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THE "YOU MAY NOT KNOW REPORT"

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Five Retirement Threats and How to Potentially Avoid Them

By Dennis Tubbergen

In this issue, I'll be identifying the five threats that I believe are the most threatening to the retirement dreams of those who aspire to a comfortable, stress-free retirement. I'll also be discussing strategies to seriously contemplate in order to possibly insulate yourself from these looming threats.

If you are a client of our firm, this issue may serve to reaffirm and revalidate the strategies that you have implemented in your personal financial plan. If you are not a client of our firm, read this issue with an open mind and consider the perspectives offered very seriously. Your very retirement may depend on it.

And, most importantly, do your own research. No one cares as much about your money as you do. The information presented here has been obtained from sources that I believe to be accurate, and the source links are offered on the last page of this issue to allow you to check them out for yourself.

The world in which we live has changed dramatically. But the situation in which we now find ourselves from a financial and investing standpoint is not all that unique in the context of history.

A study of history is very valuable for two reasons. One, it helps us analyze the current situation. And two, it helps us determine a path forward to not only survive but perhaps even prosper.

Let's get started.

1 Retirement Threat Number One: Debt Levels and Derivatives

Many of you reading this issue may have no earthly idea as to what a derivative is, much less how it could affect your retirement dreams.

A derivative is a financial security whose value is derived from the value of an underlying asset or group of assets. A derivative is a contract between two or more parties. As the value of the underlying asset fluctuates, the value of the derivative moves as well.

The two most common types of derivatives are options contracts and futures contracts.

In the case of an options contract, one party would agree to buy or sell a security like a stock at a predetermined price (known as a strike price) prior to the expiration date of the option.

A futures contract is an agreement between two parties that has one party agreeing to deliver a specific quantity of an asset (such as gold, silver, or oil) to the other party at a predetermined price at a predetermined date.

In the case of options and futures, the contracts trade prior to the expiration date of each contract.

Derivatives are essentially betting between parties.

Which brings me to the subject of banks.

Banks, such as the "too big to fail" banks at the time of the financial crisis, trade derivatives. Banks trade derivatives over the counter which means that the market is not subject to the same regulatory oversight as other markets.

Banks typically trade in derivatives that change value as interest rates move up or down. Over the counter derivative trading between banks are essentially side bets between banks.

Egon von Greyerz, in a piece published on April 17, 2021[1] offered some interesting and alarming perspective on this market:

As I warned in last week's article on Archegos and Credit Suisse, investment banks have created a timebomb with the $1.5 quadrillion derivatives monster.

A few years ago, the BIS (Bank of International Settlement) in Basel reduced the $1.5 quadrillion to $600 trillion with a pen stroke. But the real gross figure was still $1.5q at the time. According to my sources, the real figure today is probably over $2 quadrillion.

A major part of the outstanding derivatives is OTC (over the counter) and hidden in off balance sheet special purpose vehicles.

The $30 billion in Archegos derivatives that went up in smoke over a weekend is just the tip of the iceberg. The hedge fund Archegos lost everything and the normal uber-leveraged players Goldman Sachs, Morgan Stanley, Credit Suisse, Nomura etc. lost at least $30 billion.

These investment banks are making casino bets that they can't afford to lose. What their boards and top management don't realise or understand is that the traders, supported by easily manipulated risk managers, are betting the bank on a daily basis.

Most of these ludicrously high bets are in the derivatives market. The management doesn't understand how they work or what the risks are, and the account managers and traders can bet billions on a daily basis with no skin in the game but massive potential upside if nothing goes wrong.

But we are now entering an era when things will go wrong. The leverage is just too high and the bets totally out of proportion to the equity.

Just take the notorious Deutsche Bank (DB) that has outstanding derivatives of €37 trillion against total equity of €62 billion. Thus, the derivatives position is 600X the equity.

Or to put it in a different way, the equity is 0.17% of the outstanding derivatives. So, a loss of 0.2% on the derivatives will wipe the share capital and the bank out!

Now the DB risk managers will argue that the net derivatives position is just a fraction of the €37 trillion at €20 billion. That is of course nonsense as we saw with Archegos when a few banks lost $30 billion over a weekend.

Derivatives can only be netted down on the basis that counterparties pay up. But in a real systemic crisis, counterparties will disappear, and gross exposure will remain gross.

So, all that netting doesn't stand up to real scrutiny. But it is typical for today's casino banking world when depositors, shareholders and governments take all the downside risk and the management all the upside.

