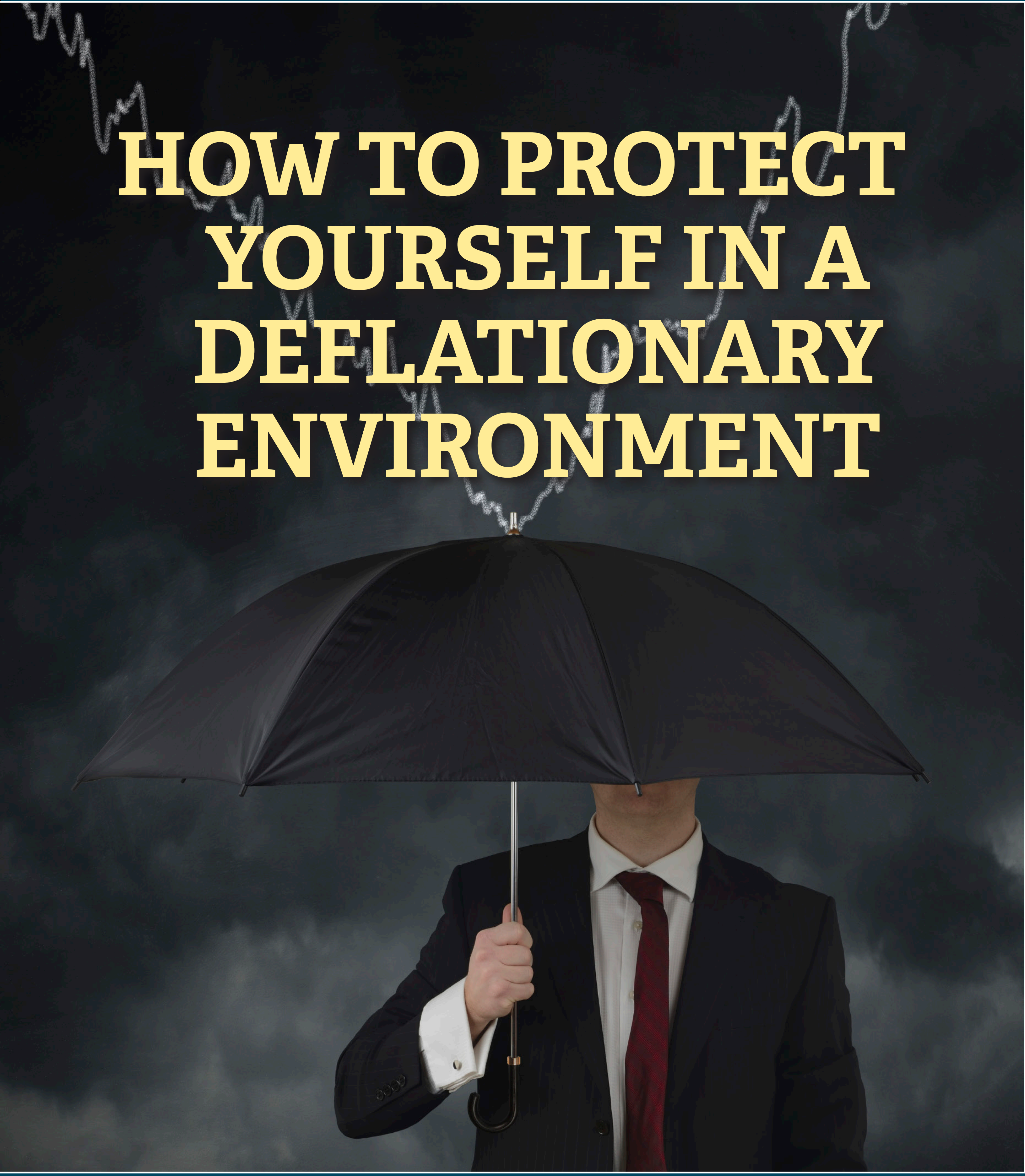
HOW TO PROTECT YOURSELF IN A DEFLATIONARY ENVIRONMENT



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The
Bonner-Denning Letter

SPECIAL REPORT 2015

How to Protect Yourself in a Deflationary Environment

"Our credit system is insolvent. And when it fails, which it surely will do, it could wipe out more wealth than any other crisis in history."

