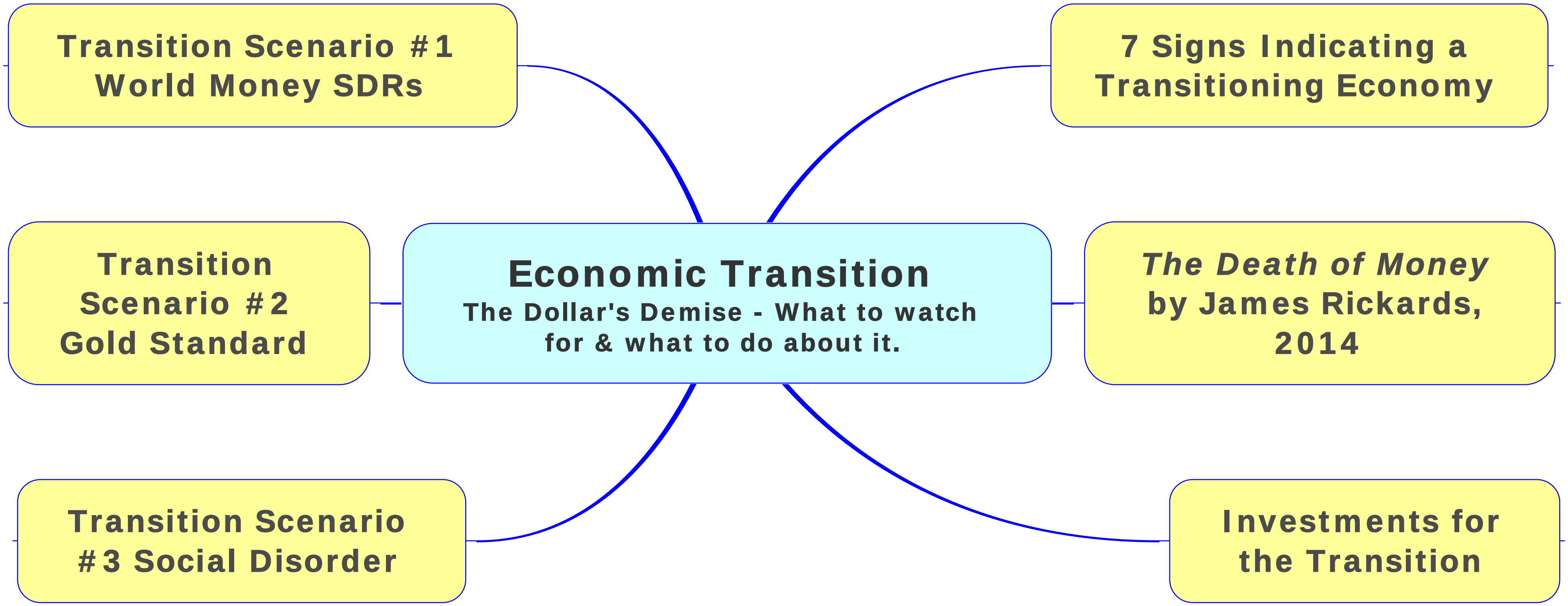
Transition Scenario #1 World Money SDRs
Transition Scenario #2 Gold Standard
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Economic Transition
The Dollar's Demise - What to watch for & what to do about it.
7 Signs Indicating a Transitioning Economy
The Death of Money by James Rickards, 2014
Investments for the Transition

Transition Scenario #1 World Money SDRs

Special Drawing Rights

- SDRs are supplementary foreign exchange reserve assets defined and maintained by the International Monetary Fund (IMF).
- SDRs are not a currency, but represent a claim to currency held by IMF member countries for which they may be exchanged.
- SDRs are allocated to countries by the IMF, private parties do not hold or use them.
- The value of the SDR is determined by the value of several currencies important to the world's trading and financial systems, specifically the U.S. dollar, the euro, the British pound and the Japanese yen. The basket is re-evaluated every five years, and the currencies included as well as the weights given to them can then change. A currency's importance is currently measured by the degree to which it is used as a foreign exchange reserve asset and the amount of exports sold in that currency. For the period of 2011-2015 the SDR will be comprised of 41.9% US Dollar, 37.4% Euro, 11.3% Pound Sterling and 9.4% Japanese Yen. A new basket mix is scheduled to be announced in December 2015 but a financial crisis could hasten the announcement.

