opportunities for you now like the ones we had back in 2008, or even all the way back to the very bottom in 2001.

Best of all, speculation is a profession open to all. No formal education, credentials, or licenses are required. But it carries a stigma...

Here at Casey Research, we're known for taking on unpopular topics: financial crashes, depression, hyperinflation, the alternative economy, and even hoarding. These are all buzzwords that arouse vivid images and strong emotions. Perhaps the most powerful word of all, however, is "speculator." It sounds so irresponsible. Opportunistic. Dangerous.

Politicians and pundits throw the word "speculator" about so abusively. But few have ever asked what one really is. Most people think a speculator is someone associated with shortages, price hikes, wars, natural disasters, and other calamities. To a degree, it's true. These things create needs that speculators can meet. It's also true, however, that a speculator is simply someone who sees or anticipates distortions in the marketplace and takes position to take profit from them.

This is possible because a good speculator understands their causes (almost always some form of government action) and effects.

Speculation will be the foundation of dynasties in the turbulent years ahead. The original Baron Rothschild knew how to profit from the politically created chaos of the French Revolution. He became rich and famous by following his own advice to “buy when blood is running in the streets.”

That doesn't mean speculators are predatory. Actually, they're humanitarians. When people are desperate to sell their possessions, they appear with cash—the very thing people need most.

When people change their minds and clamor to buy during good times, speculators once again graciously accede to the desires of the majority. Like other workers, speculators try to give their employers what they want. Value is subjective. The price at which something voluntarily trades hands is exactly what it's worth at the time. Speculators simply give value for value. If they weren't there to buy and sell, perhaps no one would be, and others would have no alternative but complete disaster.

Somehow, speculators have acquired an image of crass gamblers. It's a totally inaccurate image, at least for successful speculators. The best speculations are always low-risk. Far from taking risks, speculators search for “sure things.” They tend to be rational and unemotional. The irrational and emotional who take chances don't last long.

A simple but useful way to think of the speculator vs. an investor is this:

Investors risk 100% of their money in the hopes of receiving a 10% gain while speculators risk 10% in anticipation of earning 100%.

If you are attentive, the longer-term risk/reward profile for the speculator is in an entirely different league than that of the “conservative” investor.

These days, the masses are frantically looking for safe harbors against the gathering storm.

Speculators are accumulating positions in real things people will need and want in the years ahead. That means commodities in general and precious metals like gold in particular. And as I said above, stocks in quality companies delivering these goods can multiply our gains on these moves.

Now is the time to act.

Regards,
Louis James



By William Mikula
Editor, *Alpha Edge*

Chapter 17

How to Turn the Market's Next Crash Into Cash

It's inevitable. At some point in the future, there will be another market correction. Perhaps even a crash.

While I can't tell you the exact timing of the next crash, I'm here to tell you one thing: how to profit from it.

You see, at *Palm Beach Income*, we look at the market a bit differently from your average investor.

We don't rely on capital gains (stock price appreciation) for our returns. Instead, we offer investors a form of "insurance" with our low-ball offers.

Using a unique aspect of the options market—in exchange for an upfront cash payout—we agree to buy investors' shares for a certain price and for a certain length of time.

Now, to be clear... this strategy works well in a complacent, low-volatility market like the one we had last year.

In fact, in 2017, we closed 26 trades. All closed for a profit, and we averaged 17.6% annualized returns.

But here's the thing...

I expect at least double those returns when the market turns over. Here's why...

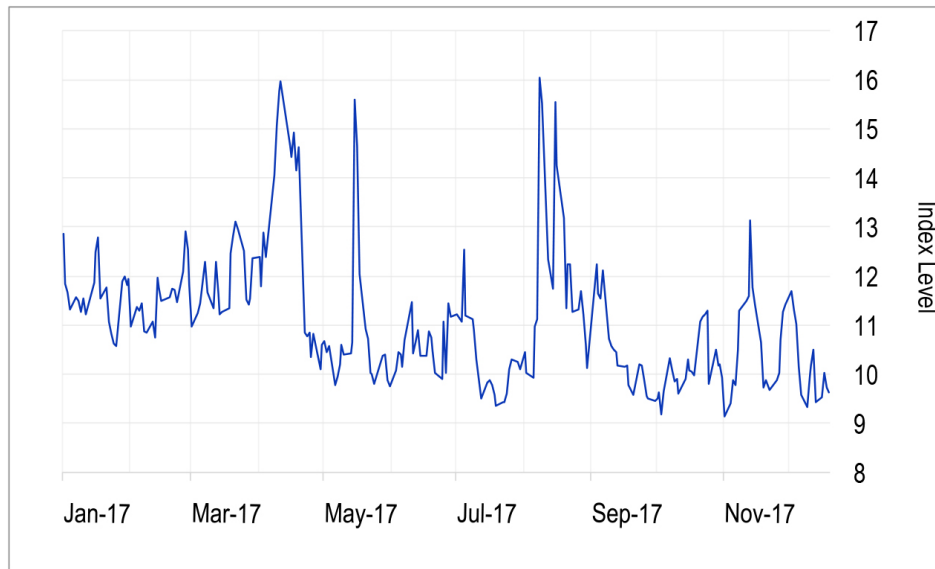
The one thing my team and I check every day is the market's fear gauge—the Volatility index (VIX). The VIX measures the expected volatility of the S&P 500 over the next 30 days. And it's important for us because it influences how much cash we earn for our low-ball offers.

A low VIX reading (below 20) means that investors are calm and complacent. They aren't willing to pay much for the "insurance" we provide.

A higher VIX reading (20 or above) implies that investors are nervous and fearful. This means they're willing to pay up for "insurance."

Now, last year, the VIX hovered around a reading of 10–12 most of the year.

Volatility Index (VIX) in 2017

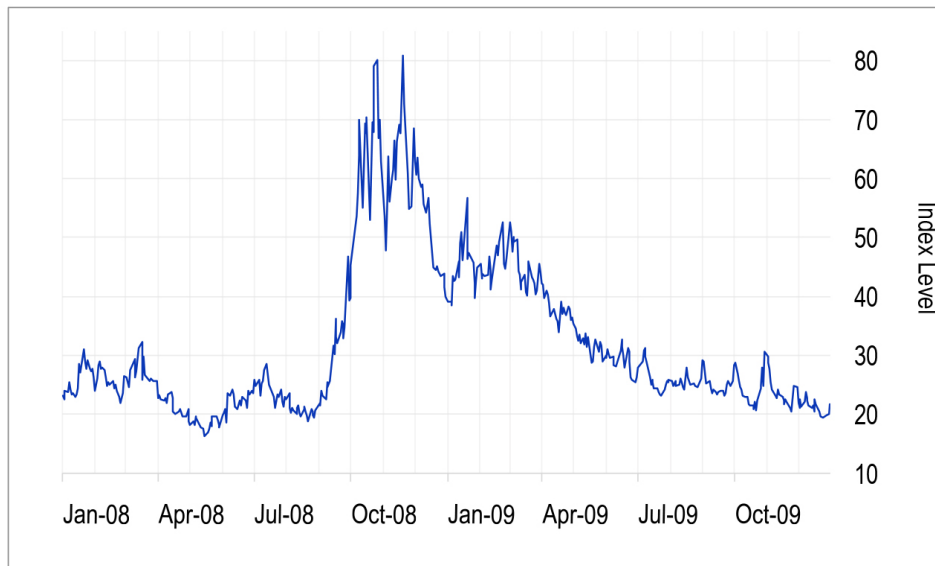


www.palmbeachgroup.com

Source: Bloomberg

For comparison, during the Financial Crisis of 2008–2009, the VIX spiked as high as 80. That’s more than six times higher than we saw in 2017.

Volatility Index (VIX) in 2008 - 2009



www.palmbeachgroup.com

Source: Bloomberg

While I don’t expect to earn six times those returns in the event of a crisis, we could easily double our cash payouts. All we would need is the VIX to average around 24 (twice the range we saw in 2017).

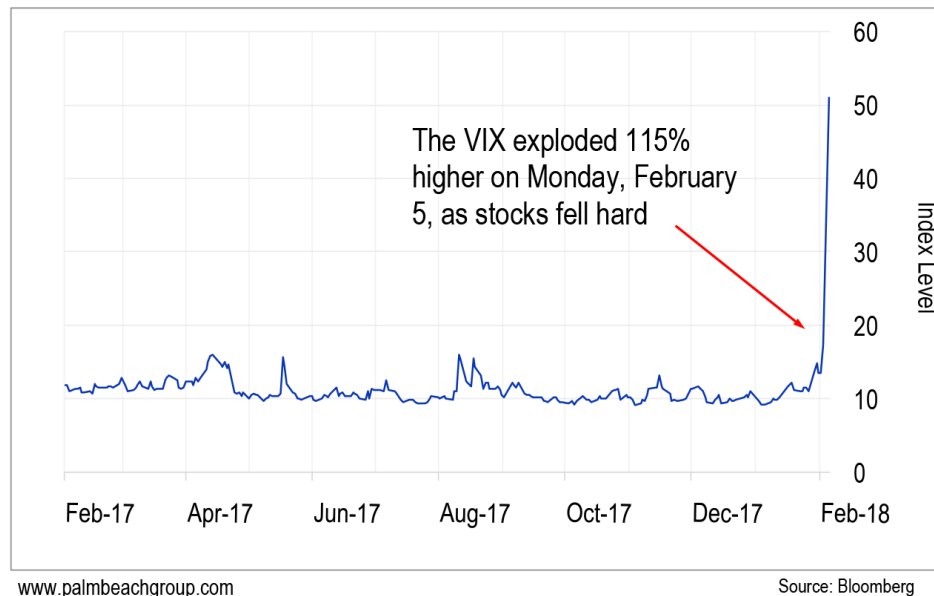
This means I would expect us to easily double our annualized returns in this scenario from 17.7% to something around 35%.

And we might be at the beginning stages of a resurgence in volatility...

On Monday, February 5, the Dow Jones Industrial Average fell 1,175 points—its worst single-day point drop in history. Stocks across the board—and in every market sector—suffered:

As you can imagine, this market route led to fear and panic... and a massive 115% spike in the VIX. This represented the largest single-day VIX increase in history:

Volatility Index (VIX)



Stocks were bleeding red, and investors were in full-blown panic mode.

But here's the thing: Readers of my elite *Palm Beach Income* trading service were smiling as they rang the cash register. You see, I sent out a trade alert on Tuesday, February 6, detailing how to cash in on this mini-crisis.

My subscribers banked hundreds, thousands—and even tens of thousands of dollars—in upfront cash depending on the size of their portfolio.

And today, I'll tell you the strategy they used to cash in. I'll also give you a "Crash Income Playbook" to leverage the next spike in volatility.

And as I mentioned at the outset, while I can't guarantee the exact time and day it will happen, I can guarantee that volatility will once again strike in the future.

The time to prepare is now.

How We Turn Fear into Cash

To generate thick streams of income, we sell cash-secured put options. We call these trades “low-ball offers.” Reason being: We offer to buy elite, trophy stocks at a discount to their current price. In exchange, we receive cash up front, and the investor that pays us for our low-ball offer gets peace of mind.

Palm Beach Research Group co-founder Tom Dyson equates our strategy to making offers on beach front property. First, we find the best real estate on the best beaches. We then offer to buy these properties if they ever go on sale—to a level we decide beforehand.