Mr. von Greyerz makes a couple key points.

First, banks would attempt to make the argument that their derivative exposure is much less by netting out positions. That argument ceases to hold water if the counterparty, the other bank with whom the bet was made, can't pay up as agreed.

A won bet turns into a lost bet if it can't be collected.

Second, depositors with money in the bank, shareholders who own the bank and governments that back bank deposits with insurance take all the risk while the bankers keep the upside.

Remarkably, von Greyerz points out that in the case of Deutsche Bank, a .2% loss on derivative holdings will totally wipe out the bank!

Mr. von Greyerz points out that when adding total world debt, total government unfunded liabilities and total derivative exposure together, one arrives at a staggering number, $2.3 quadrillion.

When the collapse occurs, should governments around the world attempt to 'fix things', that is the size of the problem.

To put that number in perspective, that's nearly $300,000 for every one of the 7.9 billion people that live on the planet!

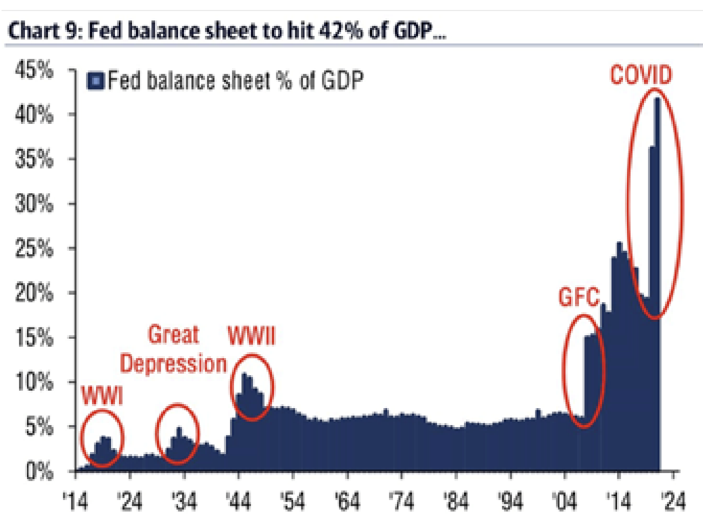
Again, some perspective – total world wealth is about $360 trillion.[2] If that wealth were equally distributed among the world's citizens, each citizen would have a net worth of about $45,000.

The financial collapse, when it occurs, will require about 7 times the total wealth in the world to correct. It's a problem that is too large to be corrected, but governments will likely try by creating more money.

2 Retirement Threat Number Two: Massive Money Creation

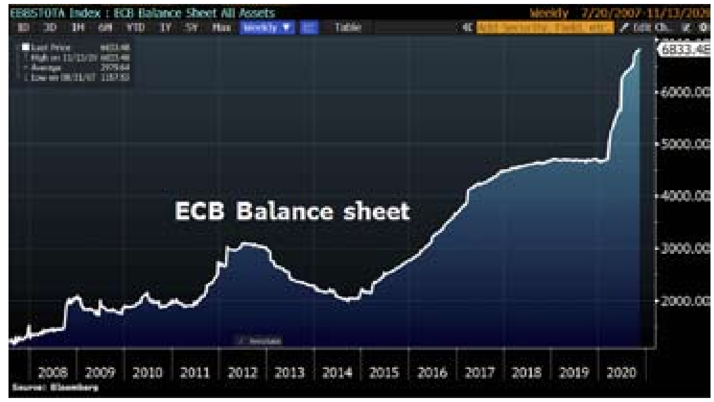
Central banks around the world are printing money on a colossal level. The central bank of the United States, the Federal Reserve, has now printed far more money than at any time in US history.

The chart (below) shows the balance sheet of the Federal Reserve as a percentage of economic output or Gross Domestic Product. Note from the chart that the Fed's balance sheet is presently at about 42% of GDP. That's about triple the Fed's balance sheet during the 2008 financial crisis, and more than four times the level of the balance sheet at the end of World War II.



