

Bank Runs & Bail-Ins

Is Your Money Safe in the Bank?



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Aside from our trust in God, and still proclaimed on all of our currency, it may be our most sacred trust. That being the trust we have in our bank to hold our money and keep it safe.

It is unthinkable to most that you can put money in the bank and lose it. In fact, we were taught as kids that you should save some of your money and, for so doing, you could earn interest on the accumulated balance.

On November 16, 2014, that all changed. On this date, the G20 formalized new standard procedures for handling bank failures to include bail-ins. No longer would taxpayers be called upon to bail out troubled financial institutions. Rather, the shareholders, bondholders, pensioners, and creditors would be called on to bail in their trusted financial institution and, in some cases, their country.

The standardized procedures for dealing with future bank failures, put in place since the last banking crisis, were in response to a cry for no more taxpayer bailouts. It was as if a battle had been won.



Those considered “too big to fail” had finally been cut down to size. The victory reverberated through Wall Street. Even would-be presidential candidates leaned on the victory to proclaim their belief that taxpayers should no longer bear the burden of having to bail out failed institutions.

Little did they know...





The term “bail-in” has been coined, even accepted, but is far from understood. You see, when it comes to bail-ins, everyone knows the definition of a shareholder, a bondholder, or pensioner. But, if you think you know how “creditors” is defined in this agreement to hold the aforementioned accountable when a bank fails, you may be shocked. “Creditors” includes “depositors.”

**The banks of the world
are now preparing for
the biggest crisis in history.
They call it the “BAIL-IN”!**

The Bail-In can be described in one word: Cyprus. When Cypriot banks collapsed, a bank holiday was declared, the doors were locked, and access to money within was cut off. While the banks were closed, it was determined that creditors of the bank, not taxpayers, would fund its bailout. Hence the term “BAIL-IN.” Creditors were to include shareholders, bond investors and get this—The Bank’s Own DEPOSITORS! Yes, every day depositors and savers got a haircut. Their deposits were taken in order to recapitalize the banks to operating levels.

Few outside of Cyprus took this as a warning to be wary of the health of any bank and the deposits held therein. The news covered it as though it could not happen anywhere else but in Cyprus. Little did they know that all the banks of the world were preparing for the next crisis by laying the foundation upon which they could implement this new “Bail-In” strategy.

Bank Runs and Bail-ins Coming to America

As the saying goes: when your neighbor loses his job, we are in a recession; when you lose your job, we are in a depression. Such is the perception when our global neighbors endure bank runs, bail-ins, austerity and raided pension funds. It’s too far away to affect us. We are America. It’s not happening here. Now the warning alarms are sounding and signs are appearing that America is not immune from another bank and credit crisis.

In his 2014 letter to shareholders, JPMorgan CEO Jamie Dimon warned, “there will be another crisis.” In his 2016 letter to shareholders Dimon warns again, “There will be market panic again and it won’t just affect the banks...”

A more recent JPMorgan report put the spotlight on an emerging crisis: a deposit crisis. According to a May 8, 2017 Bloomberg article, JPMorgan says the period of time between 2009 and 2014 saw bank reserves swell with \$2.5 trillion of excess deposits as a direct result of the Fed’s quantitative easing (QE) policies.

QE is a fancy way of saying “printing money to buy U.S. Treasuries and mortgage backed securities.” The Fed bought government-issued Treasuries to help fund the national budget and service the national debt. The Fed



HOARDING CASH



The world's billionaires are holding 22% of their net worth in cash deposits.



Nearly 40% of millionaires planned to avoid investing in the near term

also purchased mortgage backed securities from banks to relieve them of toxic assets and strengthen their bank balance sheets.

This created an abundance of deposit reserves, enabling U.S. banks to pass "stress tests." Tests administered by the Fed to ensure that, in the event of another financial crisis, banks have enough reserves to avoid the need for more bailouts or bail-ins as the law now allows.

Are U.S. Banks About to Stress Out?

In 2018, U.S. banks made it through the latest round of stress testing. These tests are part of the Dodd-Frank regulatory requirements and confirm banks are sufficiently capitalized to survive a global recession. Among the bank assets under scrutiny are their levels of deposit reserves. All seems well in Mudville—or is it?

How is it that banks are flush with cash? Let's ask our billionaire buddies. According to an August 10, 2016 CNBC report, the world's billionaires began hoarding cash. On average, the world's 2,473 billionaires were reportedly hoarding 22.2 percent of their total net worth. An estimated \$1.7 trillion worth.

A May 16, 2017 Bloomberg report titled, "Rich Retirees are Hoarding Cash Out of Fear," suggested growing apprehension over the markets and the economy.

Yet another June 1, 2017 CNBC report would seem to confirm a trend into cash. The Spectrem Millionaire Investor Confidence Index fell 17 points lower in May than it was in just the month prior. Nearly 40% of millionaires planned to avoid investing in the near term.

On November 13, 2018, Guerilla Stock Trading put out an alert on their web site telling people, "Stay In Cash." Yet another January 14, 2019 CNBC report confirms the trend into cash, citing money market funds reaching a level not seen since March 2010.

All of this adds up to one thing: there is currently an abundance of cash sitting in banks, afraid to leave the confines of safety. Billionaires are hoarding cash, millionaires are hoarding cash, and the Fed, still up to its tricks, is keeping deposit levels artificially high. Why is this a precarious situation? If JPMorgan is warning of an impending deposit crisis, do you think millionaires and billionaires are going to keep holding cash? Even a small move out of cash by millionaires and billionaires could





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If the danger of a deposit crisis is real enough to cause JPMorgan to issue an early warning, perhaps we should heed that warning. It appears time is short.

