SUPER CRASH REPORT

YOUR COMPLETE GUIDE TO THE $200 TRILLION CREDIT COLLAPSE

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Sure Money

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Your Complete Guide to the $200 Trillion Credit Collapse

Dear *Sure Money* Investor,

First, I applaud you on your decision to open this report right now.

These pages contain what I believe is the most important and urgent market analysis you can get your hands on right now – at any price. And I was glad to arrange to get it to you for free.

But I promise this won't be a case of "you get what you pay for." A lot of people have been paying me a lot of money for many years for my advice. But now, given the state of the global markets and what's about to happen, it's urgent that I share my views with a broader audience of investors, and this gives me an opportunity to do that.

Look, as an active fund manager for 25 years, I've had to be right all the time; I have to take the world as it is, not as I would like it to be. It's made me unpopular on Wall Street because I called the last two bear markets when everyone else on Wall Street was leading investors over the cliff. But being realistic makes me very good at my job. I was lauded by the *Financial Times* and many in the industry for predicting both crises and keeping my clients' money safe.

Those of us who warned in 2007 that markets were heading for a fall were dismissed as Cassandras, just as we were treated when we issued similar warnings during the Internet Bubble that led to a spectacular crash in stocks and the credit markets in 2000-1.

Now I'm telling you that the same thing is about to happen again – and possibly worse.

Investors may be facing one of the biggest market collapses that they will see in their lifetimes, what I'm calling "**The Super Crash**." And I truly believe this is just about your last chance to act now before it is too late.

As an individual investor, you have to formulate an accurate view of the world… determine what assets are going up and what are going down and why… and make some key adjustments to your portfolio ahead of time.

If you wait too long, it will be too late.

Stocks corrected in August 2015, losing about 10% from their recent highs, but that is nothing compared to what could happen if my fear of a $200 trillion credit collapse comes true.

That's what *Sure Money* is about – protecting you and your money and teaching you how to profit from what is coming.

Right now you need to know three things.

1) **There's only one way this market can end – with a Super Crash.** There are five "inevitabilities" leading to the Super Crash: far too much debt, far too little economic growth, overvalued markets disconnected from reality, ineffective monetary policy, and geopolitical instability. (See the sidebar on page 4 for a full rundown.) Exactly how and exactly when the Super Crash will happen remains uncertain. So does how far the markets will fall before hitting true bottom. I have my personal forecast that's been on target so far, and I'll share it with you below. But what's certain is that this threatens to be an extinction-level event caused by $200 trillion in global debt that will inflict serious damage on portfolios and retirement accounts.

2) **It's already started to happen**. Summer 2015 offered a preview of what is coming. Puerto Rico's insolvency, Greece's default and humiliation by Europe, China's stock market collapse and desperate currency devaluation… these symptoms of a grossly

over-indebted world finally rocked U.S. markets in late August 2015, causing the biggest one-day drop on the Dow Jones Industrial Average in history. In a bid to delay the inevitable market adjustment, the Fed raised interest rates in late 2015 and the markets appeared to stabilize. But we're not simply putting off the Super Crash; we're actually making the ultimate crash worse by delaying the inevitable market adjustments that have to happen.

3) **This is an opportunity, not the end of the world**. The market sell-off is a reality check that will reset markets and create some great investment opportunities. So is the Super Crash. If you take the right steps to prepare for it, you'll do fine – and even make a lot of money. But if you do nothing, you will get run over by the freight train that is rumbling down the tracks.

In the weeks ahead I'll be guiding you through all of this. I'll track the five "inevitabilities" behind the Super Crash. We'll talk about the assets and investments that are going down – and which ones you need to sell or hedge before the collapse gains momentum. I'll show you the portfolio allocation secrets my clients learn about every month. We'll talk about what to do with cash – and the potential problem with money market funds. How you can earn safe income. Which bond funds and ETFs to buy, which ones to sell. And which stocks will make you money in the years ahead. Of course you need to own gold, but you'll get my personal view on why and how. You'll get it all.

But that's not what matters today. First you need some immediate protection from the downside and some ways to position yourself for the upside from this market throttling. Yes, there is upside, if you know where to look.

And I urge you to do it now.

This is going to happen sooner than most people think.