– Bill Bonner

About $60 trillion of credit is about disappear almost overnight.

And as history has shown time and again, there's only one thing that can happen after a credit collapse... Deflation.

This is every economist's worst nightmare. Because when prices decline, economies collapse.

Inflation – when prices rise – might grab the headlines, because no one likes seeing their grocery bill go up. But deflation is a much bigger problem.

During periods of deflation, people tend to hoard their money, waiting for prices to fall even further. This slows demand for goods and services, and causes businesses to fail; jobs to vanish; and assets – including your house, your retirement portfolio, and your gold – to plummet in value.

The Great Depression was the last time America faced prolonged deflation.

By 1929, mortgage debt had increased more than eight times from its 1920 level. This led economist Charles Persons to write...

> The past decade has witnessed a great volume of credit inflation. Our period of prosperity was based on nothing more substantial than debt expansion.

But as the explosive growth of the Roaring Twenties began to taper, the economy could no longer support such a massive debt load. What started as a trickle of defaults soon turned into a torrent, as people who'd grown dependent on strong economic growth could no longer meet their debt obligations in a slow-growth environment.

These defaulted loans caused more than 9,000 U.S. banks to run out of money and fail. Money disappeared. Deflation took hold. The economy collapsed.

We see this same pattern in Japan today.

Japan was the fastest growing economy of the 1980s, and asset prices grew right along with it. Using these inflated assets as collateral, people borrowed heavily from Japanese banks to buy more assets, especially real estate. This further inflated asset prices.

Things got so out of hand that, at one point, the Japanese Imperial Grounds – the 1.32-square-mile home of the emperor – had a higher property value than the entire state of California.

It wasn't just Tokyo real estate. Japanese investors also used loans to buy up some of America's prime locations. Icons like the Pebble Beach golf course, Rockefeller Center, and the Westin Hotels and Resorts chain all went to Japanese buyers.

But in 1989, lending rates increased, and the Japanese economy started to slow.

Just like during the Great Depression, debtors defaulted and the Japanese economy collapsed.

Banks tried to conceal the extent of the problem, but it was too massive to hide... between 1992 and 2005, Japanese banks wrote off about 96 trillion yen, or nearly 20% of the country's annual GDP.

The Worst Collapse Yet

With estimated global debt at a staggering $230 trillion and world GDP at just $77 trillion, we all now find ourselves in a more dangerous position than the U.S. in 1929 and Japan in 1989.

Thanks to the lower interest rates that were a major element of central banks' quantitative easing programs, global debt increased by about $9 trillion a year since 2007. And it's this debt – and nothing else – that has fueled all the "economic growth" of the last eight years.

If no new debt had been issued, GDP would, in fact, have declined by 6% a year.

And Americans are one of the most indebted people in the world. Including all government and personal debt, each U.S. citizen has an average of $117,000 of debt. With median personal income at a scant $31,000, the average working person will have to work more than three years just to pay off their share of the debt.

But they might not even have three years…

The world has never seen debt levels such as we have today. And when this credit-based bubble bursts, deflation is inevitable. All assets will decline sharply in price.

During the Great Depression…

- The U.S. stock market fell 89%.
- Oil prices fell 88%.
- Real estate values fell 67% in Manhattan and 50% in Chicago.
- 84% of commercial real-estate-backed bonds defaulted.

And asset prices could stay depressed for decades.

In Japan…

- The stock market is still down about 50% from its 1989 peak.
- Tokyo real estate is still down 60% from its peak 25 years ago.
- Banks are still writing off huge portions of the bad loans made during the 1980s boom.

The Best Tool for Surviving a Deflation Spiral

The coming credit collapse will be worse than the Great Depression and the financial crisis of 2007-08.

And as Bill warns, "The simplest and easiest way to protect yourself is to make sure you have a supply of real money – cash."