The beach front property owner likes this deal because he doesn’t have to sell us his trophy property unless it drops in value. But he knows that in a worse-case scenario, he has someone ready and willing to buy. That’s why he’s willing to pay us up front.

In the same way, our low-ball offers allow us to earn cash up front offering to buy trophy stocks in the market.

It’s simply the best way to wring cash from the market, no matter what the market conditions are.

(If you are a member of *Palm Beach Income*, or an Infinity member, you already enjoy access to our in-depth training series on options, as well as my specific option trades. You can access this material [here](#). If you are not a current subscriber, [Investopedia](#) has some good content on the ins and out of options. Be sure to research “cash secured put options, as that is the strategy I’m writing about today.)

Your Crash Income Playbook

Okay, now that we’re on the same page with what a low-ball offer is, my strategy for you is simple... and it will be incredibly profitable if you can follow along.

(Now, if you’re dead set against using options, you could always buy the stocks I’ll mention below when they hit their target prices... You just won’t benefit from the instant income and larger cushion of safety our strategy offers.)

Next, watch the stocks in my list below. When they hit the target price I’ve lined up for you, make a low-ball offer on or around the price I’m suggesting. Doing so will give you an instant cash payout and set you up to buy these dominant stocks at a discount to what is already a great price.

Then, if the market accepts your offer, you’ll buy shares. Once you take ownership of the shares, start selling covered calls. You’ll also collect any applicable dividends during your holding period.

If the market does not accept your offer—and the share price is at or only around 5–10% higher than my price below—then make another low-ball offer.

ULTIMATE CRISIS PLAYBOOK

Keep repeating this process until the stock reaches the “cut-off” point I’ve provided. At this level, shares won’t be cheap anymore, and it might make sense to look for other opportunities.

(Of course, this is a generalization. If earnings continue to rise with the share price, then a stock can stay “cheap” as it rises higher. This rule is merely meant to make you think before making a trade, rather than blindly making low-ball offer after low-ball offer into perpetuity.)

It’s as simple as that. If the stocks below decline to my price targets, that will almost certainly correspond with an elevated VIX... and thick streams of cash flowing into your pocket.

STOCK	TICKER	WAIT FOR PRICE TO DROP TO...	MAKE A LOW-BALL OFFER TO BUY SHARES AT...	*THIS WILL GIVE YOU A “CUSHION” OF...	^AND TARGET AN ANNUALIZED RETURN OF...	STOP MAKING LOW-BALL OFFERS, WHEN THE PRICE HITS...
American Express	AXP	\$73.85	\$65	12%	37.5%	\$100
Apple	AAPL	\$130.75	\$120	8.2%	35.5%	\$180
Coca-Cola	KO	\$34.55	\$32	7.4%	29.5%	\$50
Home Depot	HD	\$131.25	\$115	12.4%	35%	\$190
Johnson and Johnson	JNJ	\$105.85	\$95	10.3%	30%	\$145
McDonalds	MCD	\$129.10	\$115	10.9%	34%	\$175
Microsoft	MSFT	\$64.25	\$57	10%	35%	\$90
Procter and Gamble	PG	\$68.65	\$60	12.6%	32%	\$92.50
UPS	UPS	\$88.75	\$80	9.9%	32.5%	\$120
Walmart	WMT	\$74.00	\$67.50	8.9%	27.5%	\$100

*Cushion is the difference between the current stock price, and your low-ball offer strike price.

^Annualized Return Formula: (Total Income Received/Put Strike Price)/(Expiration Date – Open Date) x 365 days x 100

Print out this report and keep it in a safe place. When the next market crash comes, you’ll be ready to cash in.

Good Luck,
William Mikula, *Alpha Edge*

Section 4

**EXPERT STRATEGIES TO MAKE
A FORTUNE DURING AND
AFTER THE CRASH**



By Joe Withrow
Research Analyst

Chapter 18

How to Make Money as Stocks Fall: An In-Depth Guide to Short Selling

“Companies addicted to the crack cocaine of “gain-on-sale” accounting would simply do new and bigger deals to offset those downward revisions. Once a company gets on such an accounting treadmill, it is hard for it to get off.

This became the cornerstone for our bearish view on Enron and we began shorting Enron common stock in November of 2000.”

That was what hedge fund manager Jim Chanos told the U.S. House of Representatives at an Enron hearing on February 6, 2002.

You see, Jim Chanos is a legendary ‘short-seller’ on Wall Street. He looks for companies that he thinks will fail... and he bets against them by ‘shorting’ their stock.

Simply put, shorting a stock is the exact opposite of buying a stock. When you want to short a stock, you sell the shares first... and then you make money if those shares fall in value.

For example: if you short 100 shares of a stock and that stock then falls by \$1 per share, you make \$100. And you can close your short position at any time by simply buying those shares back. If you can buy the stock back for less than you sold it, the difference is your profit.

You want to sell high and buy low... in that order.

Simple, right?

In the case of Enron, Jim Chanos began shorting the stock in November 2000 when it was trading around \$80 per share. By the time he testified before the House in February 2002, Enron’s stock had plummeted to \$0.29 per share.

Chanos and his fund generated a 99.7% return on their Enron short in less than two years. Meanwhile, Enron’s plunge crushed most other Wall Street analysts.

Chanos doubled his money by shorting Enron while the rest of Wall Street took massive losses. That’s the power of short-selling.

And you can do the same thing in the coming bear market...

As I’ll show you in this report, learning how this strategy works is now more important than ever.

That's because 99% of investors can only make money when the market goes up. Then, when the market falls, they give their gains back. By learning to short, you will be able to make money when the market goes up... and when it goes down.

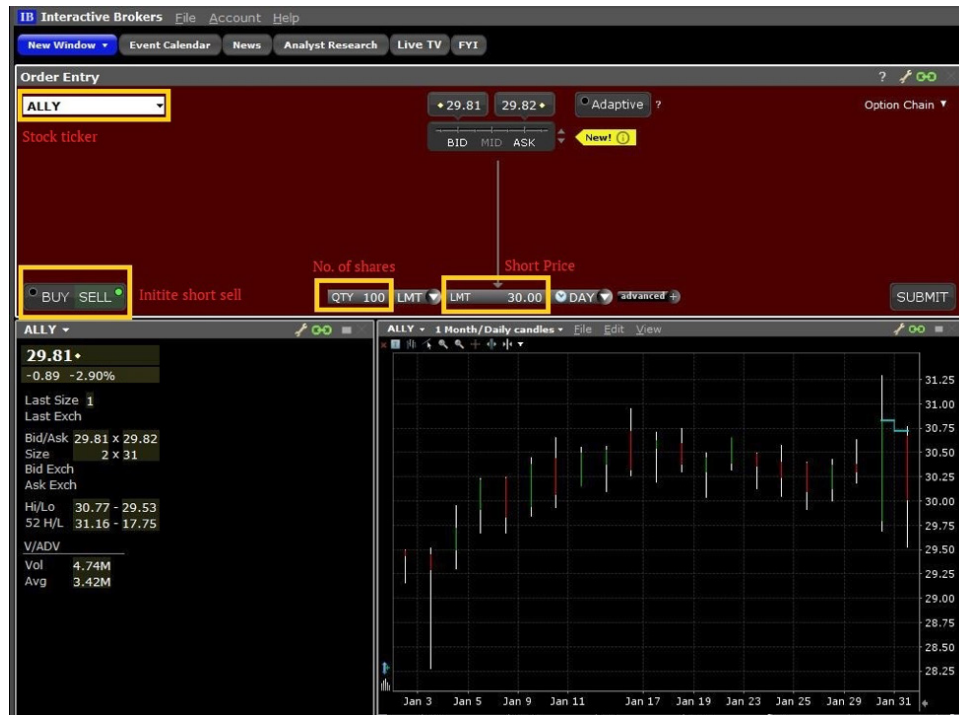
How It Works

There are two things you need to understand before shorting your first stock.

Before you can sell shares short, you must first borrow them from someone who already owns them.

This sounds scary... but don't worry. Your broker (or brokerage platform) will handle all the details.

For your part, you initiate your short position in the same way you would open a long position. You would just 'Sell' instead of 'Buy'... specify how many shares you want to short... and choose your price. Here's an example:



The only thing difference with establishing a short position is that you choose 'Sell' instead of 'Buy' to open the position. It's that easy.

But don't worry if you are still on the fence about shorting stocks. You can get first-hand experience by shorting just one share of a stock. Try it once and you will see how easy it is.

Just pick a stock... sell one share short... watch the position for a day to see how it moves... then buy one share of the stock back to close the position.

You will become a much better investor if you learn how to short stocks effectively.

Shorting Aids Price Discovery

Now, there are some investors who look down on short selling. They think it is wrong to root for a stock to fall in price.

But shorting does not harm a healthy business... or its investors. In fact, shorting strong businesses is a recipe for failure.

Instead, short selling is an important part of price discovery. That's the stock market's fundamental purpose – to discover accurate prices for publicly traded stocks.

By shorting bad or fraudulent businesses, short sellers are telling the market that they think those companies are overvalued. In this way, short sellers hold public companies accountable for their conduct. Remember, it was famed short seller Jim Chanos who first discovered Enron's fraudulent activity.

But unlike Jim Chanos, we aren't looking to strike it rich by short selling. Instead, we want to use it as a tool to hedge our portfolio against a market crash. We want to use shorts to off-set our portfolio losses.

And that will be key during the next market crash.

To put this in perspective, take a look at this chart of the dot-com crash:

S&P 500



As you can see, the S&P 500 plummeted 49% from March 2000 to October 2002. The stock market was cut in half. Anyone holding stocks lost a lot of money.

And look at this chart of the 2008 crash:

S&P 500



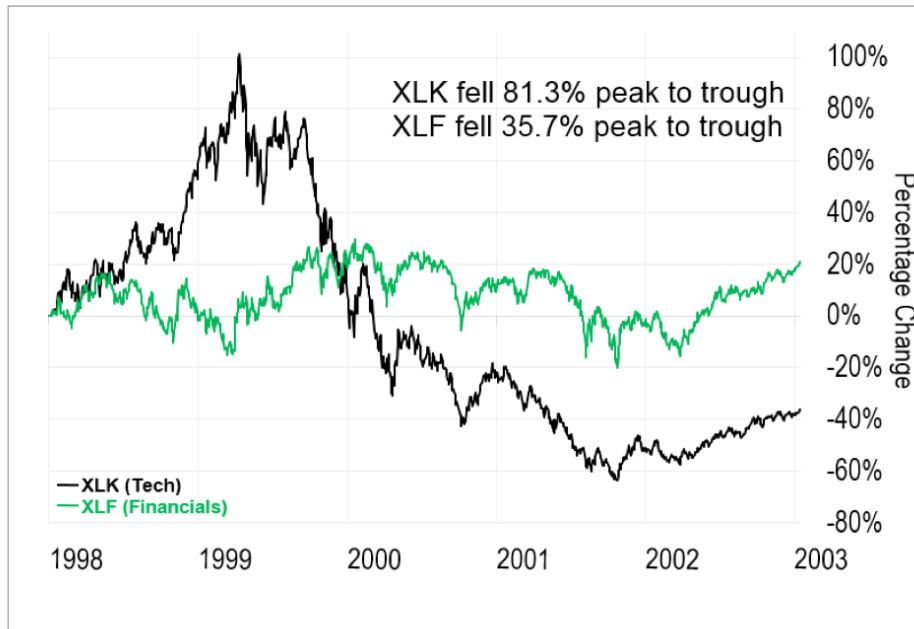
The S&P 500 plummeted 57% from October 2007 to March 2009... and again investors lost a lot of money.