In fact, it's already started.

The Five Inevitable Forces Behind the Super Crash

Inevitability #1: The 30-year "Debt Supercycle" is about to end.

Over the past 30 years, the world has gorged out on debt in a massive "Debt Supercycle." There is too much public and private sector debt in the United States, Europe, Asia, and the emerging markets. Today there is *almost $200 trillion* of total public and private debt outstanding in the world, with *over $600 trillion* in derivative contracts sitting on top of that, a veritable debt bomb lurking on global balance sheets waiting to explode. The U.S. national debt is $18 trillion and rising. In 2016, we'll pay about $260 billion in interest on that debt. And we'll make the payments by *borrowing* the money. An economy has to generate enough income to pay the interest on its debt. And today, the U.S. and global economy does not. Why? That leads me to the next point.

Inevitability #2: The global economy is stuck with sub-par growth.

The reason the global economy doesn't generate enough income to pay its debt is because most of this debt wasn't used to fund activities and assets that generate future streams of revenue. Instead, it paid for unproductive things like consumption, housing, stock buybacks, and financial speculation. So economic growth since the financial crisis has been based primarily on the growth of debt rather than the creation of income-generating and productive assets. The *net result of more and more debt was less and less growth*. Until the world learns how to grow other than through borrowing, it will be doomed to subpar growth.

Inevitability #3: The markets will crash – big.

After six years of largely uninterrupted gains in stock prices, the markets are overvalued by almost every measure and running on fumes. This is a byproduct of the Debt Supercycle. In a slow-growth world, corporate executives focused on stock buybacks to increase their stock prices. By spreading profits over fewer shares, they were able to increase earnings per share and make each share of stock worth more – even if it meant increasing debt in the process. If a company wasn't generating enough extra cash to buy back stock, it simply borrowed the money at record low interest. Since 2009, U.S. corporations bought back *more than $2 trillion* in stock rather than investing in R&D, new plants, and equipment, and creating new jobs. And in many cases they used borrowed money to do it. When companies run out of their own stock to buy, it will be one sign that the Debt Supercycle is coming to an end with a resounding crash.

Inevitability #4: Central banks won't be able to rescue us this time.

Central banks are actively debauching the value of fiat currencies with QE and money-

printing. Everybody's buying power is being demolished. Inflation is raging. Deflation is a fairy tale that central bankers tell themselves at bedtime to justify their fear of raising interest rates because of the impact the truth would have on an over-indebted world. Meanwhile, they have artificially suppressed interest rates to levels that render fixed investments confiscatory of capital in nominal and real (i.e. inflation-adjusted) terms. The government is effectively stealing savers' money. All this has been an attempt to stimulate growth, but now central banks have no cards left to play. This is "the terminal stage of monetary policy." With interest rates barely above zero, and its balance sheet stuffed with debt, the Federal Reserve can't do much more to stimulate growth or bail out markets when they collapse. The Fed has already fatally mismanaged this credit cycle, and negligible 25-point rate hikes won't change any of the underlying issues. Central bank policy has reached its limits. Other central banks (ECB, Bank of Japan) have tried to pick up the slack, but ultimately all of these programs are doomed to fail because they try to alleviate a debt trap by creating more debt.

Inevitability #5: There's geopolitical trouble ahead.

Geopolitical instability is extremely dangerous for investors, yet markets are acting like the world is an oasis of stability. In fact, the world is a burning cauldron that could explode at any moment. The Cold War is raging across the Middle East, Eastern Europe, and parts of Africa. In the U.S., the southern border is a sieve while America's inner cities are home to intolerable levels of poverty and violence as a result of five decades of failed progressive policies that may be well-meaning but are long overdue for reassessment. And in an epic foreign policy disaster, the Obama administration has entered into an agreement with Iran that will give that largest state sponsor of terrorism $150 billion in sanctions relief and the ability to gain nuclear arms capability in return for nothing.

So while the economy is like 1999 or 2007, the geopolitical landscape is like 1909 or 1939. Our business and political leaders are focused elsewhere, which is how conditions have been allowed to deteriorate so badly. As one commentator said in early 2015, somewhere in the world there is an archduke waiting to be assassinated and set off a global conflagration. When that happens, markets are going to plunge. You cannot afford to ignore these risks or place your confidence in the people running our government. You need to protect yourself now.