Cash is the best tool for surviving a deflationary spiral. Because it's the only thing that increases in value as prices decrease. Other assets – gold, real estate, bonds, and stocks – go down.

So what are the best ways to protect your cash? You can't just stuff it all in your mattress.

Here are five relatively straightforward ways to protect your cash:

1. FDIC-Insured Bank Accounts

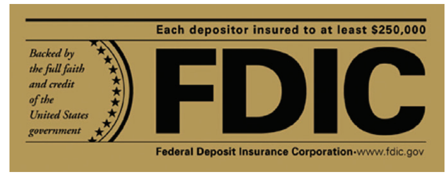
It shouldn't be much of a surprise that banks are one of the best ways to protect your cash. But there are some nuances you need to understand if you want to make sure every dollar of your cash is secure.

During the Great Depression, there were more than 9,000 bank failures. From 1930-33, depositors lost $1.3 billion. That's about $24 billion in today's dollars.

For anyone who had to live through it, it was the worst nightmare. It prompted the government to create Federal deposit insurance.

The Banking Act of 1933 established the Federal Deposit Insurance Corporation (FDIC). The FDIC insures deposits under a variety of different account categories up to $250,000.

So when choosing a bank, make sure it has FDIC insurance coverage. FDIC-insured banks can be big or small – credit unions, community banks, and big global banks can all



fall under the FDIC umbrella. Just look for the gold FDIC sticker at any teller window.

The record on FDIC-insured accounts is reassuring. According to the agency, "No depositor has ever lost a penny of FDIC-insured deposits." But there are other things to consider…

There are two things to do after finding out whether your bank is FDIC-insured.

The first is to confirm that your account falls under an approved account category. The second is to make sure you do not have more than the FDIC-insured amount in any one category.

FDIC insurance covers $250,000 per person, per bank, per ownership category (i.e., account type). The eight approved account types are as follows:

- Single Accounts (includes money market deposit, savings, checking, and certificate of deposit accounts)
- Certain Retirement Accounts [includes most IRAs and self-directed 401(k)s]
- Joint Accounts
- Revocable Trust Accounts (both formal and informal)
- Irrevocable Trust Accounts
- Employee Benefit Plan Accounts (pension plan, defined

benefit plan, or other employee benefit plan that is not self-directed)
- Corporation/Partnership/Unincorporated Association Accounts (can include churches and other religious organizations, community and civic organizations, and social clubs)
- Government Accounts (also called public unit accounts)

You can read the full details of each category here.

And here are some examples to help illustrate how FDIC insurance coverage works in different situations.

Example 1

One person – defined as a single account owner – has $250,000 in a checking account and $250,000 in a savings account at the same bank.

Under FDIC rules, checking accounts and savings accounts are in the same category (Single Accounts). Therefore, the two accounts are only insured for a combined $250,000, not for the total $500,000 the person actually has in both accounts.

So if the bank were to fail, that person would lose half his money.

Example 2

A person has $250,000 in a CD (certificate of deposit), $250,000 in a qualified IRA, and $250,000 in a joint checking account with his spouse – a total of $750,000 – at the same bank.

In this example, all these accounts are in different categories. The CD is a Single Account, the qualified IRA falls under the Certain Retirement Accounts category, and the checking account with the spouse is a Joint Account.

So this person would be covered for the entire $750,000 if the bank should fail.

Example 3

A person has $250,000 in a checking account at Bank A and $250,000 in a savings account at Bank B – a total of $500,000.

Although the checking and savings accounts both fall under the Single Accounts category, each bank is insured separately.

So if both banks were to fail, this person would be insured for the entire $500,000.

These scenarios provide a basic illustration of how to safeguard your cash by spreading it among different account categories and different financial institutions. You can read more about each account category and find additional scenarios on the FDIC website.

And you can read the FDIC rules and regulations here.

