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STOCK MARKET VOLITILITY

ECONOMIC WAR ROOM-MARKET STATUS: While the economy is going strong, earnings are good, tax cuts and deregulation are net positives. Still, a bear market follows every bull market. Lately, markets have been nervous. Some fear that Index Investing, while successful in an up-market, might prove dangerous in a down market. Economic freedom drives U.S. National Security as well as personal freedom, so it is time for America and you to develop your Financial Game Plan.



BEWARE OF THE MINSKY MOMENT

A sudden major collapse of asset values that is part of the credit cycle or business cycle. Such moments occur because long periods of prosperity and increasing value of investments lead to increasing speculation using borrowed money. When you are extra comfortable you, take excess risk. (source: Wikipedia)

YOUR MISSION - To have a defensive financial plan (GAME PLAN) developed in advance of a major market shift with your financial advisor. (Note: We cannot give specific investing advice. This is to provide general information you can take to your advisor and together you can devise the right plan for you.)

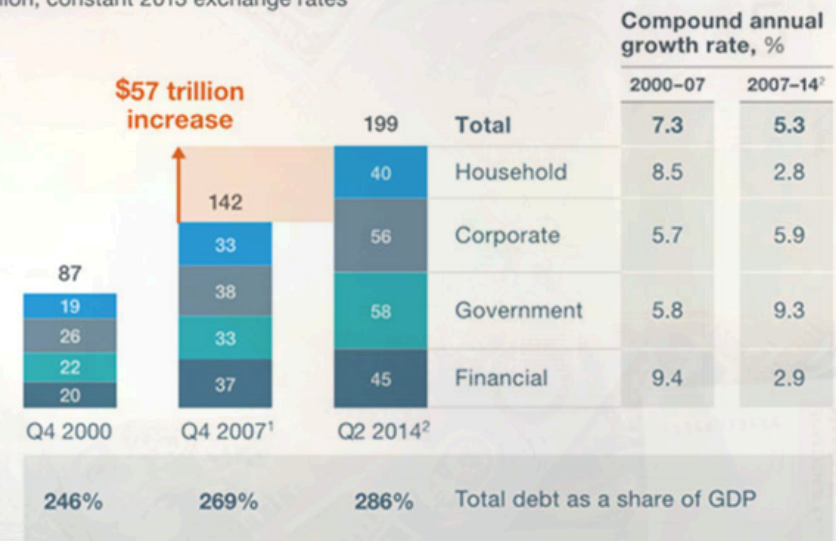


(OSINT)- Open Sourced Intelligence Briefing

Conversations with John Mauldin, David Tice, and Kevin Freeman

- A. Bear markets come from interest rate hikes and recessions**
- B. Corporate Debt, National Debt, and as interest burdens go up - We are a leveraged economy and cannot afford higher rates.**
- C. Globally there are \$500 trillion in government debt obligations and pensions. These promises are not sustainable - The truth is, not all these liabilities can be paid. Probably more of an issue in the 2020's.**
- D. Stability builds instability, we have had stability for 10 years - A potential random trigger could cause instability: cyber event, trade war, Italy or other Geo-political event could cause market turmoil. Wherever the first recession hits, it then becomes a global issue.**

Global stock of debt outstanding, \$ trillion, constant 2013 exchange rates



¹Figures do not sum to total, because of rounding.

²Q2 2014 data for advanced economies and China; Q4 2013 data for other developing countries.

Source: Bank for International Settlements; Haver Analytics; International Monetary Fund *World Economic Outlook*; national sources; McKinsey Global Institute analysis

Chart courtesy of Mauldin Economics

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- E. Next bear market may be worse than others** - A large number of index funds multiplies the risk in bear market. Index investing, while it can be good if risks are understood and addressed, adds complexities in a bad market.
- F. Beware of a melt up** - As speculation gets extreme, markets often spike up and then collapse. Beware of institutions hyping markets as they cash out to retail investors.
- G. No one can regularly predict with precision the start of a bull or bear market** - If you are in a bull market, you should plan for a bear market and vice versa.
- H. Markets can go down, even when the economy is good** - With strong fundamentals in the economy, stocks could still be overvalued. Stock markets that go down without a declining economy, however, often have "V-shaped" recoveries.

**"Buy when others are despondently selling,
and sell when others are greedily buying."**

- Sir John Templeton

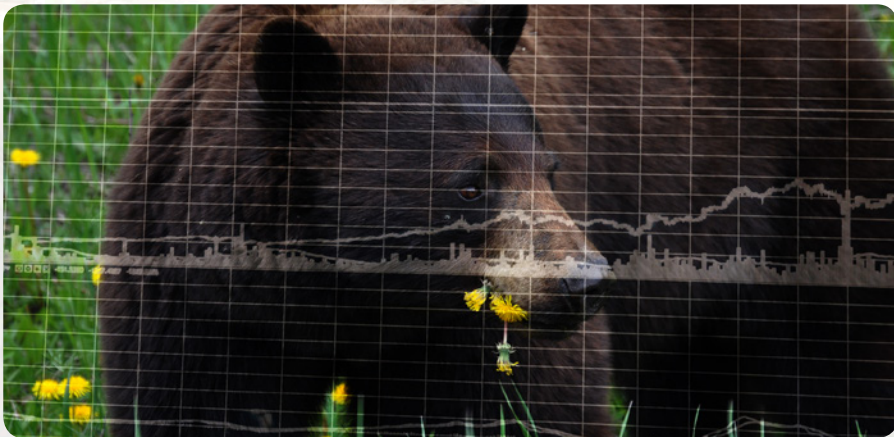


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Why you should care?