I know this is all frightening. Most investors are likely to experience a much tougher road in the years ahead. But here's the point…

The "Debt Supercycle" has created an inflection point with a host of ripple effects, and the risks are being compounded by serious geopolitical instability. But I believe that today's debt-fueled crisis also represents a tremendous opportunity for you to make money.

The Cracks Are Starting to Show

At the beginning of August 2015, China's stock market bubble had popped, Puerto Rico had finally admitted that it was insolvent and had no hope of repaying its $72 billion debt, and Greece was again on the verge of default and economic collapse.

Market liquidity was deteriorating by the day. ISIS was terrorizing the Middle East, home-grown terrorists were threatening Americans at home, and the Obama administration was pressuring Democrats to support his Iran deal over the opposition of a majority of Congress and the American people.

But despite these warning signs, markets were still cruising along as though everything was hunky-dory. I had been warning my clients for months that a storm was coming and they should take steps to protect themselves, and it's a good thing that I did.

Because suddenly everything changed.

During the week of August 17, stocks plunged 6% after China, a country even more leveraged than the United States, began to devalue its currency. That was an admission by China's leaders that the country's economy was in bigger trouble than people realized. That set off a chain reaction that's still playing out.

On Monday, August 24, investors panicked and sent the Dow Jones Industrial Average down 1,100 points at the open. This move, which ended with the biggest one-day loss in history, was exacerbated by changes in market structure that increase volatility and reduce liquidity.

The Dow lost 1,300 points between Friday, August 21, and Tuesday, August 25, before recovering 1,000 of them on Wednesday and Thursday, August 26 and 27. Volatility was historic, with the Chicago Board Options Exchange Volatility Index (VIX) spiking to levels that we haven't seen in years. After hitting 44 that day, the VIX settled down to close the week at 26.05, much higher than the average levels in the mid-teens that have prevailed over the last two years. On Tuesday, September 1, the Dow lost another 470 points, then rallied the next day.

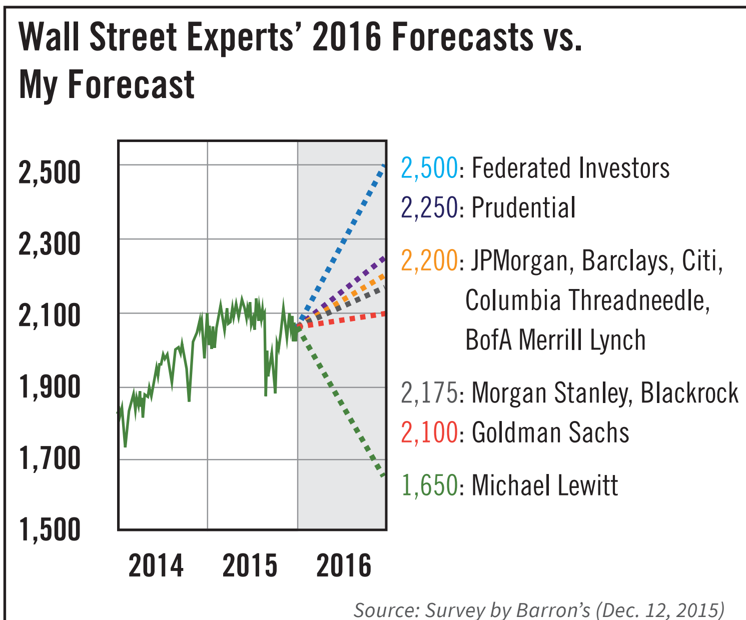
After four years without a 10% correction, investors were given a much-needed reality check.

The markets rallied deceptively in October and November, erasing the August losses on the strength of just four stocks (I'll come back to those in a minute). That's just not sustainable… as 2016's frightening open proved. At the beginning of Q1 2016, the Dow and S&P 500 plunged below key levels of 17,000 and 2,000 respectively.

Everyone wants to know what's next.

As usual, Wall Street's so-called "top strategists" are consistently bullish. In a recent *Barron's* survey, these "experts'" 2016 S&P 500 forecasts varied from a groupthink low of 2100 (Goldman Sachs' David Kostin) to a groupthink high of 2500 (Federated Investors' Stephen Auth). Most of the rest were crowded around S&P 2200.