Whatever you do, though, remember the two steps:

> **Step 1:** Confirm that the bank is an FDIC-insured bank. Not every bank or credit union offers FDIC coverage. All you have to do is ask for verification. You can pick up the phone and call, check online, or ask at the branch office.
>
> **Step 2:** Understand how FDIC insurance applies to each account category. There are differences in which accounts are covered under the FDIC insurance program. So be sure to confirm that each account you use is insured up to the $250,000 FDIC coverage limit. That way, if the bank fails, your cash is covered.

One word of caution, though…

Even though the FDIC proudly states that not a single penny of insured money has been lost, the agency has only $25 billion of reserves to safeguard more than $9 trillion of banking obligations.

Yes, the FDIC has an open line of credit with the federal government, so it could theoretically borrow as much as it needs. However, in a credit collapse, all bets are off, so who knows what could happen? More conservative depositors might consider staying below the $250,000 account limit.

Additional Resources

For more information on bank failures during the Great Depression, click here, here, and here.

For more information on the establishment of the FDIC, click here.

For more information on the ownership categories and accounts covered by the FDIC, click here and here.

For more information on the accounts NOT covered by the FDIC, click here.

2. Treasury Bills

FDIC-insured bank accounts are not the only way to take advantage of federal safeguards.

All Treasurys are protected by the U.S. Government, as the 14th Amendment to the Constitution requires that public debt be honored. That means T-bills – Treasurys that mature in as little as a few days – are essentially cash equivalents.

If you hold them to maturity, you are guaranteed not to lose any of your principal. There's no limit to the amount you can invest in Treasurys. And if, for some reason, you have to sell early, there's only a small chance you would lose money. And even then, it would be just a fraction of a percent.

Treasurys also have the added benefit of putting your money outside the traditional banking system. T-bills can be easily bought and sold through a TreasuryDirect account with the U.S. Treasury. And you can transfer money back and forth between your bank account and your Treasury account.

Here's how it works…

A U.S. Treasury account is an online account similar to your banking and brokerage accounts. It just allows you to buy and sell Treasurys instead of stocks.

T-bill interest rates are close to zero. But when it comes to protecting your cash, that doesn't matter. As Benjamin Graham – also known as the father of investment analysis – said, "More money has been lost reaching for a point or two of yield than stolen at the barrel of a gun."

That's why investment funds, insurance companies, large corporations, and even foreign governments park their excess cash in Treasurys. The second and third largest economies in the world ¬– China and Japan – hold $2.4 trillion in U.S. Treasurys.

Additional Resources

You can read more about how to invest directly in Treasury securities here.

To find out more about Treasurys, click here or here.

To learn why Treasurys are considered "risk-free," click here.

To read the 14th Amendment to the Constitution, click here.

3. Foreign Bank Accounts

Bill has long warned us about the "War on Cash." And with good cause.

In August 2015, the Financial Times ran an article calling for the end of cash. Their reasons? Protection against terrorism, tax evasion, and the black market.

But, as Bill cautions, "If the feds are able to ban cash, they will have you completely under their control. You will invest when they want you to invest. You will buy when and what they want you to buy."

And no amount of Federal deposit insurance or Constitutional protection will shield you from a ban on cash in the U.S. When all your money is reduced to a collection of 1s and 0s in a computer's memory, your savings in U.S. accounts could be confiscated, frozen, or devalued whenever the politicians in Washington or the central bankers in the Eccles Building feel like it.

One way to lower your chance of becoming a casualty of the War on Cash is to keep some money in a foreign bank account. The U.S. government does not have the authority to access funds in foreign accounts without the approval and cooperation of the foreign entity.

Most experts suggest you put enough in the account to cover travel and living expenses for a couple of months, at least. This gives you the option of escaping the crisis in your home country if it turns dangerous.

But which are the best countries? There are several major global banking centers worth considering. Hong Kong, Singapore, United Arab Emirates, Switzerland, Panama, and Uruguay are good examples. They attract trillions of dollars in foreign money and are known for their large banking sectors, privacy guidelines, and favorable tax laws.

These countries also benefit from their strategic locations. Hong Kong and Singapore give you good access to Asia. The United Arab Emirates is a good access point to the Middle East and Africa. Switzerland is in Central Europe. Panama and Uruguay are good places to consider for access to Central and South America.