An SDR Transition will be inflationary in dollar terms, not because of new dollar printing but because the dollar will be devalued against the SDR. From then on the U.S. economy will face severe structural adjustments as it finds it must earn its SDRs through competition in the global marketplace rather than through printing reserves at will. ***In this scenario, savings in the form of bank deposits , insurance policies, annuities, and retirement benefits will be largely wiped out.***

Trigger point (other than natural disaster or wide-scale war) - a financial panic in the next several years caused by derivatives exposure & bank interconnectedness is most likely. Since the Fed's balance sheet is already bloated, it will not be flexible enough to liquefy the interbank market.

World Reserve Currency - China avidly supports moving the world's reserve currency to SDRs rather than US Dollars. This process is already underway as the IMF has laid out a 10 year transition plan. However, in a crisis SDRs will be pressed into service to stabilize the system as was done in 1979 & 2009. China's acquiescence will be needed to use the SDR in this way, and in exchange for its approval, it will insist that SDRs be used not to save the dollar, as was done in the past, but to replace the dollar as the reserve currency.

Transition Scenario #2 Gold Standard

A return to some form of gold standard could arise from extreme inflation, where gold is needed to restore confidence, or extreme deflation, where gold is revalued by governments to raise the general price level.

The gold standard will certainly not be a matter of choice but may be pursued as a matter of necessity when confidence collapses. A first approximation of an equilibrium, non-deflationary gold price is $ 9,000 per ounce, although higher and lower values are feasible depending on the gold standard's design specifications.

The circulating currency will not be gold coins but rather dollars (if the United States takes the lead) or SDRs (if the IMF does).

Any movement toward gold dollars or gold SDRs will be inflationary because gold will have to be revalued sharply higher in order to support world trade and finance with existing stocks of gold. ***As with the paper-SDR scenario, inflation resulting from the devaluation of the dollar against gold will wipe out savings of all kinds.***