My own forecast – a year-end target of 1,650-1,750 - practically puts me off this chart altogether. And so far, my forecast is right on the money.



Where Do We Go from Here?

Beginning of 2016: As we enter 2016, I am very bearish and want to make that very clear to you. A big sell-off across the board is more likely than a rally in anything at this point. The smartest people I know – with very few exceptions – are very bearish. Only the consensus and Wall Street, which is paid to be bullish, is trying to make a case for things going up. If there is a Super Crash, it will turn into a deep recession because the Fed and other central banks are out of bullets. But I think it likely we may be looking at a multiyear bear market.

At the beginning of 2015, I forecast that the equity markets were over-extended and headed for a big fall and that the S&P 500 would end the year at 1875-1900. This was based on my view that the 50% drop in oil prices over the last six months of 2014 signaled that the global economy was weakening. As it turned out, I was a little early, but right on target. After the first two weeks of trading, the S&P 500 had already dipped below my 2016 year-end target of 1875-1900, proving that (for once) I was actually too optimistic! As we enter 2016, I've revised my year-end forecast to an even lower figure of 1,650-1,750.

End of 2016: None of the factors pressuring markets are going away – China, commodities, and slow global growth are here to stay. I remain convinced that we will see the Super Crash by then. Again, my target on the S&P 500 is 1,650-1,750. Either way, global markets are likely to face serious headwinds in the next few years.

Longer-term: Markets are resilient. The world will not come to an end. Things will shake out; markets will reset. That will create a new set of investment opportunities across all asset classes – stocks, bonds, and commodities. The key will be knowing when the cycle is turning toward recovery and knowing where to put your money.

The Asset Classes: What's Going Up and What's Going Down

Many financial advisors and Wall Street strategists will tell you to keep buying stocks and bonds *long past the point where it makes*

sense to do so. You'll see them chirping on television about "buying opportunities" and "buying the dips." They will keep telling you that the markets are safe, that the financial system is stable, and that you should just close your eyes and trust central bankers and government officials to do the right thing.

Beware. These so-called "experts" are dangerous to your financial health.

These are the same people who told you to buy Internet stocks at the height of the Internet Bubble in 2000, and housing stocks at the top of the Housing Bubble in 2006-7. And these are the same stubborn bulls who are telling you today that markets will recover and it is safe to own ridiculously overvalued social media and biotech stocks.

There's a natural allure to "up" markets, but the intoxicating effects of a bull market are not related to an investor's need to invest and allocate money rationally based on specific goals.

As for the current sell-off, investors would be wise to refrain from "buying on the dip" as they have done successfully throughout the bull market that began in 2009. I recommend keeping your powder dry and, as I have been advising all year, hedging your long positions against further market declines. The conditions that caused this sell-off have not dissipated – China's economy and markets are still in trouble, commodity prices are still weak, the dollar is still strong, and economic growth for Q4 2015 came in at a paltry 2.2%. For 2016, I am maintaining my year-end S&P 500 target of 1875-1900. Hopefully that won't prove optimistic.

Now let's tackle the asset classes.

Equities (Mostly Going Down)

Over the past six years, equities have risen primarily *because of the Fed*. In fact, the rise in stock prices has almost exactly tracked the increase in the size of the Federal Reserve's balance sheet. As the Fed created more money out of thin air, a lot of it ended up propping up the stock market. But the Fed stopped growing its balance sheet in October

2014, and it is no coincidence that stocks have struggled ever since.

Still, as of Q1 2016, stock prices are still too high, particularly as seen through the valuations of several industry standard measures, including one favored by Warren Buffett. His favorite measure of stock valuation, the ratio between the total market capitalization of the S&P 500 and Gross Domestic Product, is 1.14x, compared to an historical mean of 0.75x.

Another measure of stock valuations, the Shiller Cyclically-Adjusted P/E Ratio that measures stocks over a 10-year rolling period, is 25.3x versus a historical average of 16.6x.