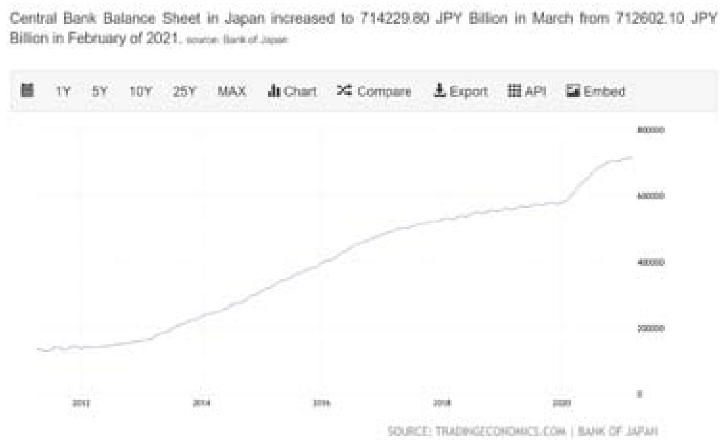
The European Central Bank has also been creating money.

The chart (top right) illustrates the growth in the central bank's balance sheet from late 2007 to the end of last year. Notice that the balance sheet has increased approximately seven-fold over that time frame.



The Japanese Central Bank has also been on a money printing binge.

The chart (bottom right) of the Japanese Central Bank balance sheet reproduced here looks a lot like the chart illustrating the growth of the balance sheet of the European Central Bank.



Notice there has been about a sevenfold increase in the balance sheet of the Japanese Central Bank over the last decade as well.

There many academics telling us that we don't need to worry about this money creation. These monetary theorists are putting forth the idea that governments can't run out of money since they can always access freshly printed or newly created money from the country's central bank.

And they dogmatically assert that inflation is never a problem either since the government can always remove money from the system through taxation.

Ironically, this is not the first time in history money creation has been attempted to solve a debt problem. The Roman Empire; France in the 1700's; Weimar, Germany; and more recently Zimbabwe, Argentina and Venezuela have all pursued money printing with the same end result – the destruction of the currency.

Whether we ultimately see that outcome presently will depend entirely on the policies pursued by the central bankers. The reality is they have painted themselves into a corner and have no solid options. They either, one, stop printing and the debt and derivative time bomb described above collapses. Or, two, they continue money creation until the currency(ies) are destroyed. After the currency destruction, the debt and derivative time bomb explodes.

Option one is a dismal outcome. Option two is worse.

3 Retirement Threat Number Three: Traditional Growth Investments Like Stocks are Poised for a Severe Correction

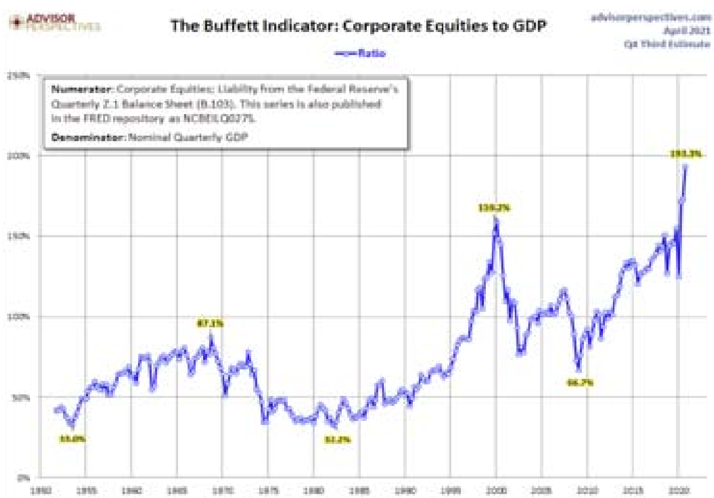
While the money creation has been bullish for stocks and real estate, when the money creation stops these assets will collapse as the debt and derivative bubble unwinds.

We saw this happen at the time of the Great Financial Crisis and we will have to see it happen again, only this time the collapse will be more severe.

In past issues of this publication, we have tracked the prices of stocks and real estate. There are two indicators that we like to use for this purpose.

One, is the "Buffet Indicator". This indicator takes total market capitalization value and divides by Gross Domestic Product. It was dubbed the Buffet Indicator when the Oracle from Omaha revealed in an interview that it was his favorite way to determine if stocks were overvalued or if stocks were undervalued.

One look at the Buffet indicator has one observing that it is more extended or overvalued than at any time in history. Just two months ago in this publication, we arrived at the same conclusion. But, at the present time stocks are even more overvalued.



Notice, prior to the tech stock bubble busting, the ratio stood at about 160%. Total value of stocks was about 160% of the total economic output or GDP. That number now, remarkably, exceeds 190%.