But if we hold a few key short positions, we can off-set a chunk of those losses.

We went back and analyzed the last two bear markets – the dot-com bust from 2000 to 2002 and the financial crisis from 2007 to 2009. What we found was that there are two sectors that led stocks lower when the market crashed each time: tech and financials.

This next chart tracks the Technology Select Sector SPDR ETF (XLK) and the Financial Select Sector SPDR ETF (XLF) through the dot-com bust from 2000 to 2002. These are sector ETF's that mirror the performance of tech stocks and financial stocks.

Tech and Financials Lead the Market Lower



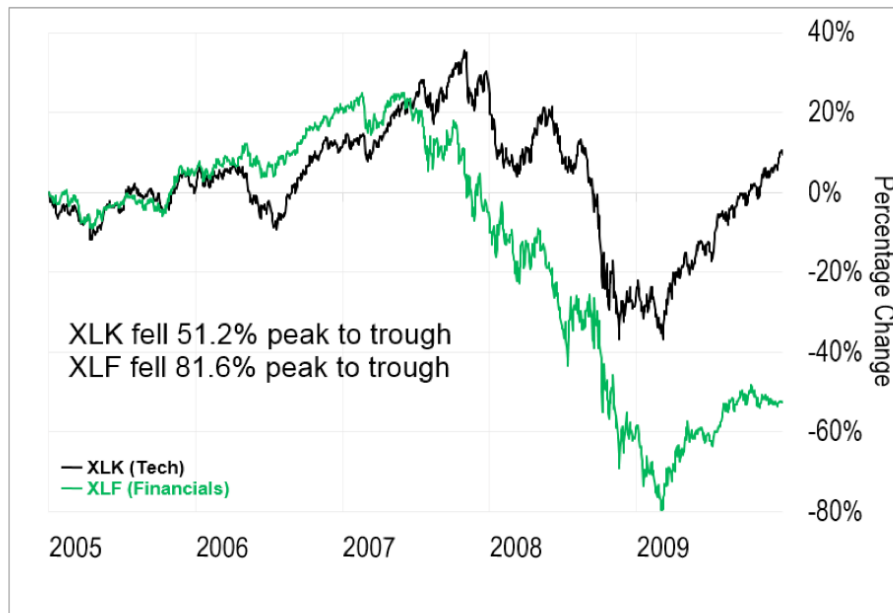
www.bonnerandpartners.com

Source: Bloomberg

As you can see, tech stocks plummeted 81% during the dot-com bust. And financials fell 36% during that same time.

Look at what these sectors did during the 2008 financial crisis:

Tech and Financials Lead the Market Lower



www.bonnerandpartners.com

Source: Bloomberg

Financial stocks plunged 82% from 2007 to 2009. And tech stocks fell 51% during that same time.

Those are huge moves. A well-timed short would have enabled us to turn those losses into our gains... and off-set at least a portion of our core portfolio losses.

Timing Your Shorts

So, how do you time your short selling to take advantage of these big moves during a bear market?

The answer to that is simple in theory... but difficult in practice. Look at this chart of the run up to the dot-com crash:

S&P 500



Notice how the S&P 500 fell by more than 7% on seven different occasions on its way up from 600 to 1500. It even fell by 19% from July to October in 1998.

But you would have gotten crushed had you tried to short any of those small corrections. The market kept trending higher... setting 'higher highs' along the way.

But then, in August of 2000, the market stopped trending higher. Instead, it set a 'lower high'... and then the market tanked shortly after.

And look at what happened during the run up to the 2008 crash:

S&P 500



This time, the S&P 500 suffered six “mini corrections” from 2005 to 2007 on its way from 1,200 to 1,560. But the market kept trending higher...

Once again, the big crash did not occur until after the S&P set a ‘lower high.’

In theory, that ‘lower high’ is the ideal time to establish your short positions. In practice, however, it is impossible to time this perfectly. After all, we can only know that a ‘lower high’ was set after the fact.

So, the best way to time your shorts is to wait until it ‘looks’ like the crash has begun... but to use a tight stop-loss in case you are wrong.

The Easiest Way to Short Tech and Financial Stocks

Now that you know how to short stocks, we are going to make it even easier for you.

Instead of shorting tech and financial stocks, you can use two inverse ETFs: the ProShares Short QQQ (PSQ) and the ProShares Short Financials (SEF).

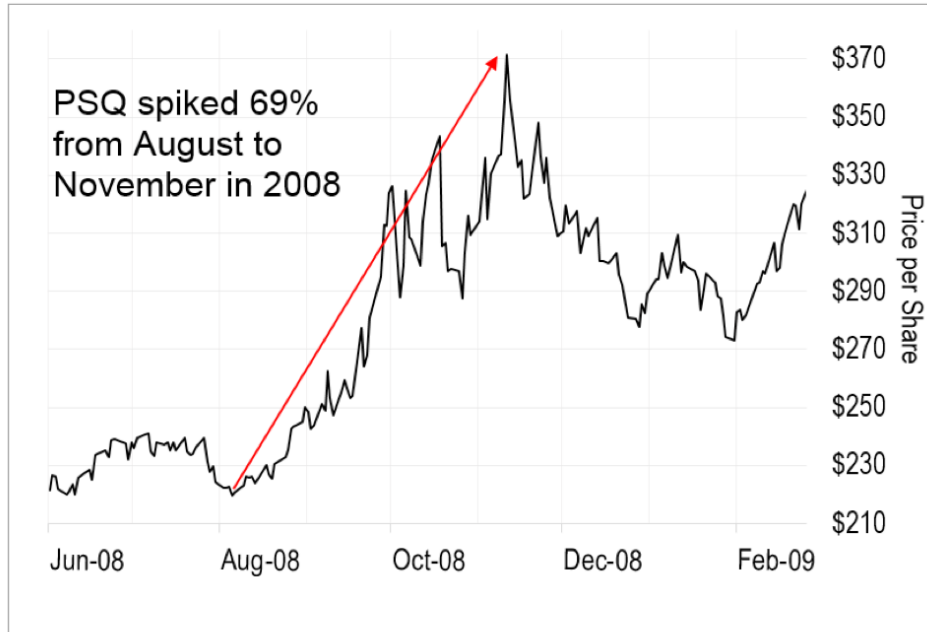
The ProShares Short QQQ ETF is a fund that is designed to provide returns that are inverse of the NASDAQ-100. In other words, PSQ goes up when tech stocks go down.

In the same way, the ProShares Short Financials ETF is a fund that is designed to provide returns that are inverse of the Dow Jones U.S. Financials index. SEF goes up when financial stocks go down.

These inverse ETFs will allow you to put on short positions without short selling. You can buy them like you would buy any other stock.

Neither PSQ or SEF were around for the dot-com crash... but look at how they performed during the 2008 financial crisis:

ProShares Short QQQ (PSQ)

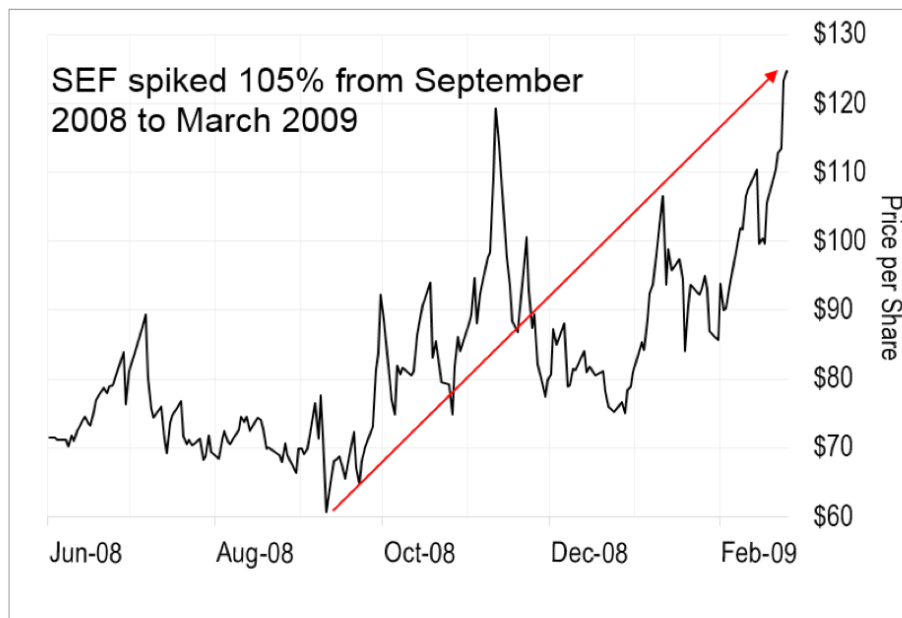


www.bonnerandpartners.com

Source: Bloomberg

PSQ spiked 69% from August to November in 2008. And SEF performed even better... it rocketed 105% higher from September 2008 to March 2009.

ProShares Short Financials (SEF)



www.bonnerandpartners.com

Source: Bloomberg

Anyone with the foresight to buy PSQ and SEF when the market began to fall would have off-set a major portion of their core portfolio losses.

And that's exactly what we plan to do when the next bear market comes. We are going to use these inverse ETFs to convert market losses into gains for us.



By Joe Withrow
Research Analyst

Chapter 19

Buying Puts: The Perfect Bear Market Strategy

“The best path to anything lay through its opposite. One gains by losing and loses by gaining. Victory comes not from waging the one decisive battle... but from the roundabout approach of waiting and preparing now in order to gain an advantage later.”

According to hedge fund manager Mark Spitznagel, this passage from the *Daodejing* is the key to his massive success in the stock market.

Mark pioneered what he called the “tail-hedging” strategy on Wall Street... and this strategy reaped over \$1 billion in profits for his fund Universa Investments during the 2008 financial crisis.

Do you remember the 2008 meltdown?

If you recall, the credit market’s liquidity evaporated... and the bond market plummeted. The S&P 500 lost half of its value in less than six months. When the dust settled, more than 30 million people had lost their jobs... and more than one million homes were in foreclosure. All told, U.S. households lost \$16 trillion worth of financial wealth – wealth many of them were counting on for retirement.

Meanwhile, Mark Spitznagel made a fortune.

Think about that.

Today I am going to show you exactly how Mark made over \$1 billion during the worst financial crisis since the Great Depression.

What’s more, I am going to show you how you can use Mark’s tail-hedging strategy to make a killing during the coming bear market. And as you will see, Mark’s strategy is quite simple once you understand it.

Mark revealed his secret in his 2013 book *The Dao of Capital*. In it, Mark sums up his investment theory this way: “lose a little until you win big”. He calls this a “roundabout” strategy.

Basically, Mark pays a little bit of money each year to ‘insure’ his portfolio against a bear market. He does this by buying cheap, long-dated put options on stocks that will plummet when the market crashes. Then, when the market finally does crash, Mark’s put options skyrocket in price.

We will go over how Mark’s strategy works in detail... But first we need to run through a basic primer on options.