Many of these overvalued stocks – particularly the "four horsemen of the apocalypse," which I discuss below – are already starting to fall. In my 2016 market forecast, I recommend that my readers short overpriced stocks like **Amazon.com Inc.** (NasdaqGS:AMZN) and **Facebook Inc.** (NasdaqGS:FB). A handful of large-cap stocks like these have been supporting an otherwise faltering market – and when they collapse, the whole house of cards will fall down with them.

And the cracks are already starting to show. After a 0.7% decrease in value in 2015, the S&P 500 continued to fall drastically as 2016 opened – with all 10 major sectors down by as much as 2.3%. As of January 2016, FactSet tells us that estimated earnings decline for Q4 2015 is -4.7% - marking the first time the index has seen three consecutive declining quarters since 2009. After the disaster that opened the trading year, most stocks are even more unattractive today on a valuation basis.

GOING DOWN

Two of the most highly respected investment strategists in the business, GMO and Research Affiliates, are projecting that U.S. stocks will generate zero returns over the next decade. Both firms suggest that only non-U.S. equities are likely to generate meaningful returns over the next decade, and even those returns are only projected to be in the mid-single digits.

There are many ridiculously overvalued stocks that will plunge in value when the market finally comes to its senses. I intend to tell you how to avoid owning those stocks and even how to profit from them before they collapse.

Nowhere is the market's bifurcation more apparent than in the rise of the Four Horsemen of the Apocalypse – **Apple Inc.** (NasdaqGS:AAPL), **Google Inc.** (NasdaqGS:GOOG), **Amazon.com Inc.** (NasdaqGS:AMZN), and **Facebook Inc.** (NasdaqGS:FB). I gave them that name because I knew if these stocks ever stopped rising, there would be one hell of an apocalypse in stocks. As of late 2015, these four companies had a collective market capitalization of $1.79 trillion and traded at widely divergent price/earnings multiples including cash (AAPL – 13x; GOOG – 24x; FB – 108x; AMZN – ∞x). If the Four Horsemen needed some charioteers to steer them, they could call on **Gilead Sciences Inc.** (NasdaqGS:GILD) and **Netflix Inc.** (NasdaqGS:NFLX), since these six stocks collectively had accounted for more than 50% of the $664 billion in value added to the Nasdaq Composite Index in the first half of 2015. If we substitute **The Walt Disney Co.** (NYSE:DIS) for NFLX, this line-up of six stocks had

accounted for more than 100% of the $199 billion rise in the market value of the S&P 500 in the first half of 2015.

Earlier last year, I noted that under the headlines, the market looked decidedly unhealthy. The rest of the market was not trading nearly as well. When the market leaders diverge sharply from the rest of the market, this tends to point to coming weakness in the market. In the months leading to the August sell-off, many stocks were down 10%-20% and stocks in certain sectors like energy were down 50% or more. I pointed this out as the sign of a dying bull market, and warned that a sharp and sustainable recovery from August's losses was highly unlikely.

I am not a "permabear," but this prediction is already coming true. In Q1 2016, the seemingly unstoppable rise of the "Four Horsemen" has not only halted – it's reversed drastically. Starting in late December 2015, Apple entered a freefall and is down 20% as of this writing. In the same time frame, Amazon.com dropped 10%, Facebook 6%, and Google 5%. I expect this downward trend to continue into 2016, and I'm recommending that my investors short these and other overvalued stocks. It will only get uglier from here.

Not a "Permabear"

At the beginning of both 2013 and 2014, I called for the S&P 500 to rise in the following 12 months, which it did. But in January 2015, after watching oil and the rest of the commodities complex collapse over the second half of 2014 in concert with China's slowing economy and the demise of the weakest segment of the high yield bond market (CCC and B-rated bonds), I concluded that the end of the post-crisis bull market had arrived. Having correctly called the credit crisis of 2001/2 and the financial crisis of 2008/9, I saw similar warning signs suggesting that investors should protect their assets.

I continue to believe that we are in a bear market and that 2016 will bring more pain, especially for investors who believe markets can defy the headwinds that buffeted them in 2015 and continue to blow hard.

GOING UP

Nonetheless, there are still undervalued stocks that will benefit from important economic trends. My job in *Sure Money* is to find these opportunities and share them with you. For now, just recognize that there will be opportunities in equities even if the market remains weak.