By contrast, at the time of the financial crisis, prior to stocks declining more than 50%, the ratio stood at 110%.

Should the debt and derivative bubble burst, stocks will likely follow suit. If stocks returned back to their level in 2009 at the market bottom, we could see a decline of more than 65% from these levels.

The other less often discussed stock market valuation indicator is the Dow to Gold ratio. This indicator is developed by taking the value of the Dow and dividing by the price of gold per ounce in US Dollars.

The rationale for this indicator is that since the US Dollar is continually losing purchasing power, it is a poor metric to use to determine the real value of stocks. If a weaker US Dollar causes prices to rise at the grocery store and lumber yard, that same weak US Dollar will cause stock prices to rise as well.

Gold, on the other hand, is a consistent metric. An ounce of gold has not changed in thousands of years. While the price of gold per ounce has increased when priced in US Dollars, that price increase is due to the declining purchasing power of the US Dollar. Gold hasn't changed, the US Dollar has changed.

Going back more than 100 years, the Dow to Gold ratio has also offered a consistent means by which stock values can be measured.

The chart below illustrates how the Dow to Gold ratio has become more volatile since the Federal Reserve took control of monetary policy in 1913 which is the year the Federal Reserve Act was signed into law.

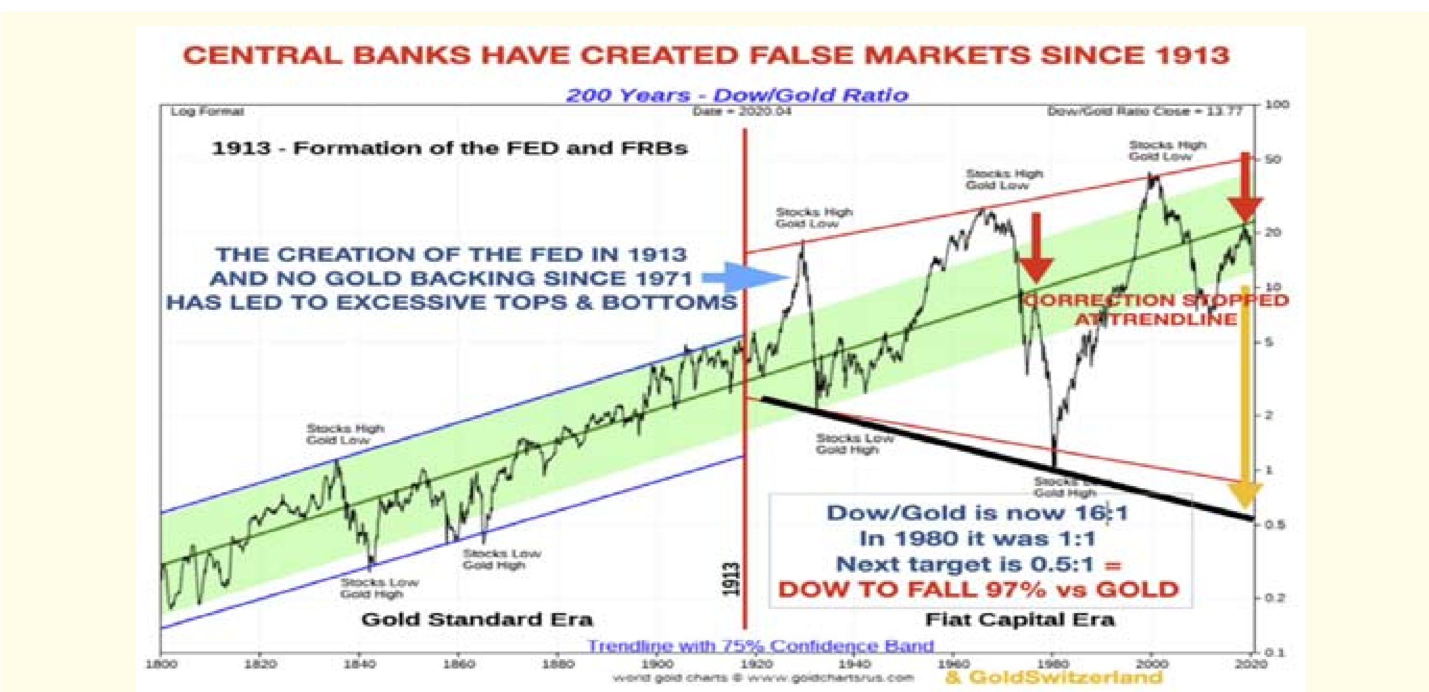
At the stock market bottom during The Great Depression the Dow to Gold ratio stood at about 2.