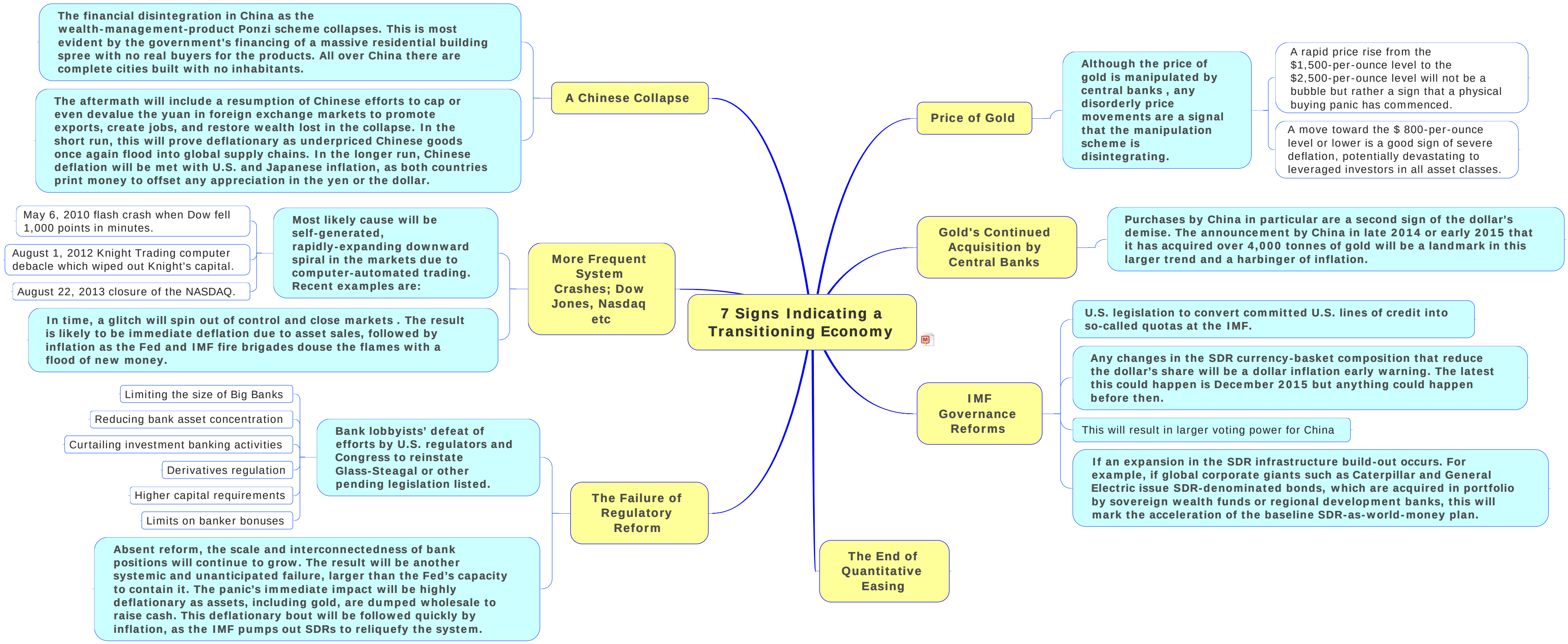
Transition Scenario #3 Social Disorder

The use of neo-fascist tactics to suppress political money riots would require no new legislation. The statutory authority has existed since the Trading with the Enemy Act of 1917, which was expanded and updated by the International Emergency Economic Powers Act (IEEPA) of 1977. President Franklin Roosevelt used the Trading with the Enemy Act to confiscate gold from American citizens in 1933. He did not specify who the “enemy” was; presumably it was those who owned gold. Every president since Jimmy Carter has used IEEPA to freeze and seize assets in U.S. banks. In more dire future circumstances, gold could be confiscated, bank accounts frozen, capital controls imposed, and exchanges closed. Wage and price controls could be used to suppress inflation, and modern digital surveillance could be used to disrupt black markets and incarcerate black marketers. ***The money riots would be squashed quickly. In the ontology of state power, order comes before liberty or justice.***

Disorder could arise in the aftermath of financial warfare or systemic collapse, when citizens realize their ***wealth has disappeared into a fog of hacking, manipulation, bail-ins, and confiscation.***

The official response to social disintegration will take the form of neofascism, the substitution of state power for liberty . This process is already well advanced in fairly calm times and will accelerate when violence erupts. As author Radley Balko has documented in Rise of the Warrior Cop, the state is well armed with SWAT teams, drones, armored personnel carriers, digital surveillance, tear gas, flash-bang grenades, and high-tech battering rams. Citizens will belatedly discover that every E-ZPass tollbooth in America can rapidly be converted into an interdiction point and that every traffic camera does double duty as a license plate scanner.

Today the distinction between Left and Right as the face of fascism is less important than the distinction between those who favor state power and those who support liberty.


7 Signs Indicating a Transitioning Economy
A Chinese Collapse
The financial disintegration in China as the wealth-management-product Ponzi scheme collapses. This is most evident by the government's financing of a massive residential building spree with no real buyers for the products. All over China there are complete cities built with no inhabitants.
The aftermath will include a resumption of Chinese efforts to cap or even devalue the yuan in foreign exchange markets to promote exports, create jobs, and restore wealth lost in the collapse. In the short run, this will prove deflationary as underpriced Chinese goods once again flood into global supply chains. In the longer run, Chinese deflation will be met with U.S. and Japanese inflation, as both countries print money to offset any appreciation in the yen or the dollar.
More Frequent System Crashes; Dow Jones, Nasdaq etc
Most likely cause will be self-generated, rapidly-expanding downward spiral in the markets due to computer-automated trading. Recent examples are:
May 6, 2010 flash crash when Dow fell 1,000 points in minutes.
August 1, 2012 Knight Trading computer debacle which wiped out Knight's capital.
August 22, 2013 closure of the NASDAQ.
In time, a glitch will spin out of control and close markets . The result is likely to be immediate deflation due to asset sales, followed by inflation as the Fed and IMF fire brigades douse the flames with a flood of new money.
The Failure of Regulatory Reform
Bank lobbyists' defeat of efforts by U.S. regulators and Congress to reinstate Glass-Steagal or other pending legislation listed.
Limiting the size of Big Banks
Reducing bank asset concentration
Curtailing investment banking activities
Derivatives regulation
Higher capital requirements
Limits on banker bonuses
Absent reform, the scale and interconnectedness of bank positions will continue to grow. The result will be another systemic and unanticipated failure, larger than the Fed's capacity to contain it. The panic's immediate impact will be highly deflationary as assets, including gold, are dumped wholesale to raise cash. This deflationary bout will be followed quickly by inflation, as the IMF pumps out SDRs to reliquefy the system.
Price of Gold
Although the price of gold is manipulated by central banks , any disorderly price movements are a signal that the manipulation scheme is disintegrating.
A rapid price rise from the $1,500-per-ounce level to the $2,500-per-ounce level will not be a bubble but rather a sign that a physical buying panic has commenced.
A move toward the $ 800-per-ounce level or lower is a good sign of severe deflation, potentially devastating to leveraged investors in all asset classes.
Gold's Continued Acquisition by Central Banks
Purchases by China in particular are a second sign of the dollar's demise. The announcement by China in late 2014 or early 2015 that it has acquired over 4,000 tonnes of gold will be a landmark in this larger trend and a harbinger of inflation.
IMF Governance Reforms
U.S. legislation to convert committed U.S. lines of credit into so-called quotas at the IMF.
Any changes in the SDR currency-basket composition that reduce the dollar's share will be a dollar inflation early warning. The latest this could happen is December 2015 but anything could happen before then.
This will result in larger voting power for China
If an expansion in the SDR infrastructure build-out occurs. For example, if global corporate giants such as Caterpillar and General Electric issue SDR-denominated bonds, which are acquired in portfolio by sovereign wealth funds or regional development banks, this will mark the acceleration of the baseline SDR-as-world-money plan.
The End of Quantitative Easing