Japan, for example, should see its stocks rally due to two factors. First, the government has no choice but to continue to weaken the yen in order to deal with Japan's terminal debt and demographic challenges. A cheaper yen will boost Japan's export businesses. Second, Japan's corporations have become very competitive globally as a result of having to compete with an expensive currency for so many years. As a result, they are poised to generate strong profits if they can sell more of their goods under a weak currency regime. Third, corporate governance in Japan is finally starting to improve and recognize the rights of shareholders to a greater extent, rendering the country far more hospitable to foreign investors than ever before. Japan faces significant challenges, but its stock markets should provide strong returns over the next decade. India is another market that offers a great deal of promise due to promising demographics, a reform-minded prime minister and a progressive central bank president. I view these Asian markets as more

attractive than Europe, which should benefit from a weaker currency like Japan but faces major debt burdens and continues to be struggle to enact meaningful labor and regulatory reforms. The euro also remains a straitjacket for the weaker southern European countries like Spain, Italy, and Portugal – it will retard their recovery and likely lead to further debt crises in the years ahead.

HOW TO PROFIT

First, get your asset allocation right.

Longer-term, investors should have no more than 20% of their portfolio invested in stocks right now, provided they are prepared to treat this as a "buy and hold" investment and are disciplined enough not to trade the portfolio. Investors who panicked and sold at the market low in March 2009 destroyed their returns. As David Rosenberg of Gluskin Sheff teaches, it is time "in" the market rather than "timing" the market that generates solid equity returns. This requires patience and discipline. Over long periods of time (decades), equities should continue to generate high-single-digit total rates of return (consisting of capital gains plus dividends). This is a lower allocation than most advisors recommend, but with stocks still overvalued and projected returns over the next decade so low, a reduced allocation is appropriate today.

Second, hedge this portion of your portfolio. There are multiple inexpensive ways to do this today, based on your personal allocations and risk tolerance.

- Buy **ProShares Short S&P 500 ETF** (NYSEArca:SH).
- If you have a high concentration of stocks in the Dow Jones Industrial Average in your portfolio, buy the **ProShares Short Dow 30 ETF** (NYSEArca:DOG).
- If you have smaller-cap stocks in your portfolio, you can use the **ProShares Short Russell 2000 ETF** (NYSEArca:RWM).

- Finally, if you are long in the tech-heavy Nasdaq, you can use the **ProShares Short QQQ ETF** (NYSEArca:PSQ).

Finally, keep this number in mind. The key technical level on the S&P 500 is 1840. If the market drops below 1840, all bets are off and the correction could turn into something much worse.

Bonds (Going Down)

As overvalued as stocks are today, bonds are even more overvalued. Central banks have massively distorted global bond markets by buying back trillions of dollars of government debt.

The Federal Reserve since 2009 has bought back over $4 trillion of U.S. government debt. The ECB is in the process of buying back $1.1 trillion of European government debt, and the Bank of Japan is buying back trillions of dollars of Japanese government bonds (as well as stocks and ETFs). There are two results of these actions, neither of them good. First, interest rates have been artificially lowered, and second, liquidity in government bond markets around the world has dried up.

Today, investors are paid only 2.97% for the privilege of lending money to the U.S. government for 30 years and only 2.19% for lending them money for 10 years. These are ridiculously low returns. In Germany and Japan, investors are paid only 79 and 40 basis points for lending these governments money for 10 years. On an inflation-adjusted basis, these are effectively negative returns. In other words, governments are confiscating the capital of the people lending them money.

This farce is unsustainable. History teaches us that governments that are printing trillions of dollars of money will ignite massive inflation that will cause bond prices to plunge and interest rates to spike up. This means that investors holding 10- and 30-year government bonds will get crushed in the years ahead. There is no reason to own these certificates of confiscation. Instead, I can show you how to profit from this massive destruction of wealth by the world's governments.

HOW TO PROFIT

The best way to make money in bonds is to short bonds with an instrument like the **ProShares UltraShort 20+ year Treasury ETF** (NYSEArca:TBT). But the timing is critical. It is still too early to put that trade on. Stay tuned to *Sure Money* for guidance and recommendations.