After the stock bear market of the 1970's the Dow to Gold ratio was at 1. The Dow was at about 850 and the price of gold per ounce was at $850.

Notice two things about the chart. First, there is a trendline drawn through the center of the price action going all the way back to 1800. The red arrows on the chart show that the countertrend rallies have, at least to this point, stopped at the trend line.

Second, the market highs and lows have become more extreme since the Fed began to control monetary policy. The market highs measured by the Dow to Gold ratio have been higher and the market lows have been lower.

It is this pattern, should it repeat itself, which could see the Dow to Gold ratio fall back to its prior low of 1. Or, perhaps even lower.



Retirement Threat Number Four: Interest Rates Are at an Extreme Artificially Low Level

Think back about 15 years, retirement was a lot easier.

And a lot safer.

You could retire, deposit some of your IRA or 410(k) in a fixed interest investment that would pay you interest of 6% annually and you could live of the interest and your Social Security benefits.

No more.

The Federal Reserve has kept interest rates low. While such policies can be beneficial for those looking to borrow money, they are disastrous for those who are looking to get a safe yet reasonable yield on their investment assets.

Unfortunately, yields will probably remain low until the debt and derivative collapse occurs. At that point there will have to be a reset.

Traditionally safe investments like bonds can lose value when interest rates rise. Since interest rates are currently at historically low levels, the next big move in interest rates will most likely be up.

That move up in interest rates could be financially devastating for those who own bond funds or bonds that they want to sell prior to their maturity date.

The chart below illustrates interest rates historically. Interest rates are as low now as they have ever been.

Also, notice since 1980, interest rates have, for the most part, been declining. That means bond prices have been rising. At some point that trend will have to reverse which means yields will once again increase but as they do, bond prices will fall.

If you are hoping to have a secure, stress-free retirement, you need to think seriously about whether or not a traditional planning strategy might fail you as you move toward retirement.

Traditionally speaking, "Wall Street Only" advisors allocate your assets between stocks and bonds, weighting your portfolio more toward bonds as you get older.

Given how overvalued stocks are presently and given how low interest rates are currently, it's highly possible that both of these asset classes could decline in the near future especially given the debt and derivative bubble that also exists.

5

Retirement Threat Number Five: Could the Currency System Change?

There is a lot of talk about digital currencies right now.

Bitcoin, Ethereum and other digital currencies are volatile, but gaining meaningfully in value when priced in US Dollars.

The chart below shows Bitcoin, priced in US Dollars going back to January 2016.

Bitcoin has moved from about $430 to Bitcoin at that time to more than $60,000 recently.

This phenomenon has certainly gotten the attention of both politicians and central bankers. Frankly speaking, they don't like the competition.

Recently, Federal Reserve Chair, Jerome Powell, stated that developing a Digital Dollar was a "high priority" for the Federal Reserve.

Treasury Secretary, Janet Yellen, recently voiced her concerns about digital currencies not issued by the central bank. She stated she was in favor of central banks researching how to issue a digital currency.

Here is an important point; digital currencies that are not backed by gold or silver are still fiat currencies. Whether the currency is a digital unit of air or a green piece of paper, the intrinsic or tangible value is the same – almost zero.

The French philosopher, Voltaire stated that all fiat currency eventually returns to its intrinsic value – zero.

We may be in the final stages of that transition now.

Many think that Bitcoin or some other digital currency will be the way forward as far as currencies are concerned, but I consider that to be highly unlikely.

Admittedly, there have been fortunes made investing in Bitcoin. And there may be a lot more money made by investing in or speculating on crypto currencies in the future.

I would advise readers to consider any investment in Bitcoin or any other crypto currency to be speculative.

It is my firm belief that Bitcoin will never be widely used as currency. Currency needs to be somewhat stable, and Bitcoin is not.

It's also likely that central banks will continue to pursue a central bank issued digital currency and continue to work to suppress the use of Bitcoin and other digital currencies.

The countries of Afghanistan, Pakistan, Algeria, Bolivia, Bangladesh, Macedonia, Saudi Arabia, Quatar, Vanuatu and Vietnam have all banned the use of Bitcoin.[3]

Other countries have imposed restrictions on the use of Bitcoin, either prohibiting banks from using Bitcoin and other cryptocurrencies or outlawing crypto exchanges. Those countries include China, India, Ecuador, Indonesia, Morocco, Zambia, Nepal, Egypt, and American Samoa.