The easiest way to open an overseas account is to hire a local attorney in the jurisdiction where you want to open the account. Search and compare local immigration attorneys who specialize in business, tax, and foreign bank accounts. The fees will vary depending on the jurisdiction and attorney.

A word of caution…

A foreign bank account requires additional reporting to the IRS.

The Foreign Account Tax Compliance Act (FATCA) has made it difficult for American citizens to open foreign bank accounts.

FATCA essentially turns banks into unpaid IRS agents. International banks are obliged to comply with the regulations, thereby increasing their compliance costs. As a result, many foreign banks refuse to open accounts for U.S. citizens.

Additional Resources

To read the list of Top Financial Cities compiled by Investopedia, click here.

To find out how to open and access an overseas bank account, click here.

To learn how to find a suitable foreign bank or financial adviser, click here.

4. Google Your Cash

Technology has changed the way we do business, shop, order food, and how we communicate with friends and family. It's now changing how we bank.

Tech companies are turning the

centuries-old banking model upside down. They're offering loans, start-up funding, money transfers, and currency exchange. Some are even taking deposits and offering the facility to make payments using your smartphone. They're making banking faster and cheaper by cutting out the middleman.

Google Wallet is a money and payment service that allows you to send, receive, or spend money online. You can even withdraw money at participating ATMs.

Funding the account

- You can fund the account from a bank account or debit card.
- Friends or family can also send money to you via the Google Wallet app or Gmail.

Fees

- Adding money to your Google Wallet from your linked bank account is free.
- If you add money using your debit card, there's a 2.9% fee.
- There are no fees when you use your Google Wallet card to pay for a purchase or withdraw money.
- Some financial institutions might apply a fee for ATM withdrawals, which will be debited from your Google Wallet, along with the amount you withdraw.
- There are no fees for transferring money from your Google Wallet to your bank account or debit card.

Limits

- Transferring to your Google Wallet:
- You can add up to $10,000 to your Google Wallet per single transaction (up to a total of $50,000 per five-day period).
- But you can only add $500 per 30 days to your Google Wallet with a debit card.
- Transferring from your Google Wallet:
- You can transfer up to $10,000 in a single transaction and up to $50,000 over a five-day period from your Google Wallet balance to your linked bank account.
- You can transfer up to $2,500 in a single transaction and up to $10,000 over a 30-day period from your Google Wallet balance to your debit card.
- Sending and receiving funds to/from any other bank account:
- There's a limit of $9,999 per single transaction and a total limit of $50,000 over a five-day period.
- Spending:
- You can only spend what is available in your Google Wallet balance, up to $5,000 per 24 hours (including cash withdrawals at ATMs or banks).

Debit card

- The account comes with a Google Wallet Card – a physical debit card – that can be used anywhere MasterCard is accepted.

Security

- Google offers fraud protection, PIN-only access, and secure servers. You can shut down your account if needed.

Availability

- As of December 2015, Google Wallet is only available in the U.S. But you can send and receive money in both the U.S. and U.K. through a Gmail account. So it makes sense to open up a Gmail account if you don't already have one.

But what if you don't live in the U.S. or U.K., or if you travel the world?

Revolut – they call it your "personal money cloud" – is like having your very own foreign bank account… without all the banking fees. The RevolutCard can be used anywhere MasterCard is accepted.

Funding the account

- Like Google Wallet, you can transfer funds into your Revolut account from a bank account or debit card.
- The bank account must be in your name.
- Euros, pounds, or U.S. dollars can be sent between users for free anywhere in the world.

Fees

- Revolut doesn't charge fees for transferring money to/from your Revolut account, or for using your RevolutCard for purchases/withdrawals.
- This is guaranteed for the first 12 months you are a Revolut customer.
- But your bank might charge you for an ATM withdrawal or money transfer to Revolut. So the best option is to transfer funds using the RevolutCard to avoid fees.

Limits:

- Transferring to your Revolut account:
- The amount of money you transfer from your bank account or debit card to your Revolut account is not limited.
- Transferring from your Revolut account:
- The amount of money you

transfer from your Revolut account to any other bank account is not limited.