Option Basics

An option is simply a contract that gives you the right to buy or sell a specific stock at a specific price by a specific date. You choose those specifics.

Each option contract represents an even 100 shares of the underlying stock. So, one option contract gives you the right to buy or sell 100 shares of the underlying stock.

There are two types of options: call options and put options.

Call options give the buyer the right, but not the obligation, to buy a stock at a specific price by a specific date.

Put options give the buyer the right, but not the obligation, to sell a stock at a specific price by a specific date.

There are five components to every options trade: the underlying stock, number of contracts, expiration date, strike price, and premium.

The underlying stock is the stock that option buyers have the right to buy or sell.

The number of contracts is how many 100 share blocks of stock you are dealing with.

The expiration date is the date on which the option expires. This is the last day on which the buyer of the option may choose to buy or sell the underlying stock.

In the U.S., the monthly expiration date is always the third Friday of the month. There are also options with weekly expiration dates, but they tend to be less liquid.

The strike price is the fixed price at which the buyer of the option may buy (for calls) or sell (for puts) the underlying stock on or before the option expiration date.

And the premium is what it costs to purchase each option contract.

Now, there are only four fundamental things you can do with options: buy calls, buy puts, sell calls, or sell puts. All options strategies are derived from these fundamental actions.

Today we are going to talk exclusively about buying put options. Put options are the secret behind Mark's roundabout strategy.

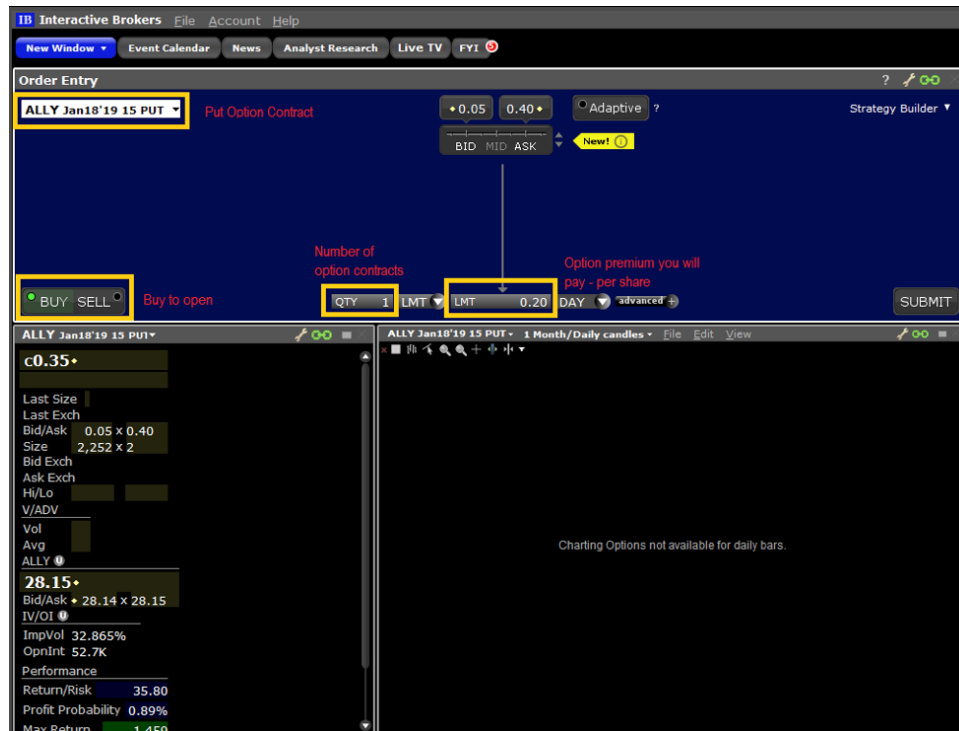
Put Option Basics

To recap: a put option is a contract that gives you the right to sell a specific stock at a specific price by a specific date. Here's an example of what a put option contract looks like using Ally Financial (ALLY):

1 ALLY Jan18'19 15 PUT @ .20

ULTIMATE CRISIS PLAYBOOK

If you were to buy this contract, you would be buying the right to sell 100 shares of ALLY for \$15 per share on or before January 18, 2019... and you would pay \$0.20 per share (\$20 per contract) for that right. Here's what that would look like in your brokerage account:



Now let's talk about how this works. Remember, you buy put options to profit when a stock falls in price. Let's demonstrate with an example...

Suppose ALLY fell to \$12 per share before January 18, 2019. Since this option contract gives you the right to sell ALLY for \$15 per share, your put option would be worth at least \$300.

If you chose to 'exercise' your option, your brokerage would buy 100 shares of ALLY for you at \$12 per share. It would then sell those 100 shares for \$15 per share to whoever sold the put option originally. And you would see that \$300 profit appear in your brokerage account.

I know that sounds complicated... but don't worry. Your brokerage handles all the details. And, even better, you would probably not exercise your option in that scenario. Instead, it would be easier to simply sell your put option – just like you would sell a regular stock. And, depending on how close the option was to maturity, it is likely that you would earn more than \$300 by selling your put.

On the other hand, suppose ALLY never fell below \$15 per share before January 18, 2019.

Suppose the stock was trading at \$20 per share on expiration day. Your put option gives you the right to sell ALLY for \$15... but you would lose \$5 per share if you did so. So there's no advantage there.

In that case, you would let your put option expire worthless and you would lose the \$20 in premium that you paid to buy the option originally.

See how this works? This option contract gave you the chance to gain \$300... and you only had to risk \$20 for that chance.

I will show you how to turn this into a comprehensive strategy in a moment, but first I need to clarify a few things.

The Perfect Bear Market Strategy

I am writing this in February 2018 – nearly 12 months before the expiration date. And ALLY is trading around \$28 per share today.

So, ALLY would have to fall by more than 46% in less than 12 months for this put option to be profitable. I don't want to bore you with the technical details, but this option is considered "out-of-the-money" because of how far the stock would have to fall for it to be profitable.

That's why this put only costs \$0.20 per contract... and that's why we can risk \$20 to make \$300.

The more the stock would have to fall... and the shorter the time frame ... the cheaper the option premium will be.

It's also important to point out that option contracts trade continuously... just like stocks. Let's use our ALLY put option from above as an example.

We paid \$0.20 in premium for our ALLY put – that was the market price when we bought the option.

That price will fluctuate constantly, however. If the underlying stock tanks, our put option's price will go up. We could then sell our option for a profit at any time... we do not have to wait until the expiration day to exit the position.

And that's what makes this a perfect bear market strategy.

We don't know exactly when the next bear market will come. We know what indicators to watch... but it is impossible to predict exact dates.

But when the bear market does come... and the stock market tanks... we will be able to sell our put options and reap massive gains.

All we have to do is buy... and wait. That's why Mark Spitznagel calls this a "roundabout" strategy.

But you must buy put options before a bear market comes – while they are still cheap. It will be way too late to buy put options if you wait until a full-blown bear market is underway. They will already have skyrocketed in price.

And if the put options you buy expire before the bear market comes... you must buy more put options with a new expiration date. That's why Mark says the key is to lose a little until you win big.

A Comprehensive Strategy

If you follow our asset allocation advice from Dan Denning's essay in Chapter 3: "*Try This Five-Asset Class Solution*," this strategy is all you need to "insure" your overall portfolio against catastrophic losses.

That means if you have a \$100,000 portfolio, you would commit \$3-5,000 of it to buying put options.

But here's the thing – you need to buy your put options when the market is relatively calm. That's when you will get the best prices.

And the best way to know when the market is calm is to watch something called the "VIX" – the Chicago Board Options Exchange S&P 500 Volatility Index.

I won't bore you with the technical details, but the VIX officially measures the market's expectation of 30-day volatility. Here's what you need to know: when the VIX is high, investors expect the market to be volatile over the next month... and options will be expensive. And when the VIX is low, investors expect the market to be calm over the next month... and options will be cheap.

As I write this, the VIX's 50-day moving average is about 13. Its 52-week high is 50.3. And its 52-week low is 8.6.

As a rule of thumb, you should buy your put options when the VIX is below 20... and the lower the better. On the flip side, you should not sell your options until the VIX spikes above 30. And the higher the better.

As for the 20-30 range – that's a gray area. We would not advise buying options in this range. But it may make sense to sell the options you already own if you are able to do so at a profit.

That's a judgment call depending on how close your options are to expiring... and whether you think the market is going higher or lower in the interim.

CBOE S&P 500 Volatility Index



Which Options to Buy

So now you know what put options are... and when to buy them. But which options should you buy?

The short answer is easy: buy put options on low-margin, highly indebted companies that are guaranteed to tank during a bear market. It's hard for us to get more specific in this report because this is just a guide... not an investment service. We don't know when you will read this or what the current market conditions will be at that time.

But for a starting point, here are three companies that you can begin your research on for buying puts on. Each of these companies is loaded with debt coming due over the next three years and they each have negative free cash flow:

ALLY – Ally Financial

CAR – Avis Budget Group

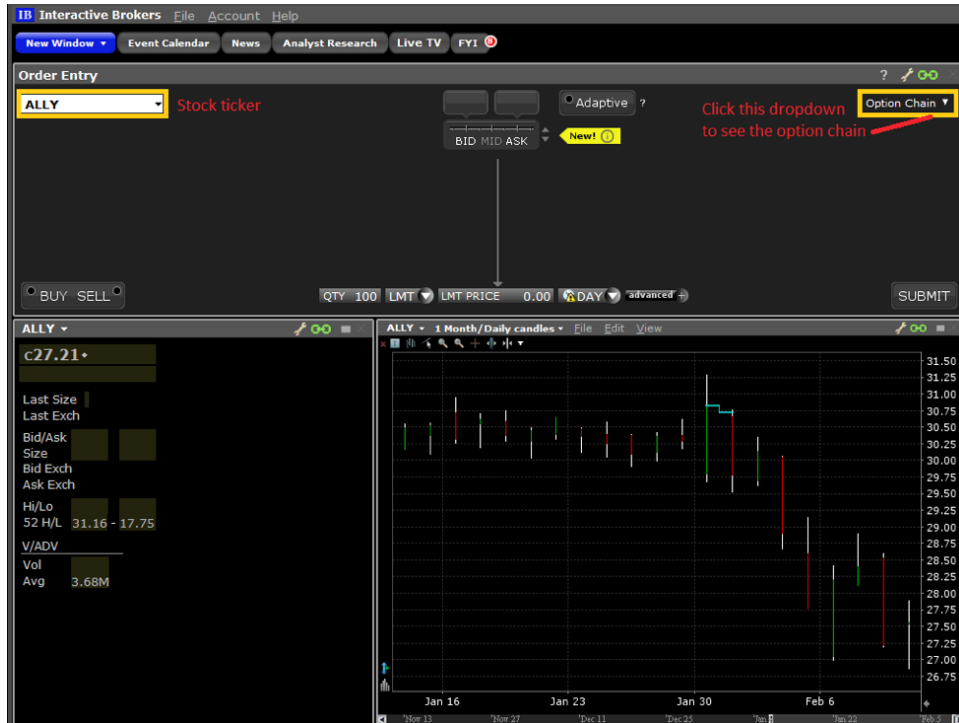
TSLA – Tesla

The purpose of this report is to provide you with as much actionable information as we can so that you can employ this strategy independently if you so choose. So let's get a little more technical...