While enforcing a ban is difficult due to the nature of cryptocurrencies, there are two currency trends currently building. One, world citizens are continuing to look for fiat currency alternatives as central bankers all around the globe continue to devalue currency through money creation.

Two, central bankers are desperately attempting to hold on to the currency issuing monopoly that they now enjoy although it is becoming increasingly apparent those days are numbered.

Strategies to Help Protect Yourself from the Five Threats

Let's summarize the five threats.

The world faces a mammoth $2.3 quadrillion debt and derivative bubble. There are only two possible outcomes; one, the bubble bursts or, two, the currency is destroyed or severely damaged and the bubble bursts. This bubble is simply too big not to burst. We are only debating when and the how.

Central bankers are accelerating the pace of money creation. It is their only remaining defense. But it will not work. Money creation cannot continue forever. The only question is will the money creation stop before the currency is destroyed or will this reckless policy be pursued until confidence in the currency is lost?

Traditional investments like stocks and bonds are at or near all-time highs. Both of these asset classes are poised for a decline. Bonds will be a casualty when the debt and derivative bubble explodes, and stocks will likely collapse on the news as well.

Finally, currency substitutes will continue to emerge. Central bankers will continue to try to adopt the use of the block chain technology that is used by the current crop of crypto currencies to create central bank issued digital currencies. These currencies, should they become reality, will also fail unless they are linked to something tangible like gold or silver.

So, what should you do to survive and perhaps even capitalize on the coming chaos?

Clients of our company know that we have advocated a 'two-bucket' approach for managing retirement assets for more than a decade once it became clear where we were headed economically, financially and from a monetary policy perspective.

There are other competing firms that have since adopted a similar sounding approach to managing assets. And, while imitation is the sincerest form of flattery, we urge caution. Many of these other approaches sound similar but they use only traditional retirement planning and investment management tools. As we have discussed in this issue, it is our firm belief and conviction that these traditional planning tools will fail in the future for the reasons we've discussed.

It is our belief that an effective two-bucket approach has one developing an income model for retirement first. This income model is simply defining the target.

You can't hit a target that is not clearly defined and identified. Once the 'income model' target has been clearly defined, then the two-bucket approach can be constructed.

The basic premise is to divide assets up into two buckets of money with one bucket consisting of stable assets. These assets are allocated to attempt to avoid a collapse in asset values should the stock and bond markets collapse as we have forecast. These are the assets that will be used for income and expenditures. These stable assets are invested with the objective that they will gain in purchasing power as the traditional asset classes decline in value.

The second bucket of assets are allocated to provide a hedge against inflation. An inflation hedge is essential in the current climate of massive, unprecedented money creation. This bucket needs to contain assets that are tangible and real. This bucket should not contain assets that are derived from tangible assets. For example, it is better to own real, physical gold than an exchange traded fund that tracks the price of gold. The exchange traded fund has counter party risk while physical gold does not.

While the timing of these threats appearing in earnest is difficult to forecast, there are signs that we are not far from these materializing.

Here's the point. If you've not yet adopted this kind of planning, we would urge you to do so as soon as possible while there is still time to do so.

Time Deposit Rates

At the time of publication,
these rates were valid:

1-Year	1.25%
2-Year	1.75%
3-Year	2.20%

Call the office for details at
1-866-921-3613.