- However, transfers via SWIFT might incur a bank processing fee from the beneficiary's bank.
- Sending and receiving funds to/from any other bank account:
- There is no limit on the amount you can transfer from your Revolut account to another bank account.
- Spending:
- There is a £30,000 – about $45,000 – spending limit per year.
- You can only spend up to £5,000 – about $7,500 – over any 96-hour period.
- You can withdraw up to £2,000 – about $3,000 – per day from an ATM.

Debit card

- The account comes with a RevolutCard, which can be used anywhere MasterCard is accepted.

Security

- Like Google Wallet, Revolut offers secure and encrypted access.
- If you lose your card, you can instantly block the account using the app.

Availability

- Transactions can be made in more than 90 countries.
- International transfers to bank accounts can be completed in more than 20 currencies.

Multiple currencies

- Here's the best part… You can hold cash in multiple currencies. Not many banks offer the ability to hold cash in checking accounts across multiple currencies.

A word of caution…

These tech companies use banks to facilitate their services and transactions – Google partners with Bancorp, and Revolut is partnered with Barclays – but the accounts are not FDIC-insured.

Google Wallet and Revolut are not places to park a lot of money. Using such services is just another way to reduce risk. It can also make world travel and transferring funds to friends and family easier than going to a bank. And it keeps your money away from the feds.

Additional Resources

To find out more about Google Wallet, click here and here.

To learn more about Revolut, click here.

5. Hide Your Cash

Japan has been in a deflationary spiral since its market bubble popped in late 1989. In just three years, the Nikkei 225 – the stock market index for the Tokyo Stock Exchange – fell to less than half its peak of nearly 39,000. And by 2003, it was below 8,000 – down 80% from its high.

In that environment, people began stockpiling physical cash. Now, after 25 years of failed central bank attempts to print the country out of this deflation, Japanese households are hoarding 40 trillion yen- $357 billion.

Why does this matter to us?

Here's Bill with the answer:

> For 25 years, Japan has managed to maintain the status quo by inputting huge amounts of credit and printing-press money… Japan is going broke… Japan is ahead of us… But the road is the same.

The Japanese people are living proof of what happens during a credit collapse.

Hideo Kumano, chief economist at Dai-ichi Life Research Institute said, "Under deflation, cash is king… Why bother going to the bank to deposit your money when it earns no interest? You might as well save yourself the effort of taking the trip down to the bank."

Cash is the last line of defense when civilization implodes. When it does, you should have a reasonable amount on hand until the dust settles – Bill advises that people keep a minimum of one month's expenses on hand in easily accessible cash. And keep it somewhere secure.

Many people think a safe is a good option. But you should make sure it's secure, so robbers and looters can't just carry it off. Try bolting it to the floor. And use multiple locks or combinations to increase security. You should also make sure to get a safe that can withstand fire damage and other potential catastrophes.

Another option is to hide your cash inside household items or infrastructure.

Mattresses and dresser drawers are the common hiding places. But you'll need to be more creative if you want your cash to be secure.

Hollow out a kitchen table leg or a broom handle and stuff money inside. Or you can use things like curtain rods and bike tires, which are already hollow.

Put money inside an envelope with other envelopes and store it with the rest of your office supplies.

Hide your money inside children's toys.

Cut out a section of a book and hide cash inside. This works well if you have a sizable book collection in your home.

You can also install a fake outlet in your wall. It looks and feels like an outlet, but behind it is your cash.

You can also do this with vents, drain pipes, electrical boxes, gas lines, or other infrastructure specific to your home.

A word of caution…

Do not hide your cash in things of perceived value – things such as computers, televisions, art, fancy vases, or even shoes. Items like these will be an immediate target of any thieves entering your home.

Additional Resources

To discover some more simple ways to hoard your cash, click here.

Customer Care: Call 855-849-2885 9 a.m. to 5 p.m. ET or email us at feedback@bonnerandpartners.com. www.bonnerandpartners.com.