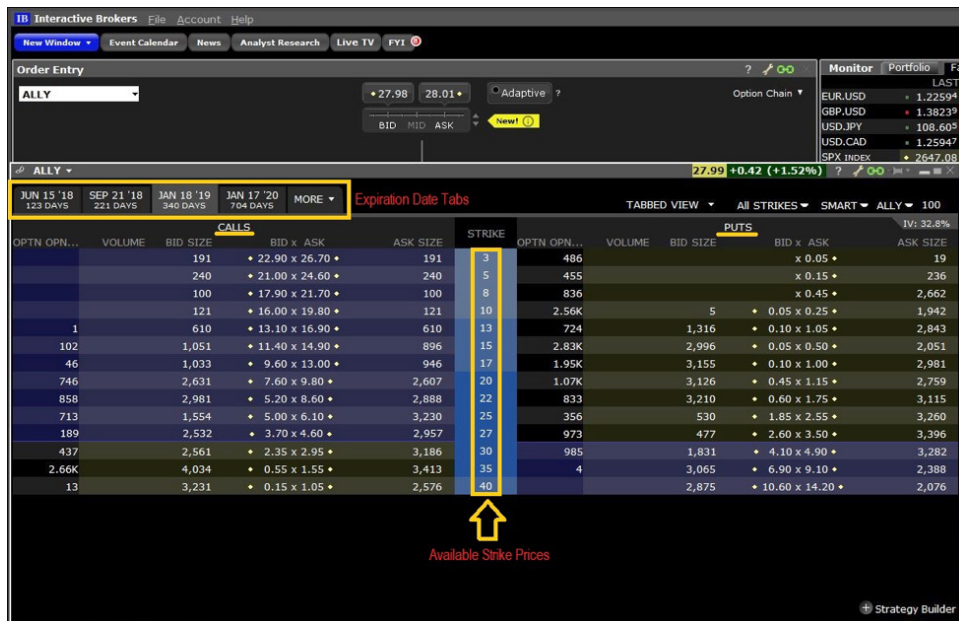
You find the available options to trade for a given stock in its "option chain." Getting to the option chain will be a little different for each brokerage platform. Just reach out to your broker if you need assistance.

Here's where you can find the option chain in Interactive Brokers:

ULTIMATE CRISIS PLAYBOOK



We recommend buying “out-of-the-money” options with about 12 months left to expiration. Let’s look at the option chain for ALLY to demonstrate:



You can see that you can sort the stock’s options by expiration date in the top left – in this example we are looking at the January 18, 2019 options.

And you can see that call options are listed on the left... and put options are listed on the right. And the available options are sorted vertically by strike price.

ULTIMATE CRISIS PLAYBOOK

So, in this screenshot we are looking at available call and put options for ALLY with an expiration date of January 18, 2019 with strike prices between \$3 and \$40. Each individual option contract is known as an “option leg.”

For our bear market strategy, we recommend buying put options that are about 12 months away from expiration. I am writing this in February 2018, so the January 18, 2019 options are our best choice.

From there, we recommend buying out-of-the-money options because they give us tremendous upside potential for very little capital outlay.

Remember, out-of-the-money means the option’s strike price is relatively far away from its current price. For put options, that means we are looking for options with a strike price much lower than the stock’s current price.

In this report, we used the ALLY Jan18’19 15 PUT as our example because we thought it gave us good bang for our buck. But there is nothing magical about that specific option leg. The ALLY Jan18’19 17 PUT and the ALLY Jan18’19 13 PUT would work in just the same way while giving us about the same risk-reward setup.

The lower the strike price you go with, the cheaper your premium will be... but you will also have a lower chance of being profitable with that option. It’s a trade-off.

Let’s dive into this a bit more...

IB Interactive Brokers

File

Account

Help

New Window

Event Calendar

News

Analyst Research

Live TV

FYI

Order Entry

ALLY

27.98

28.01

Adaptive

BID

MID

ASK

Monitor

Portfolio

LAST

EUR_USD

1.22594

GBP_USD

1.38239

USD_JPY

108.605

USD_CAD

1.25947

SPX INDEX

2647.08

79

Option Chain

ALLY

27.99

+0.42

(+1.52%)

IV: 32.8%

JUN 15 '18

123 DAYS

SEP 21 '18

221 DAYS

JAN 18 '19

340 DAYS

JAN 17 '20

704 DAYS

MORE

TABBED VIEW

ALL STRIKES

SMART

ALLY

100

CALLS

OPTN OPN...

VOLUME

BID SIZE

BID x ASK

ASK SIZE

STRIKE

OPTN OPN...

VOLUME

BID SIZE

BID x ASK

ASK SIZE

PUTS

191

22.90

x 26.70

191

3

486

19

0.05

240

21.00

x 24.60

240

5

455

236

0.15

100

17.90

x 21.70

100

8

836

2,662

0.45

121

16.00

x 19.80

121

10

2,56K

1,942

0.05

x 0.25

1

610

x 13.10

x 16.90

610

13

724

1,316

x 0.10

x 1.05

2,843

102

1,051

x 11.40

x 14.90

896

15

2,83K

2,996

x 0.05

x 0.50

2,051

46

1,033

x 9.60

x 13.00

946

17

1,95K

3,155

x 0.10

x 1.00

2,981

746

2,631

x 7.60

x 9.80

2,607

20

1,07K

3,126

x 0.45

x 1.15

2,759

858

2,981

x 5.20

x 8.60

2,888

22

833

3,210

x 0.60

x 1.75

3,115

713

1,554

x 5.00

x 6.10

3,230

25

356

530

x 1.85

x 2.55

3,260

189

2,532

x 3.70

x 4.60

2,957

27

973

477

x 2.60

x 3.50

3,396

437

2,561

x 2.35

x 2.95

3,186

30

985

1,831

x 4.10

x 4.90

3,282

2,66K

4,034

x 0.55

x 1.55

3,413

35

4

3,065

x 6.90

x 9.10

2,388

13

3,231

x 0.15

x 1.05

2,576

40

2,875

x 10.60

x 14.20

2,076

Strategy Builder

You can see we have highlighted the three option legs we are considering.

That first column “OPTN OPN” is the existing open interest for that particular option leg. Open interest represents the total number of open or outstanding options contracts at any given time.

ULTIMATE CRISIS PLAYBOOK

The second column is volume, which represents how many options contracts have traded on a given day.

The third column is the bid size, which indicates how many options contracts investors are willing to purchase at the current bid price.

The fourth column is the bid-ask spread. This is the price range within which you could buy or sell the option contract at that point in time.

And the fifth column is the ask size, which indicates how many options contracts the market maker is willing to sell at the current ask price.

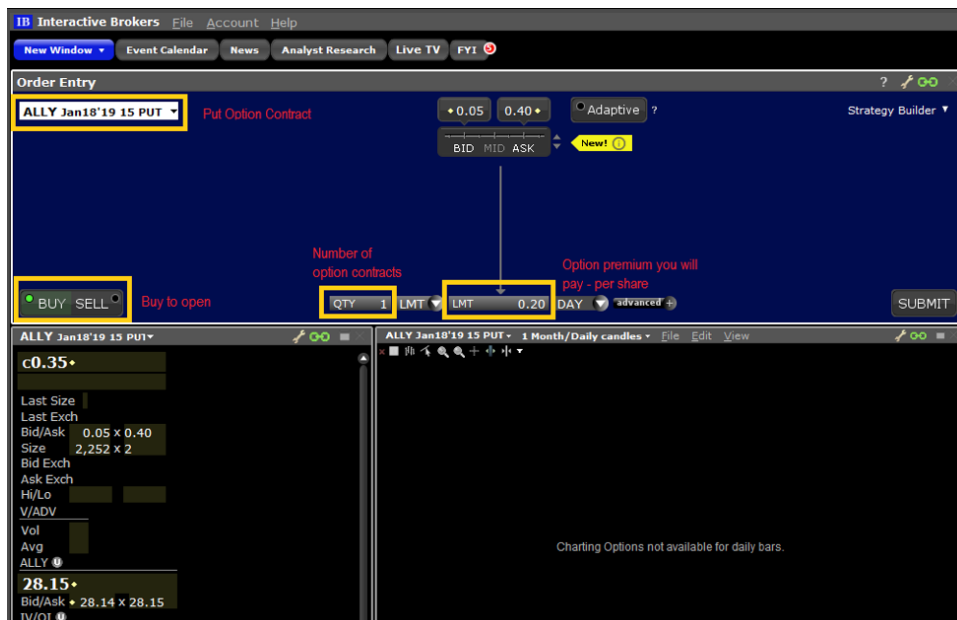
Here's what you need to know about these columns...

Open interest, volume, bid size, and ask size will not be terribly important to us because we are treating this as a long-term strategy. Those metrics are much more important to short-term options traders.

With that said, open interest and volume will give you an idea of how “liquid” a particular option chain is. The higher the open interest... and the greater the volume... the easier it will be to buy and sell that option.

The most important thing to pay attention to is the bid-ask spread. You can see that the bid-ask spread for our ALLY Jan18'19 15 PUT is \$0.05-\$0.50. Again, that is the price range within which we could buy or sell this put option contract... but that's a big range. How do we know which price to choose?

First, you should only use ‘limit’ orders to buy or sell options. Limit orders specify the maximum price at which you are willing to buy... or the minimum price at which you are willing to sell. Let's go back to our example:



You can see that we used a limit order of \$0.20 to buy this option contract. That is what the “LMT” designates.

By using a limit order, we are telling our broker that we are not willing to buy this option above \$0.20 per share. Had we used a market order (MKT), our broker probably would have filled our order for somewhere around the \$0.40 ask price. Limit orders ensure that you get the best price possible.

In this example, I entered the buy order at \$0.20 because it is in the middle of the bid-ask range... but closer to the bid than the ask. Obviously, you want to buy as close to the bid price as you can. But the closer you get to the bid... the lower the chances are that your order will be filled.

So, you may have to do a little trial & error with your buy and sell orders. If my \$0.20 order is not filled within a reasonable time frame, I may have to change the order to \$0.25... or \$0.30... whatever the case may be. Your order will eventually be filled as you move closer to the ask price.

Putting It Together

To recap: we want to buy out-of-the-money put options about 12 months from expiration on low-margin, heavily indebted companies whose stock will plummet in the next bear market. We want to buy these options when the VIX is below 20. You would then look to sell your options when the VIX spikes above 30... and the higher the better.

Again, we only recommend allocating 3-5% of your portfolio to this bear market strategy. That is all you need to properly insure your portfolio if you follow our asset allocation guidance.

We also suggest that you build a put option portfolio of five to 10 companies that you are especially bearish on.

Also, know that these options will slowly fall in price over time unless the stock market trades lower. And that's okay.

You must “lose a little until you win big”, as Mark Spitznagel put it. This is one reason why we only recommend a 3-5% allocation... this strategy will lose money until the bear market comes.

But when the bear finally shows its face... you will be ready.



By Joe Withrow
Research Analyst

Chapter 20

How to Buy the World's Best Businesses at a Deep Discount

So far, this playbook has been about how to survive the coming bear market.

These strategies are each designed to soften the blow of a market crash and protect the capital you have worked so hard to earn. If you take the time to understand and employ the techniques in this book, you'll have nothing to fear when the next bear market finally hits.

But it gets even better...