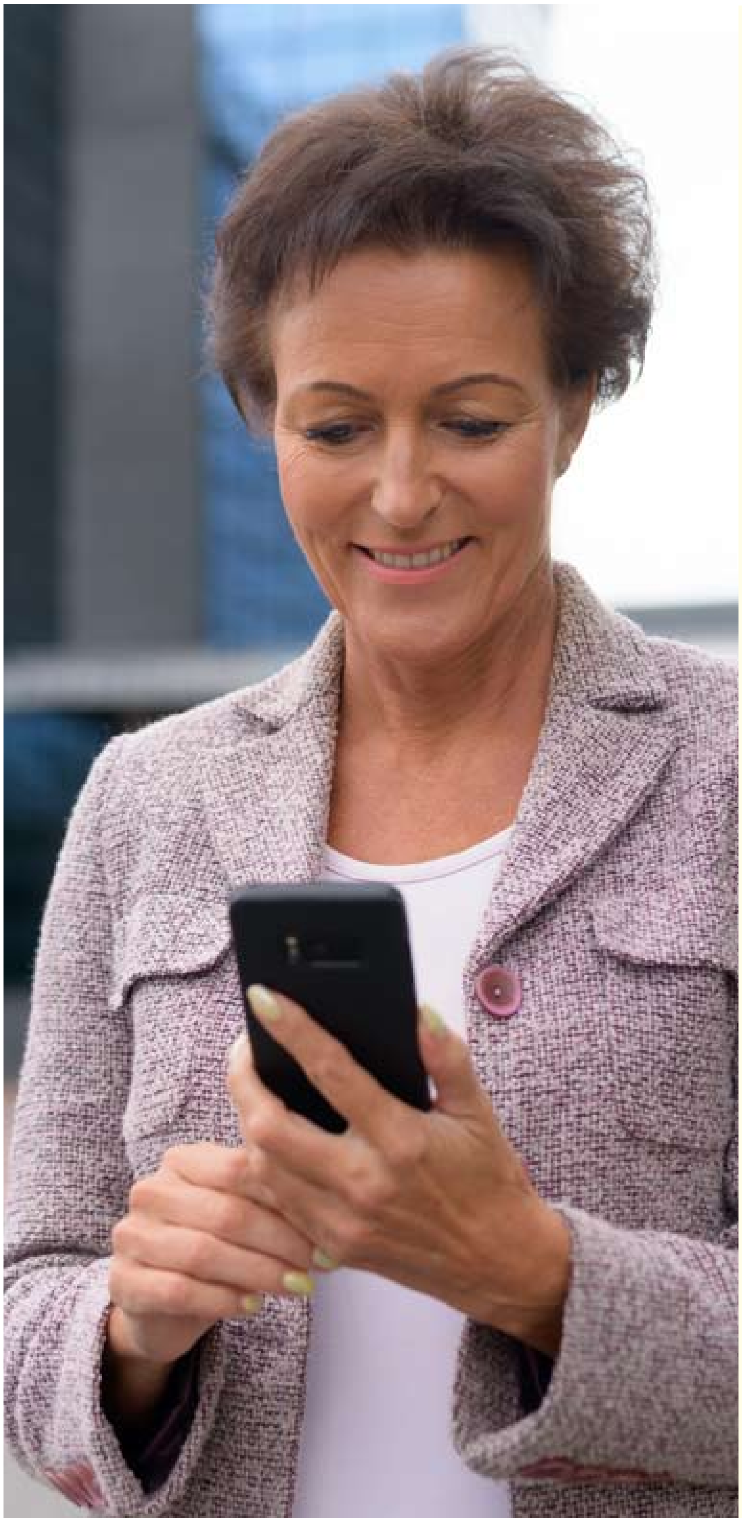
FREE – Essential Reports Group

If you have not yet adopted the two-bucket approach to managing retirement assets, we'd like to invite you to discover more. You can order our Essential Reports group provided at no cost and no further, future obligation.

Your Essential Reports Group may show you:

- The best way to maximize your Social Security benefits even if you are already collecting Social Security
- How to reduce taxes on your IRA, 401(k) or other retirement account. As we discussed in this issue, as tax policy may dramatically change in the near future and become less favorable, taking steps now to understand how to possibly minimize taxes has never been more important
- What your current fee level is in your portfolio and what your historical drawdown risk might be. Understanding this information may help you avoid participating in the next market crash

To prepare these reports for you, we need only get some generic, non-personal information from you. We never ask for personal information, nor should you ever share that information with anyone. To request your reports, visit **www.MyEssentialReports.com**.



Resources to Help You Stay Informed

To help you stay informed and to provide you with perspective and insight on financial matters during these unprecedented times we have made our resources available to you on the YOURRLA app.

You can download the YOURRLA app for free by visiting the app store (either Google or Apple) and searching under YOURRLA.

The app will get you access to our weekly "Headline Roundup" Webinar, the podcast versions of the RLA radio program and our weekly newsletter.

You can also participate in the "Headline Roundup" webinar live on Mondays at Noon Eastern time.

If you know of someone who might appreciate getting this information during these challenging times, feel free to have them download the free app as well.

If you have questions when downloading the app or would like assistance, feel free to call the office. Our office phone is **1-866-921-3613**. Our office phone is answered 8 to 5 Monday through Thursday and 8 to Noon on Friday.

Sources

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