Currencies (Only One Is Going Up)

One of the biggest threats to all paper investments is that the currencies in which they are denominated are being actively devalued every day by the failed monetary policies of the world's central banks and the complete absence of meaningful pro-growth fiscal policies. The only ways to protect yourself is to first diversify some of your assets out of paper currencies into gold and other tangible assets, and second, concentrate your paper currency holdings in the one that will fare the best: the U.S. dollar.

GOING UP

While the value of all paper currencies will continue to be destroyed by central banks, the U.S. dollar should fare much better than the other major currencies.

To understand why this trend will continue, you must understand what is causing it in the first place: an historic divergence between central bank policies in the United States and the rest of the world. While the Fed has ended quantitative easing and began raising interest rates at the end of 2015, the ECB and the Bank of Japan are moving in the opposite direction, initiating huge new bond-buying programs to lower interest rates in their markets. That means Europe and Japan are dead set on cheapening their currencies against the dollar. As a result, the U.S. dollar will keep rising as global investors flee lower yielding currencies and flock to the higher yielding U.S. currency. That should further depress the euro and yen. The U.S. Dollar Index (DXY) is the key index to watch to monitor the strength of the dollar. The DXY broke a long-term trend line in December 2014 when it hit 95. Just as I predicted, in early November 2015, DXY closed

above 98, a key resistance level. Keep an eye on the DXY – as of January 2016, it's above 99 and likely to move much higher, which will have massive deflationary consequences for global markets.

GOING DOWN

Naturally, the euro and the Japanese yen and Chinese yuan will suffer.

HOW TO PROFIT

One way to invest in a stronger dollar is through the **ProShares DB US Dollar Bullish ETF** (NYSEArca:UUP). This ETF has its largest exposure to a weaker euro, followed by the yen and the British pound.

You can also target the euro by investing in **ProShares Short Euro ETF** (NYSEArca:EUFX).

I don't like to recommend leveraged ETFs and there are no ETFs that provide unleveraged short exposure to the yen, but you can sell short the **Guggenheim Currency Shares Japanese Yen Trust ETF** (NYSEArca:FXY) to gain short exposure to the yen.

Oil (Going Down)

The price of oil has collapsed more than 50% from its highs of 2014 and is trading below $35/barrel in Q1 2016, an 11-year low. While oil's precipitous decline has been attributed to factors including over-supply, geopolitics, and a change in OPEC policy, the world's most important commodity *does not* collapse over a six-month period unless demand drops. And oil demand began to falter in mid-2014 as the global economy slowed under the weight of $200 trillion of debt and a sharp slowdown in the Chinese economy.

The energy patch's woes also stem from a stronger dollar. Most oil trades are executed in U.S. dollars around the world. A stronger dollar makes oil more expensive for businesses and consumers who have to pay for it in currencies that are declining in value against the dollar. That's not

going away. Even as the oil industry reacts to lower prices by reducing supply, the strong dollar will continue to place pressure on oil prices.

HOW TO PROFIT

It is too early to go long oil. Oil is likely to drop into the $20s and potentially lower.

Right now, investors interested in shorting oil can short one of a variety of ETFs, including **United States Oil Fund** (NYSEArca:USO) and **United States Brent Oil Fund** (NYSEArca:BNO). Both of these dropped more than 20% last year and will fall further if oil continues to weaken in 2016. If oil hits $20/barrel (WTI), there will be many ways to profit. Stay tuned.

Gold (Going Up)

The first thing to understand about gold is that it is a currency, not a commodity, in today's economy. But unlike all other currencies (with the exception of digital currencies such as bitcoin), it is the anti-fiat currency. While the dollar is likely to continue rising against the euro and the yen, the question remains what will happen to the value of the dollar itself in a world where the Federal Reserve has made no secret of its desire to destroy the value of the dollar by increasing inflation as its official policy. And the answer to that question is that it should decline against the value of gold and other tangible assets. The explosion in financial asset prices since the financial crisis is one manifestation of the destruction of the value of all fiat currencies including the dollar. It is no accident that the wealthiest people in the world are shifting their money out of paper currencies into high-end real estate, collectibles, art, and similar tangible assets. Eventually gold and other precious metals will follow this trend and appreciate sharply.