In this essay, I'm going to show you how to buy the world's best businesses at a deep discount once the bear market dust settles... without needing to time the market bottom.

This is a strategy that most investors don't even know exists. And I promise you, this strategy is so powerful that you may never simply "buy" a stock ever again.

The key to this strategy lies in understanding the property and casualty (P&C) insurance business. Let me explain...

Chances are you own auto insurance, homeowner's insurance, or both. If you do, I bet you pay your insurance premiums on time every month... or every six months... or whatever the case may be.

And I bet that you have filed very few auto or homeowner's insurance claims... if any. In fact, I'd be so bold as to bet that you have filed one insurance claim or less in the last 10 years... because that's the average.

The average person files one auto or homeowner's insurance claim every 10 years. But that person still pays insurance premiums every year... even though they probably won't need the insurance coverage that year.

In this way, insurance companies get paid full price upfront for a service that they won't have to deliver for 10 years or so... if ever. Legendary investor Warren Buffett calls it a "collect now and pay later" model... and it gives insurance companies a massive advantage over other businesses.

Collect Now and Pay Later

The strategy I am going to show you today will leverage that same "collect now and pay later" model... and make a giant improvement to it.

You see, insurance companies get paid first... but then they eventually incur expenses when a claim is filed.

We are going to use their model to get paid first. But instead of incurring expenses later, we are going to use that money to buy high-quality assets later... at a deep discount. We want the best of both worlds.

You can use this strategy to build a stock portfolio of the world's best businesses at an even deeper discount after the coming bear market sends stocks plummeting. And once you understand how this strategy works, you'll be able to use it to your advantage at all times... not just after a major bear market.

We talked about buying long-dated put options to hedge a portfolio in our previous guide. To employ the "collect now and collect later" model, we're going to flip it around – we're going to sell short-dated put options.

I'll explain exactly how this strategy works in a minute. But first, let's cover a quick recap on put option basics so it's fresh in your mind.

Put Option Basics

A put option is a contract that gives the buyer the right to sell a specific stock at a specific price by a specific date. Here's the example of a put option contract that we used in our previous guide, Ally Financial (ALLY):

1 ALLY Jan18'19 15 PUT @ .20

If you were to buy this contract, you would be buying the right to sell 100 shares of ALLY for \$15 per share on or before January 18, 2019... and you would pay \$0.20 per share (\$20 per contract) for that right.

But if you were to sell this contract, you would be agreeing to buy 100 shares of ALLY for \$15 per share on or before January 18, 2019... and you would be paid \$0.20 per share (\$20 per contract sold) for that commitment.

Remember, there are two sides to every trade. For every investor who buys a put option contract, there must be someone who sold that contract.

The investor who sells the put option acts like an insurance company by agreeing to buy the underlying stock if it falls in price, thus protecting the buyer from an event that would have caused him to lose money.

And here's the thing: most option contracts expire worthless. When an option expires worthless, the seller of that option keeps the premium and doesn't have to do anything else.

Do you see where we're going with this?

Option sellers get paid upfront for their commitment to buy a stock later if certain conditions are met... But those conditions are rarely met.

Sounds pretty good, right? Let's turn that into a comprehensive strategy.

Buy the World's Best Businesses at a Deep Discount

Just like we cannot predict the exact timing of the coming bear market... we also cannot predict how long it will last. Timing market tops and bottoms is impossible.

That's where this strategy comes in. You know that the best time to buy stocks is at the end of a bear market. Had you bought the S&P 500 on March 9, 2009 – the exact bottom of the last bear market – you would be up 287%. And that's after the most recent correction.

S&P 500



But let's be honest – how many people knew that March 9, 2009 was the bottom?

None.

So instead of trying to time the bottom, we recommend selling put options on the world's best businesses once the stock market has fallen 40–50%.

Now this is just a guide, not an investment service, so it's hard for us to get more specific with that. We don't know when you will read this... or what the market conditions will be like when you do. But we will give you all the information you need to employ this strategy independently if you choose to do so.

ULTIMATE CRISIS PLAYBOOK

By selling a put option, you agree to buy the underlying stock at a specific price by a specific date... and you get paid a premium upfront for this commitment.

So, to buy the world's best businesses at a deep discount, you simply need to sell put options on the stocks that you want to own... at strike prices that you consider a good deal.

If the stock then falls to that strike price before the option's expiration – great! You get to buy one of the world's best companies at a major discount.

And if the stock does not fall to that strike price before the option's expiration – well, that's great, too. You can pocket the premium you were paid upfront... and then sell another put on the same stock to earn even more premium.

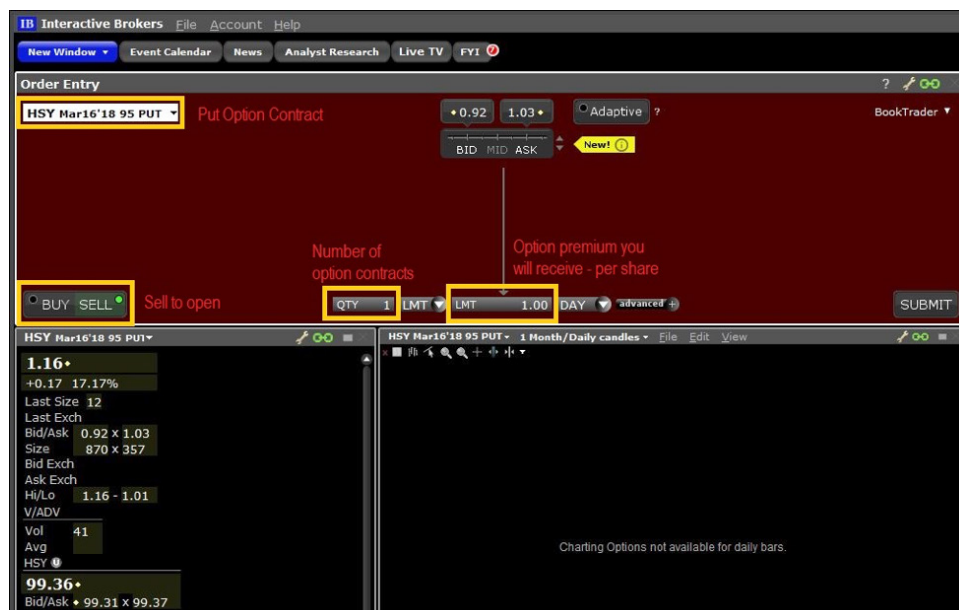
Do you see how this works? You can sell put options on stocks you want to own over and over again until you finally get to buy the stock. In this way, you act like the insurance company collecting premiums for a financial commitment. But instead of incurring expenses later... you eventually buy a quality asset that will make you even more money.

Let's illustrate this strategy with an example.

Hershey's stock is trading around \$99 per share as I write this in February 2018. Let's sell this put option on it:

1 HSY Mar16'18 95 PUT @ 1.00

Here's what that looks like:



So in this example we are selling one put option contract on HSY with a strike price of \$95 per share... and we are getting paid \$1.00 per share in premium (\$100 total) to do so. By selling this contract, we commit to buying 100 shares of HSY at \$95 per share on or before March 16, 2018.

After selling the option, one of three things can happen. HSY can go up... it can go down... or it can stay the same.

If HSY is trading at or above \$95 per share on March 16, 2018, then our put option expires worthless. We keep the \$100 option premium and nothing else happens. We can then sell another round of puts on HSY and earn even more premium.

If HSY is trading below \$95 per share on March 16, 2018, then we will be “put” 100 shares of HSY. That means our broker will deduct \$9,500 from our brokerage account and use it to buy 100 shares of HSY.

But here’s the thing: We keep the option premium we were paid to sell the put option. So not only would we buy HSY for \$4 less per share than what we could have originally... but we would also apply \$1 per share in option premium towards our purchase. That means we would effectively be buying HSY at \$94 per share.

In other words, had we bought HSY shares initially instead of selling the put option, we would have paid \$99 per share. By selling the put option, we could buy HSY for \$94 per share... and we would be paid an additional \$1 per share to do so. Doing the math, that means we would buy HSY at a 5% discount.

That’s powerful. And that’s why this is the single best strategy to rebuild your stock portfolio towards the end of a bear market.

Because this strategy allows you to buy quality stocks at a deep discount, you don’t have to perfectly time the market bottom. But you do need to focus this strategy on the world’s best businesses... so let’s talk about how to find them.

The Three Qualities of the World’s Best Businesses

Last year, Palm Beach Research analyst Nick Rokke put together an intensive study of the world’s most profitable businesses. He called it the “Elite 25.” In this study, Nick ran a back-test on all 4,200 or so publicly traded U.S. stocks.

Nick found that the best performing stocks shared three qualities:

1. High return on invested capital (ROIC)
2. High growth
3. Cheap valuations

For the ROIC metric, Nick sifted through all 4,200 stocks and picked out all companies earning a return on invested capital of 20% per year or more.

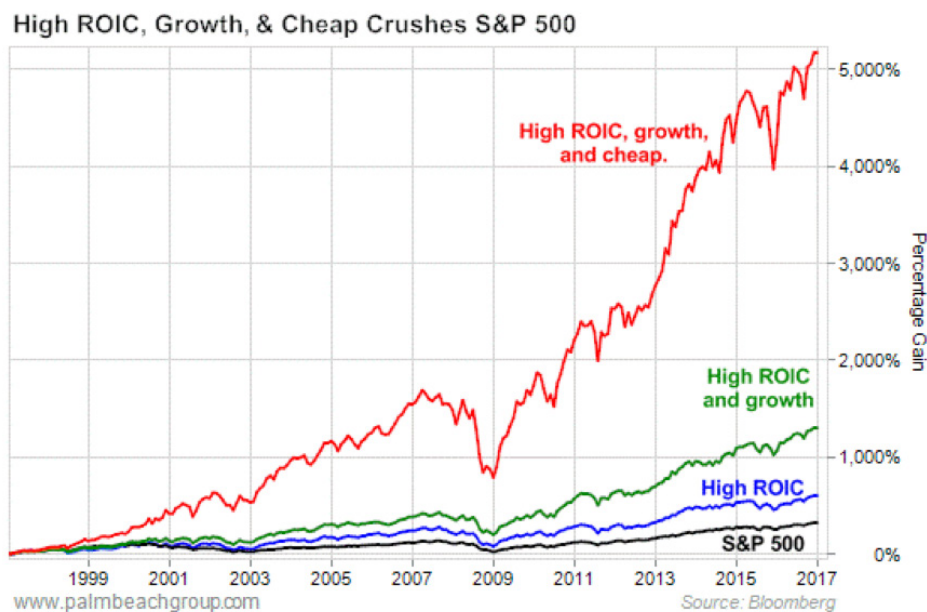
For the growth metric, Nick looked at those companies showing an ROIC of 20% or more per year... and he picked out the ones that were growing revenue, free cash flow, and profit margins each year.

And for the valuation metric, Nick looked at those companies showing high ROIC and high growth... and he picked out the 25 “cheapest” ones.

Now, by “cheapest,” we aren’t talking about price. Price alone is meaningless when it comes to stock valuations. Instead, Nick looked at price-to-free cash flow... enterprise value-to-EBITDA... and price-to-earnings relative to growth rate.

I won’t bore you with the technical details of those value metrics... Just know that they compare the stock’s price to various profitability and growth metrics to determine if it is cheap or expensive.