1. It's your money, if you are over 55, it is harder to make up losses for retirement. The worst way to start retirement is with a bear market.
2. If you have money, it is OK to hit some singles, or to be out of the market as you reach toward your financial goals.
3. Time spent planning with your advisor now, could yield better gains or help minimize losses.



INVESTMENT IDEAS IN A BEAR MARKET:

GOOD NEWS: You can diversify risk by diversifying your approach and your trading strategies. Eventually all assets will get hit (nothing goes up forever), but there are ways to hedge the risk by shorting stock, using put options, or just holding extra cash. There are things you can do now verses just living through a potential 30 to 40 percent drop. Not everything goes down in a true bear market although most assets will go down. Looking in different markets (overseas) can help.



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There are 3 key Investment Rules to Remember:


1. If you anticipate a bear market, hedge your portfolio
2. A Current Bull market will be followed by a bear market - Have a Game Plan
3. Diversify Trading Strategies and Look for Opportunity


1.If you anticipate a potential bear market, hedge your portfolio.

Key Thoughts:

-  In every big gain year, set aside 4 to 5% of your portfolio to hold in cash as a hedge. Then, put it to work in big down years.

-  Ask your advisor if you should buy Put protection when the VIX Volatility Index is low. [Your advisor can help you decide if this is right for you and if your portfolio will allow it.] These puts can be purchased on indexes or individual stocks.

-  Keep a rolling hedge, in case of "black swan" event, and watch for interest rate inversion. [A "black swan" is a rare event that comes as a surprise.]

-  Sometimes, simply holding cash is the best hedge.



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VIX Defined - The CBOE Volatility Index, (Sometimes referred to as the fear index) is a popular measure of stock markets expectation of volatility implied by S&P 500 index options, calculated and published by the Chicago Board Options Exchange (CBOE). Source: Wikipedia

2. A Current Bull Market will be followed by a bear market- Have a Game Plan worked out with your advisor now.

Key Thoughts:

- 🔑 With every bear market there are investment opportunities.
- 🔑 Cash is an option on the future. If you are wealthy and see risk, holding cash is OK. Not always true that as market goes up you have to participate.

- 🔑 You do not have to play for home runs, go with singles.
- 🔑 Do not participate heavily unless you have a hedge.
- 🔑 Have stop losses in place, when market crashes people freeze, have internal war room and game plan with your financial advisor so you know what you will do in various scenarios.
- 🔑 Everyone's circumstances are different, 97% of investors/savers should have a financial advisor to guide them through the process.









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3. Diversify Trading Strategies and Look for Opportunity

Key Thoughts from John Mauldin and David Tice (check with your advisor to see if any of this makes sense for your portfolio):

-  There will be great opportunities to make money ahead. Global market **diversification** is one way to benefit.
-  **Biotech** is especially attractive to Tice and Mauldin. But you must be selective and there are serious risks to accompany the potential rewards.
-  In frontier markets, some see growth in **Vietnam** as manufacturing shifts from China.
-  **Japan** NIKKEI is doing well for the first time in decades.
-  Potentially **banks** look attractive with rising interest rates and Trump providing modest regulatory relief.

 **China** might be undervalued but would require some resolution of current trade/economic war. As their market declines, the potential for gains with resolution of friction increases.

 **Gold** - If there were to be a major collapse gold should be at least some part of a portfolio. **Think of it as more of insurance than an investment.** Look at global debt that historically has been handled by money printing, making currencies more volatile. Gold is a currency you cannot print. In a crisis, gold seems a good risk/reward bet. Ultimately, every fiat currency eventually loses value.

 **Cash** is an option in the future if you roll out of equities.

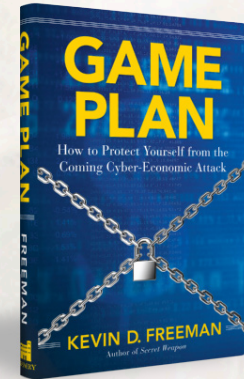


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Economic Patriot Action Plan:

1. Develop your financial Game Plan with your advisors now.
2. A bear market coming, look for opportunities to be hedged.
3. Consider with your advisor whether buying put options on indexes and individual stocks makes sense for you.
4. Diversify, but also look for investments that help strengthen America.
5. China is an opportunity, but could be a threat to America.



For more about how to prepare for uncertain markets check out NY Times Best Selling author Kevin Freeman's "Game Plan".

[GET YOUR COPY NOW!](#)

***Thank you for accepting this mission.
Together, we will make a difference!***

SHAREABLE FACT: John Templeton began his investment career in the Great Depression. In 1939, as war broke out in Europe, he bought 100 shares of every stock selling for \$1 or less (104 companies total) regardless of whether the company was in bankruptcy or not. Thirty-four companies went bust. In total, he invested about \$10,000 as the markets were panicked. Four years later he sold for around \$40,000.

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Sir John Templeton

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John Mauldin

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Explanations of Hedging Investment Portfolios

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