Investments for the Transition

- **Transition Portfolio Monitoring**
  - Subtopic
- **Transition Portfolio Percentages**
  - Gold - 20%
  - Land - 20%
  - Fine Art - 10%
  - Alternative Funds - 20%
  - Cash - 30%
- **Cash**
  - This seems a surprising choice in a world threatened with runaway inflation and crashing currencies. But cash has a place, at least for the time being, because it gives the holder an ability to pivot into other investments on a moment's notice.
  - Cash may not be the best investment after a calamity, but it can serve the investor well until the calamity emerges. The challenge, of course, is being attentive to the indications and warnings and making a timely transition to one of the alternatives already mentioned.
  - ***Investors searching for an ideal cash currency could consider the Singapore dollar, the Canadian dollar, the U.S. dollar, and the euro.***
- **Alternative Funds**
  - Hedge Funds with strategies robust towards inflation, deflation, and disorder include long-short equity, global macro, and hard-asset strategies that target natural resources, precious metals, water, or energy.
  - Private Equity Funds whose strategies likewise involve hard assets, energy, transportation, and natural resources.
  - Hedge funds and private equity funds offer various degrees of liquidity, although certain funds may offer no liquidity for five to seven years. Manager selection is critical and is much easier said than done. On balance, these funds should find their place in a portfolio because the benefits of diversification and talented management outweigh the lack of liquidity.
  - Avoid funds relying on financial stocks, emerging markets, sovereign debt, and credit instruments since they carry undue risk on the paths that lie ahead.
- **The following assets have a proven ability to perform well in inflation and deflation and have stood the test of time in periods of social disorder from the Thirty Years' War to the Third Reich.**
- **Gold**
  - An allocation of 10-20% of investable assets taken in the form as coins or bullion. No paper gold contracts. You need to have the real thing in your possession.
  - Secure logistics, easily accessed by the investor, should be considered, but bank storage should be avoided, because gold stored in banks will not be accessible when most needed.
  - An allocation above 20 percent is not recommended because gold is highly volatile and subject to manipulation.
  - ***A useful way to think about gold's insurance function is that a 500 percent return on 20 percent of a portfolio provides a 100 percent portfolio hedge*** . That is, if your investable portfolio is $100,000 and 20% of it is in gold and if gold where to go up 500%, then even if the other 80% of your investment portfolio is $0 your total after-transition portfolio will still be the original $100,000. The current price of gold is around $1,300 per oz. A 500% increase would yield a price per oz of $7,500. Compared to the equilibrium estimate of $9,000 per oz, this seems quite possible.
- **Land**
  - This investment includes undeveloped land in prime locations or land with agricultural potential, ***but it does not include land with structures*** .
  - Land will perform well in an inflationary environment until nominal interest rates exceed inflation. Land's nominal value may decline in deflation, but development costs decline more rapidly. This means that the land can be developed cheaply at the bottom of a deflationary phase and provide large returns in the inflation that is likely to follow. The Empire State Building and Rockefeller Center, both in New York City, were built during the Great Depression and benefited from low labor and material costs at the time. Both projects have proved excellent investments ever since.
- **Fine Art**
  - This includes museum-quality paintings and drawings but not the broader range of collectibles such as automobiles, wine, or memorabilia.
  - Fine art offers gold's return profile in both inflation and deflation, without being subject to the manipulation that affects gold. Central banks are not concerned with disorderly price increases in the art market and do not intervene to stop them.
  - High-quality art can be acquired through pooled investment vehicles that offer superb returns, although such vehicles lack the liquidity and portability of outright art ownership.