This next chart shows you just how powerful Nick’s study was:



As you can see, Nick’s “Elite 25” stocks (red line) far outperformed the S&P 500... and most other stocks over the past 10 years.

[Click here](#) if you would like to read Nick’s full report on the Elite 25. What’s more, Nick maintains a portfolio of Elite 25 stocks that he updates each month based on his system. You can see that portfolio [here](#).

Remember, our put-selling strategy is all about getting paid upfront to eventually buy the world’s best businesses at a discount. We can’t make specific stock recommendations in this guide... but you can refer to Nick’s Elite 25 portfolio at any time for a list of the world’s most profitable businesses.

Nick does not sell put options on his Elite 25 stocks... but they would be excellent candidates for the put-selling strategy we outlined in this guide, should you choose to pursue it independently.

Section 5

**CRITICAL CRASH SURVIVAL
TIPS BEYOND THE STOCK
MARKET**



By Dan Denning
Coauthor,
The Bonner-Denning Letter

Chapter 21

The “Bug-Out” Bag... And Other Practical Tips for Perilous Times

To prepare for a crisis, there are practical steps you can take that go beyond purely financial advice. Part of what I’m hoping we can help you do is have the right frame of mind to deal with a fragile financial system.

When a system is so complex it could break at any moment – from its own complexity for from an external attack – you need to prepare. Here are five personal tips I practice in my own life. They don’t make me any wealthier. But I think they may give you a bit more peace of mind when you’re dealing with a turbulent system.

Defer consumption no matter what. Save more than you think you need to. It’s a good moral habit too. When you defer consumption, you accumulate capital. You resist the urge to gratify every desire. As the Stoic philosophers would say, you free yourself from enslavement to your passions.

A little walking-around money. Carry enough cash on you each day to eat a meal or get a cab ride or Uber over a long distance if you need to. You never know when the cash machines will break down or you might not be able to get back to your home.

Cash insurance. Have enough accessible savings (in cash) for six months to survive if you lose your job or are ill. If this seems insurmountable now, see rule number one. Americans have fallen into the dangerous habit of mistaking full grocery store shelves with wealth. We ARE a wealthy culture. But don’t live with “just-in-time” cash management.

Establish a family disaster recovery plan. Each of your family members should know how to contact one another in the event of an emergency which affects any or all of them. They should know important phone numbers, addresses, and, if necessary, the name of a family friend or lawyer to contact in a legal or medical emergency.

A “bug-out bag.” The 10 items you’ll want in a bag if you have to leave your home in a hurry.

You may not have heard of a bug-out bag. And if you haven’t, it may sound a little crazy. But I can assure you it’s not as crazy as you think. Let me show you the 10 items you should have easy access to in your home. And then, a final note on why buyers become sellers.

All the investment advice above stems from the same mental state: you can't know the future. But you CAN know what's happened in the past. You CAN be aware of your own strengths and weaknesses as an investor. And you CAN understand that most investors expect high returns when prices are high and low returns when prices are low.

I hope I've shown you that's exactly wrong. But my penultimate point is that the relationship between the stock market and the real world has become increasingly more complex with the intervention of the Fed. The ability of a financial market crisis to become a real-life crisis has never been greater.

The "bug-out bag" is a reminder that civilization hangs from a slender thread. If the correction I'm talking about was a normal recession or a normal cyclical stock market crash, you wouldn't have to worry. The correction would be short and sharp. Animal spirits would recover. Life goes on.

Most of the time, you don't have to worry that the next financial crisis could tear apart the fabric of civil society...or tear asunder the Union (again). Most of the time, and in most of America, you don't have to ask yourself whether you live in a city or community that could be afflicted by unexpected mass violence from an economic or political event.

Events that disrupt the routine of normal life across all of society rarely happen, even at the most extreme times in American history. But they DO happen.

The "bug out bag" is just a reminder that in a real crisis, the value of your portfolio may be the least of your problems. Like the first aid kit in your bathroom or the spare tire and road flare in your car... it's the sort of thing you hope you don't have to use... but shouldn't be without... especially now. Here are the 10 things you should have in it (check on Amazon for many variations of this list):

1. **A bag.** Self-evident! Get something that can carry the items below. It should have lots of pockets and be comfortable.
2. **Identification.** You can hardly travel these days without a government-issued ID. Have a physical one in your bag. And a photocopy of it. And something you've saved on a USB drive that shows your name and residence. Yes, that's a lot of awful private information to keep in one place. Keep it safe. But make sure that you can prove who you are if you have to.
3. **Cash.** See above. But don't put six months' worth of cash in the "bug-out" bag. Only have enough for a few days or a week at most, otherwise it's too great a risk carrying around that much cash in an emergency.
4. **First Aid Kit/Medicine.** If someone in your family has allergies or regularly takes prescription medicine, plan ahead.
5. **Contact names and addresses of friends and family.** If the battery in your cell phone went out, would you know how to get in touch with your wife? Your kids? Your parents?

6. **Food and water.** Subject to weight and space restrictions.
7. **Maps.** How will you navigate if your sat nav or Google Maps goes down?
8. **Multi-tool.** Can opener, screwdriver, corkscrew, knife, etc.
9. **Change of clothes.** Plan for rain or cold if you can.
10. **Hygiene.** Toothpaste, hand wipes, etc. You may not be able to shower for a few days.

There's no certain science on predicting when a long-expected crisis will hit. The next crisis could be days away. Or years.

For now, you still have time to do something about it. What are you waiting for?

Regards,
Dan Denning
Co-Author, *The Bonner-Denning Letter*



From Chris Lowe
Editor, *Inner Circle*



By Tim Price
Editor, *London Investment Alert*

Chapter 22

Your Print-Out- And-Keep Financial Survival Guide

The following essay is from Tim Price, who works in our London office. Tim has spent the past 15 years as a professional money manager in the City of London, Britain's equivalent of Wall Street. These days, he runs a Benjamin Graham-style value fund, Price Value Partners. He also writes the London Investment Alert, one of our flagship investment letters across the pond.

The first step to surviving a financial crisis is understanding why – and how – the coming assault on your wealth will unfold.

The second half of the equation: How to preserve your lifestyle and standard of living during a time of crisis.

Turns out, it's easier than you think.

Following these 13 easy steps won't stop the next crisis from affecting you.

But it will make sure you come out the other end intact... and in good financial, mental, and physical health.

1. Get Yourself Some "Run Money"

One major problem with standard retail and industry funds is that all the investments are held electronically.

In normal times, that's a benefit. Electronic investments are easy to transact. You don't have to worry about storing a paper certificate or a physical asset. But during a crisis, it's far less desirable to own electronic assets. That's because the government could freeze or seize any and all of your electronic assets with the click of a mouse.

It may seem an unlikely scenario today. But if I'm right about the worldwide trend towards the seizure of private wealth, this is something for which you need to prepare.

So what non-electronic assets should you own?

First, hold some cash at home. I like to call it "run money." Keep a small container somewhere safe with the equivalent of a couple of months of your salary in physical cash.

This serves an important purpose under many scenarios.

Sure, it might come in handy if you find yourself out of work. But its real benefit is as an emergency supply of cash if your bank collapses or if the government declares an emergency "bank holiday."

In the immediate aftermath of a bank emergency, cash would become a rare and highly sought-after commodity.

How much money do you have in your wallet or purse right now?

If you're like most people, it's probably less than \$100. Now think about how long that \$100 would last you if the government froze all bank accounts. A private stash of several thousand dollars would be an important lifeline during the early stages of a financial collapse.

2. Own Gold and Silver

Cash should be fine for the immediate aftermath of a total financial and social collapse.

But eventually, people will begin to see that fiat money is worthless.

It will soon dawn on people that when – or if – things return to normal, the government will introduce a new currency. This could even happen before things return to normal. In that instance, people will do all they can to avoid accepting fiat money in transactions.

At this point, merchants will likely begin to offer a dual payment system. The official system will involve the government's devalued legal tender. The unofficial system will involve gold and silver.

Gold and silver aren't widely owned as forms of money. But many people own gold and silver jewelry. And over time, gold and silver coins will appear, as money changers melt down the precious metals in jewelry for more practical use as currency units.

In a financial collapse, there's little point in owning "paper gold and silver" by way of ETFs. But anyone owning pure gold and silver in the form of bars or coins will be at an immediate advantage once the "new economy" enters the barter and hard-currency phase.

Store your gold and silver in a non-bank storage facility. The first thing any government would do in a crisis would be to impound all assets held by banks.

Aside from your main stash at a secure storage site, keep a small amount of bullion and/or coins at home. Keep it somewhere secure. Most important, make sure your home is secure. Once inside your home, it won't take burglars long to find your "secret" stash.

3. Hold Assets Offshore

Don't keep all your wealth in your home country. Hold part of your wealth offshore.

One thing governments like to do in a financial collapse is to seize citizens' assets. This happened in 1933 when President Roosevelt seized all privately held gold. It also happened in the recent bank crises in Cyprus and Greece. After a series of government-mandated "bail-ins," deposit holders got a "haircut" to help keep the banks afloat. Deposits were confiscated and used to plug holes in banks' balance sheets.

Owning some assets offshore makes it harder for your government to seize your assets. And as long as you declare these assets and any income you earn from them to the taxman, it's completely legal.

Unfortunately, due to FATCA and other onerous regulations, these days, it's extremely difficult for Americans to open offshore bank and brokerage accounts. But a good option is an offshore gold and silver storage firm, such as BullionVault.

It's a neat set up. You buy gold and silver. Then you get to decide which of BullionVault's vaults you would like to store it in. You can choose from vaults in Zürich, London, New York, Toronto, or Singapore.

BullionVault is a member of the London Bullion Market Association, the leading standard-setting body for the global market for precious metals. It has 50,000 customers worldwide and stores \$2 billion worth of bullion for its customers.

You can check out the full terms and conditions of opening and maintaining a BullionVault account [here](#).

4. Buy Items of Value

Many people consider valuable items such as jewelry and watches to be extravagant. But during a financial or social meltdown, a Rolex watch or a Tiffany bracelet will be a useful barter item.

If you're desperate for supplies, you're more likely to get a good deal for your Rolex Submariner than for a cheap digital watch you bought at your local gas station. The same goes for jewelry and other luxury items.

Or you could be more creative. Consider also collecting stamps or old coins. Not only do you get to enjoy them now, but they also hold value over time. And in the event of a crisis, you'll have another store-of-value fallback.

5. Buy a "Bolthole"

A "bolthole" is a home away from your main home. If you can afford it, buy one.

Again, this step serves a dual purpose.

You can buy your bolthole now and use it as a place where you can get away from it all and relax. And in a financial and social crisis, your bolthole is a place where you can immediately retreat to... and plan how to tackle the situation.

Avoid densely populated areas. If possible, pick somewhere using a nighttime satellite image. The brighter the lights, the more people there are... The darker the place, the fewer the people.

6. Write a Will

No one likes to talk about death. But writing a will is one of the most important things you can do to protect your legacy.

You want to make sure your loved ones get their rightful inheritance. You don't want the government distributing your assets on your behalf due to an error with your will.

7. Create a Paper Record

In today's world, almost all your records are electronic.

Your bank and stockbroking firm do all they can to encourage you to "think about the environment" and opt for emailed statements rather than paper statements.