HOW TO PROFIT

In early 2016, gold is among the most disfavored investments in the world and could trade lower primarily (but not exclusively) because the

U.S. dollar is likely to continue to rally against other major currencies. Long-term investors who are interested in protecting their wealth should use this weakness in the gold price as an opportunity to buy more of the anti-fiat currency.

The preferred way is to own physical gold through the purchase of coins and gold bars. **Keep it in a safe place at home.**

Beyond that, I recommend the **Central Fund of Canada** (NYSEMkt:CEF) and the **Sprott Physical Gold Trust ETF** (NYSEArca:PHYS). Both ETFs own both gold and silver and give you an opportunity to buy these precious metals at a discount to their spot price. The **SPDR Gold Trust ETF** (NYSEArca:GLD) is a third way to own gold but tends to attract more speculative fund flows than the other two.

In addition, at the start of 2016, I am recommending long plays on two gold mining ETFs: **Global X Gold Explorers ETF** (NYSEArca:GLDX) and **Market Vectors Junior Gold Miners ETF** (NYSEArca:GDXJ).

Both ETFs are a very leveraged bet on a recovery in gold and are so out of favor that they are worth a shot. Further, I am recommending the ETFs rather than individual stocks to mitigate the individual operating issues associated with individual companies. These are long-term picks that could easily take more than one year to work out because gold is a multiuser play. The price of gold has yet to reflect the debauchment of paper currencies, but wise investors understand that years from now gold will be worth thousands of dollars an ounce as the value of fiat currencies are destroyed by the world's central banks.

Other Commodities (Going Down)

Oil isn't the only crucial commodity that has fallen out of bed. Iron ore, copper, and other industrial commodities also have collapsed in price, further proof that the global economy is running out of steam. In particular, the Chinese economy, which has been the motor of global growth since the 2008 financial crisis, is finally reaching the limits of its

debt-fueled growth. The prices of these commodities strongly correlate to economic growth in China, so their collapse signals that China's economy is in trouble – a realization that hit markets in August 2015, and again in Q1 2016.

One of the primary factors pushing down commodity prices is the stronger dollar. Commodities have already seen their prices crushed. That's why it makes sense to limit your commodity exposure to buying gold (more above).

HOW TO PROFIT

Commodities permeate the global investment landscape and their weakness will lead to big profits for investors who make the right moves. Stay tuned.

We'll be following all these ups, downs, and profit opportunities in the months ahead.

Sincerely.

Michael Lewitt
Editor, Sure Money
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MICHAEL E. LEWITT is widely regarded as the No. 1 credit strategist in the world.

He's been a major player in the money management business for more than 25 years. He worked on Wall Street before leaving to help found Harch Capital Management in 1991.

Michael is best known as one of the most cogent and passionate global market commentators – and the most accurate, too. Since 2001, his reports to the leading investors on Wall Street have influenced the top billion-dollar money managers. After all, the credit markets are the lifeblood of the world economy – three times bigger than the equity markets. And when you have billions of dollars at stake, you can't service it without Michael's analysis.

His weekly reports continue to be "required reading" among those who need to know first what assets are going up, what's going down, and how to profit.

When the latest crisis hit, Michael gained international prominence, both for his starkly accurate forecasts and his "pull no punches" style.

The *Financial Times* recognized him as having been one of the few strategists to predict the financial crisis of 2008, and also the credit crisis of 2001-2002.

But what really sets Michael apart are his clear recommendations for what to do.

It was this same prescient outlook that allowed him to protect his clients from the large losses that hit many credit funds during those periods. His track record is clear. He successfully invested on both the long and short sides, generating consistent market-beating returns.

Michael is perhaps best-known for writing "The Death of Capital: How Creative Policy Can Restore Stability" (Wiley). The 2010 best-seller laid out with unparalleled clarity the causes of – and remedies for – the financial crisis. Barron's called it "insightful." The book even became part of the curriculum in economics and history courses at the University of Michigan and Brandeis University.

Today Michael is the editor of *Sure Money* and has been contributing to *Money Morning* since 2014 as the Global Credit Strategist. He has been featured in *The New York Times, El Mundo, Forbes, Barron's, The New Republic,* and on PBS NewsHour.

He graduated from Brown University and NYU Law School (JD; LLM in taxation) and was a PhD candidate at Yale University. He is a member in good standing of the New York State Bar.

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