In this new era of the bail in, one should be ever vigilant of another major bank crisis—indeed another debt crisis. And if you don't want to take my word for it, look what Jamie Dimon had to say about another potential Lehman event. "It is instructive to look at what would happen if Lehman were to fail in today's regulatory regime. Lehman would have far stronger liquidity and 'bail inable' debt." If Lehman failed anyway, regulators would now have the legal authority to put the firm in receivership (they did not have that ability back in 2007–2008). The moment that happened, unsecured debt of approximately \$120 billion would be immediately converted to equity.

Converting unsecured debt to equity means bail-in. The bank's pension fund would be raided and pensioners would see the cash value of those assets converted to shares in the bank. Bondholders' assets and depositors' cash could also be converted, at least in part, to shares of stock in the failed institution. The vigilant will see signs of another approaching financial crisis. In the absence of a possible bailout, I suspect most won't stick around long enough to fund a bail-in. Let the bank runs begin!

And, if that happens, where would the money go? The markets? Millionaires and billionaires appear to be avoiding the markets. That's one reason they are hoarding cash. And with the volatility and murmurings of a bear market, what is the likelihood they'll pour their money back into stocks now?

Real Estate? Data suggests real estate is back in bubble territory and perhaps already beginning to weaken Bonds? Perhaps, but money is currently fleeing bonds.

Contrary to what you may hear in the mainstream, more and more investors are turning to gold and silver.

Foreign investors, foreign governments, and foreign central banks are rushing into metals. And perhaps ironically, our own JPMorgan has reportedly amassed huge physical gold reserves as well as what may be the largest private hoard of physical silver. Now we know why. Today, less than 1% of investable assets are held in gold and silver.

If we are entering a new era of bank runs and bail-ins, watch out! The run into physical precious metals could be quick and powerful. It's happened before—and in my humble opinion—it will happen again—ONLY BIGGER!



"If you don't own gold, there is no sensible reason other than you don't know history or you don't know the economics of it."

- RAY DALIO

"Gold remains a long-term position with a thesis that global fiscal and monetary policies remain very risky."

- DAVID EINHORN

Let's look at what a few all-star investors are saying about gold and how much they are buying.

Ray Dalio

Ray Dalio is the 30th richest person in the US according to Forbes, and the founder of Bridgewater Associates—the largest hedge fund in the world, managing over \$160 billion in assets. A bit of an investing prodigy, he began investing at age 12 by tripling his money with a well-timed \$300 investment in Northeast Airlines. Obviously, he has always had a knack for timing the market.

Today, his fund is bullish on gold and precious metals. Bridgewater Associates owns Goldcorp, Inc, Silver Wheaton Corp and Barrick Gold Corporation. He has criticized the Federal Reserve's handling of the monetary situation and the financial crisis and said that "gold should be part of everyone's portfolio to some degree because... it is the alternative money."

David Einhorn

David Einhorn is the president and founder of Greenlight Capital and a manager, along with his father and brother, of Einhorn & Associates. His understanding of the financial crisis runs deep. He famously shorted Lehman Brothers and Allied Capital at just the right time and made millions. He has criticized modern investment banking and the SEC.

He joins the chorus of billionaires who see the Federal Reserve's policies as highly inflationary, and has spoken at investment conferences about the important role of gold to deflect this.

Einhorn is worth approximately \$2 billion and gold remains one of the top 6 holdings in Greenlight Capital.

Robert Kiyosaki

Noted author of "Rich Dad, Poor Dad" says most people have a reasonable "Plan A" to get a good job, work



“So if you think America’s politicians and citizens are willing to make the changes necessary to strengthen the U.S. dollar, then don’t buy silver. But if you’re like me and don’t expect us, as a nation, to take our medicine, then short the dollar—and the way you short the currency is by going long on gold and silver.”

– ROBERT KIYOSAKI

“Start a Plan B, and Plan B means it’s time to ‘get real.’ I love gold, I love silver. ‘Get real’ means ‘What is tangible?’ What you can see, touch, feel and control. That’s what I suggest.”

– ROBERT KIYOSAKI

hard, invest in stocks and mutual funds and save for retirement, but all this is based on paper. It is based on trust in a bankrupt government. His Plan B is to “get real” and by that, he means investing in tangibles like gold and silver. He points out that much of retirement thinking in our middle aged and older generations of today was based on interest rates of around 7%. It used to be that you could comfortably retire on the returns of \$1 million in savings capital. Of course the math doesn’t work with interest rates of 0.5%.

Government money printing is also devaluing the dollar at a rapid pace, but they have to in order to pay the enormous bills. The government’s debt and deficit is swallowing the purchasing power of American citizens and it is the biggest rip off in history. That is why Robert Kiyosaki believes in saving gold and silver, never paper.

The Road to Victory

If there is one lesson we all should have learned by now, it is that money printing is not working. All that is being accomplished is the creation of a debt crisis so big it will make all other recessions, depressions, and economic collapses ever recorded in history look like just a bad

day at the nickel slots.

Through all of this, there remain clear winners. They are the Rocky Balboa’s of investing. When they win, it’s the greatest investment victory of all time. Those investments are gold and silver!

So let me ask, where do you think your money is best invested? In the increasingly nerve-racking and volatile stock market? A market bolstered by printed money and desperate corporate efforts to cut costs? Or, in gold and silver? Proven winners in good times and bad and currently trading at huge discounts to production costs. Remember the first rule of investing — buy low and sell high. Rest assured ...

- Gold and silver have never been somebody else’s debt;
- Neither gold nor silver has ever been convicted of fraud; and
- You can’t print either one of them!

If you don’t own gold or silver, now may be the time to do so as time may be running out. Zero-Proof your portfolio today with the investments that can never be worth zero, gold and silver!

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