But what if you lose access to your computer, or the internet goes down, so you can't check your bank balance or transaction history?

Firmly resist requests from your bank or brokerage to go paperless. If they don't provide you with a paper option – or they charge extra for posting paper statements and contract notes – make sure to print out and keep a paper copy each time you receive the soft copy by email.

It's not just electronic documents you should print out and keep. It's also important to have paper copies of every other important personal document – your driver's license, passport, tax information, bills, phone numbers, insurance, bank details, and vital medical prescriptions.

I have personal experience of this kind of situation. I found myself in an isolated place – with no cellphone and no access to the internet – and in dire need of contacting family.

Even though I could reach a landline, I couldn't remember the phone number of a single family member. So I essentially disappeared from view... a worrying experience for my nearest and dearest.

After this experience, I decided to keep hard copies of all the vital information I'd need in a crisis. And I laminated the information to make double sure. I know that in a crisis, I only need to look in one place for all the information I'll need.

8. Keep Two Offline Computer Hard Disks

Keep all your digital records – family photos, important personal documents, social media passwords, anything digital that's precious – stored on a portable hard disk that's not connected to the internet.

Make this something you can grab and run with. These days, you can buy "thumb drives" that store up to 2 terabytes of data. That's enough to store all your personal passwords and documents plus about 300,000 photos or 1,000 hours (40 days) of video.

9. Learn a Second Language

Many people will tell you that the best language to learn is Mandarin Chinese. It seems logical. China is the world's most populous nation. Within a decade, it could be the world's biggest economy.

But contrary to popular belief, Mandarin Chinese isn't the most useful language to learn – either in a crisis or non-crisis situation.

Three languages stand out above all others. One of them is a language you already know well: English. The two others – Spanish and French – are not as obvious.

Let me explain...

English is the universal language. You can travel to most places in Europe, North America, and parts of Asia and Africa... and be able to communicate with the locals well enough to be understood.

But there are places where English isn't the first, second, or even third language among locals. If you plan on moving or escaping to Europe, Spanish and French – in that order – will serve you well.

Both *Inner Circle* founder Bill Bonner and Casey Research founder Doug Casey have boltholes in Argentina. You may get by with some English high up in the Andes. But if you want a better chance of being understood, Spanish is your best option.

And thanks to France's colonial past, there are many parts of Asia and Africa where French will serve you well.

You don't have to speak these languages perfectly. But knowing at least the basics will be vital if you ever find yourself offshore in either a crisis or non-crisis situation.

10. Breed Your Own Food

This isn't possible for everyone. But if you live on a reasonably sized property on the city fringes, you could look at the potential to breed your own food.

Goats are a good choice because they produce meat and dairy. But if you live on a smaller block of land, or in a more built-up area, you could also consider chickens.

11. Create an Emergency Rations Pack

This may sound crazy. But even in a relatively minor crisis, such as a hurricane, flooding, or a citywide riot, this could be a lifesaver.

And in a full financial and social collapse, you definitely won't want to be without a stash of emergency rations.

If you're worried about your family thinking you're paranoid, it's easy to do this discreetly. (And don't worry, they'll be the first to apologize if you ever need to use the rations.)

Keep your emergency rations pack in your car or tucked away neatly – but easily accessible – in the garage or garden shed.

12. Have Emergency Water Supplies

Make sure you always have two bottles of water in the house, and a supply of empty bottles or flasks that you can fill at short notice.

In a full-scale crisis, the public water system may not collapse immediately. You will probably have time to fill flasks and bottles from the mains.

In a crisis, this should be one of the first things you do.

If you have a water tank installed at home, make sure it's always at least half-full. If necessary, use mains water regularly to top up the tank for use in an emergency.

13. Have a Home “Supply Depot”

Ensure your cupboards always have a stock of key products and necessities.

These are all things you can maintain in your home without alarming family members.

Your supply depot should include, but is not limited to, chocolate bars, nuts, oats, matches, a lighter, candles, oil, a torch, batteries, scissors, tape, string, and rope.

Taking these steps now will physically and mentally prepare you for an economic collapse or natural disaster.

Regards,
Tim Price



By Joe Withrow
Research Analyst

Chapter 23

Do This and You'll Never Have to Worry About a Major Recession Again

What I want to offer in this essay is a concept I call 'home resiliency' ...

Home resiliency is about creating the ability to live comfortably for at least six months without needing to spend a penny.

We all know about keeping at least six months savings for a rainy day... but what if you could go six months without needing any money whatsoever? This would be helpful if you lost your income in a major recession... or if a big hurricane came through and you lost power for a week.

Pair this strategy with six months of savings and you can comfortably ride out bad times for at least one year.

For home resiliency you need a sensible supply of three things: water, food, and a back-up energy source. I don't mean crazy "doomsday" preparations – just a sensible supply of provisions for a rainy day.

For water, the main thing is to keep extra cases of bottled water in your closet. I try to keep at least six cases of water on hand at any given time. For most people, extra cases of water should be all they need. You can buy a table-top water filter and set up a rain collection system for \$200 or so if you want to take this to the next level.

For food, all you need to do is purchase a six-month food supply from companies like efoodsdirect.com. For \$1,300, they will ship three stackable bins to your house loaded with dehydrated food that has a shelf-life of 25 years. All you need to cook the food is boiling water... and it's actually decent.

Finally, you need a back-up energy source in case the power goes out. A portable propane grill and a spare propane tank will do the trick. Now you can cook no matter what.

Pair these things with your portfolio risk management strategies and you will never have to worry about a major recession again.

Regards,
Joe Withrow, Research Analyst



By Jeff Brown
Editor, *The Near Future Report*

Chapter 24

The One Reason the Crypto Crash Is Temporary

3.5 million...

That's the estimate for how many "ghost accounts" were created by banking giant Wells Fargo.

That's about 1% of the total U.S. population. It's also roughly the population of the state of Connecticut.

You've likely heard the story already, so I won't go into all the details. But here's the gist...

Wells Fargo created millions of fake accounts for its customers... to charge them fees for services that they never requested.

It was later discovered that Wells Fargo was signing customers up for unwanted insurance policies as well—again, to charge customers for services that they never requested. This was outright fraud.

It's for reasons like this that a new type of technology has burst onto the scene. It enables secure, reliable, and transparent transactions... without the potential for manipulation by big financial institutions.

As an investor, this technology needs to be on your radar.

Here's why...

You Can't Trust the "Trusted" Intermediaries

The crypto market will experience some pullbacks and high volatility. We're seeing that today. Bitcoin, the world's first cryptocurrency, dropped 27% in January alone.

But despite the pullbacks, new crypto assets still have a long way to run in the years ahead.

And the reason why can be summed up in one word: blockchain.

You've likely heard the term "blockchain" associated with the popular cryptocurrency bitcoin. You may even know it as the decentralized ledger technology underpinning cryptocurrencies.

But that's only part of the story...

Blockchain technology is also known as distributed ledger technology. We can think of a distributed ledger in its simplest form as a distributed database—distributed in the sense that there are complete copies of this database (or ledger) scattered around the world.

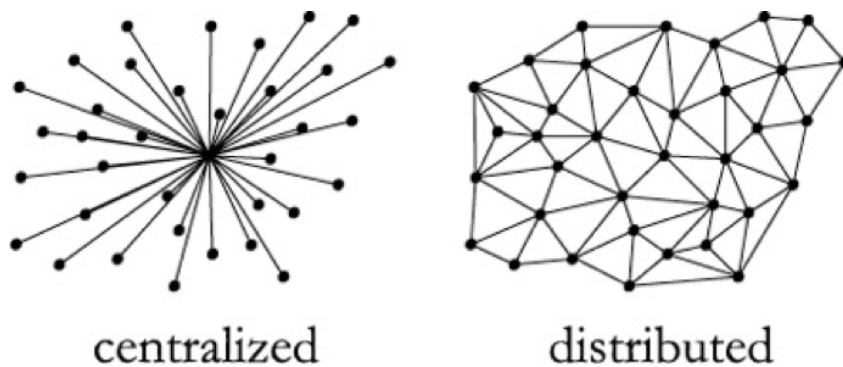
Historically, companies, governments, and individuals all keep their records in one centralized database. Imagine a room with racks of computers that store information.

But centralized databases can be manipulated... Records can be changed, hard drives can fail, data can be lost, and the records represent only one party's view of any given transaction.

In the world of blockchains and distributed ledger technology, the exact opposite is true. The transactions recorded on the ledger represent a transaction that takes place between the parties involved and is confirmed by the blockchain network via a consensus.

Once a transaction is written to the ledger, it is immutable. It cannot be changed.

The image below gives you an idea of the difference between these two network types.



The value and utility that a well-designed blockchain provides is remarkable. Immutability, secure transactions, privacy, transparency, the reduction or elimination of fraud...

That last part is key.

That's because in a centralized system, we depend on “trusted” intermediaries (banks and other financial institutions) to conduct transactions.

But as we've learned time and time again, these “trusted” intermediaries are not at all trustworthy.

It wasn't long ago when the LIBOR scandal uncovered that many of the most “trusted” financial institutions in the world were manipulating interest rates for their own benefit, and of course at the expense of others.

Banks like Barclays, Deutsche Bank, JPMorgan Chase, UBS, Citigroup, Bank of America, and the Royal Bank of Scotland were found to be right in the middle of these manipulations. And we've already discussed Wells Fargo...

The corruption is seemingly endless.

The New Internet

By design, blockchain technology removes the potential for manipulation to take place.

You can think of this as a “new” internet. Today’s internet is how we send pictures, stream videos and music, and send emails.

But blockchain networks are different. They are all about transferring value.

The internet of value will allow you to send money, fulfill smart contracts, confirm your identity without sending sensitive information, and so much more.

The way that value is transferred is typically through a blockchain’s own cryptocurrency. Each blockchain usually has a controlled, finite supply of it by design.

For example, in the case of the bitcoin blockchain, bitcoin is its cryptocurrency... its means of transferring value and incentivizing network participants.

And the bitcoin supply is finite—only 21 million will ever be produced.

Think about that... a blockchain has its own monetary policy written into its software.

It’s Not Too Late

That’s why I’m so excited about this technology.

It has the potential to rewrite our entire society the way the internet did more than 20 years ago. And the assets associated with this technology—cryptocurrency and digital tokens—will continue to soar in value.

You may think that the cryptocurrency boom has already peaked. You may think you’re too late. But consider this...

I recently came back from a blockchain conference in New York. One of the most remarkable comments made was that the “big money” (hedge funds and large money managers) isn’t really in the cryptocurrency market yet.

The total cryptocurrency market sits at around \$500 billion. But the institutional funds need the market to hit \$1 trillion before they can start investing heavily. And when that happens... most likely sometime this year... the crypto market will really take off.

And the institutional money will first put their dollars to work in the cryptocurrencies that have the largest market capitalizations. That means investors should be looking closely at bitcoin, Ethereum, Ethereum Classic, and Bitcoin Cash, to start.

There will certainly be some pullbacks and high volatility along the way, like we're seeing today.

But I'm here to tell you... now's the time to get in.

Regards,

Jeff Brown

Editor, *The Near Future Report*

To contact Customer Service, call toll free Domestic/International: 1-888-413-5232, Mon–Fri, 9am–5pm ET, or email memberservices@legacyresearch.com.

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