

PREPARING FOR AND NAVIGATING A FINANCIAL CRISIS



BY FULTON SHEEN

GOALS

- To provide you with a basic understanding and framework to apply these economic principles in a logical and methodical manner to your situation.
- To provide you with a means to navigate through a financial crisis, yet each of you will need to go deeper to establish your own plan of action.
- The purpose of almost any kind of training, especially disaster preparation, is to enable you **to respond and not react** to the events going on around you

When & How Will It Happen?

- Jesus spends all of Matthew 24 & 25 laying out the signs of When and How it will happen.
- Matt 24:32 *“Now learn this lesson from the fig tree: As soon as its twigs get tender and its leaves come out, you know that summer is near.”*
- Luke 17:27-28 Like in Noah’s day, “People are eating, drinking, marrying.... buying, selling, planting, building...”

Matt 24:36-51

- No one knows - Be watchful - Be ready!
- Matt 24:36 “No one knows the day & hour...
- Matt 24:42 “Keep watch...
- Matt 24:44 “You must be ready...

End Time Parables

- **Parable of the Ten Virgins - Matt 25:1-13**
- **Parable of the Talents – Matt 25:14-30**

THE WORLD TODAY

Matt 24: 4-23

- Many will come claiming...
- You will hear of wars & rumors of war
- There will be famines, earthquakes..., birth pains
- Such things will happen but the end is still to come
- Wickedness will increase
- Believers will be hated and betrayed
- Many will be deceived – Most hearts will grow cold

CONSPIRACIES

Isaiah 8:12-13

"Do not call conspiracy everything that these people call conspiracy, do not fear what they fear and do not dread it. The Lord Almighty is the one you are to regard as holy and he is the one you are to fear, he is the one you are to dread."

- Do not be motivated by fear
- Don't worry about what "THEY" are doing
- Don't be deceived and don't be preyed upon
- Pray for discernment on the input you receive
- Be careful of false prophets, both secular and spiritual

THE STATE OF THE WORLD TODAY

Jeremiah 8:11-23

- “Peace, peace,” they say, when there is no peace.
- “I will take away their harvest; what I have given them will be taken from them.”

Jeremiah 9:3-9

- “⁶ You live in the midst of deception; in their deceit they refuse to acknowledge me.”
- “What else can I do because of the sin of my people?”
- “Should I not punish them for this?” declares the Lord. “Should I not avenge myself on such a nation as this?”

SNAPSHOT OF THE WORLD ECONOMY

- The IMF downgraded global growth to the lowest rate since the 2008 financial crisis and is warning that those countries could face a wave of corporate defaults..”
- On Oct 5th the IMF said, Gross debt in the non-financial sector has more than doubled in nominal terms since the turn of the century, reaching \$152 trillion last year and it’s still rising, in addition, current debt levels now sit at a record 225 percent of world gross domestic product.
- Central banks are continuing to intervene, but those interventions are creating an artificial environment which can’t be sustained without continued stimulus.
- Negative interest rates and negative coupon rates on sovereign debt are uncharted ground which are creating uncertainties and concerns.
- The Brexit vote shook the EU and global markets and almost all the EU leaders are up for election and more exit referendums are on the way

GLOBAL MARKETS

- The Stoxx Europe 600 Index is performing below expectations and EU growth rates are hovering around zero
- Greece's ASE Index slid to its lowest point since 1989
- After going negative in 2016, the Nikkei Stock Average had one of its poorest performances since Oct of 2008. Also the yen kept going up, opposite of expectations
- The Chinese economy is trying to deal with debt and stemming Capital out flows
- Russian markets had a great year, the ruble rebounded & it looks like US sanctions will be ended
- India was having a great year until PM Modi tried to eliminate cash

CENTRAL BANKS

- The Russian Central Bank has broke free from the stimulus addiction in 2016
- The ECB is continuing to print 65T euros per month, but the EU has a shortage of short-maturity and their repo markets are dysfunctional, because the ECB bought so many bonds with their QE program
- The BOJ has the same problem but worse, both the ECB & BOJ are becoming primary share holders
- The Venezuelan Central bank is printing non-stop with a 1,334% annual inflation rate
- India CB surprised markets by leaving rates unchanged signaling a shift from accommodative to a neutral stance

US MARKETS

- The Dow broke 20,000 for the first time and markets are looking expectantly to the Trump Administration initiatives: lowering the US corporate tax, reducing regulations, rewriting Dodd/Frank & other measures
- Business Insider reported that “retailers are heading into 2017 with a glut of store space as shopping continues to shift online. Macy's is closing 100 stores, Sears at least 30 Sears and Kmart stores by April, CVS 70 locations. Mall stores Aeropostale, American Eagle, Chicos, Finish Line, Men's Wearhouse have already filed for bankruptcy
- Unemployment is down at 4.6%, but the under-employed list of those who are 18-62 is at 1.4 million... worst since 1978
- High Inventories, a drop in restaurant attendance and job growth for large companies are pre-recessionary signs

WORST RECOVERY FROM A RECESSION SINCE 1965

FRED

— Average Hourly Earnings of Production and Nonsupervisory Employees: Total Private



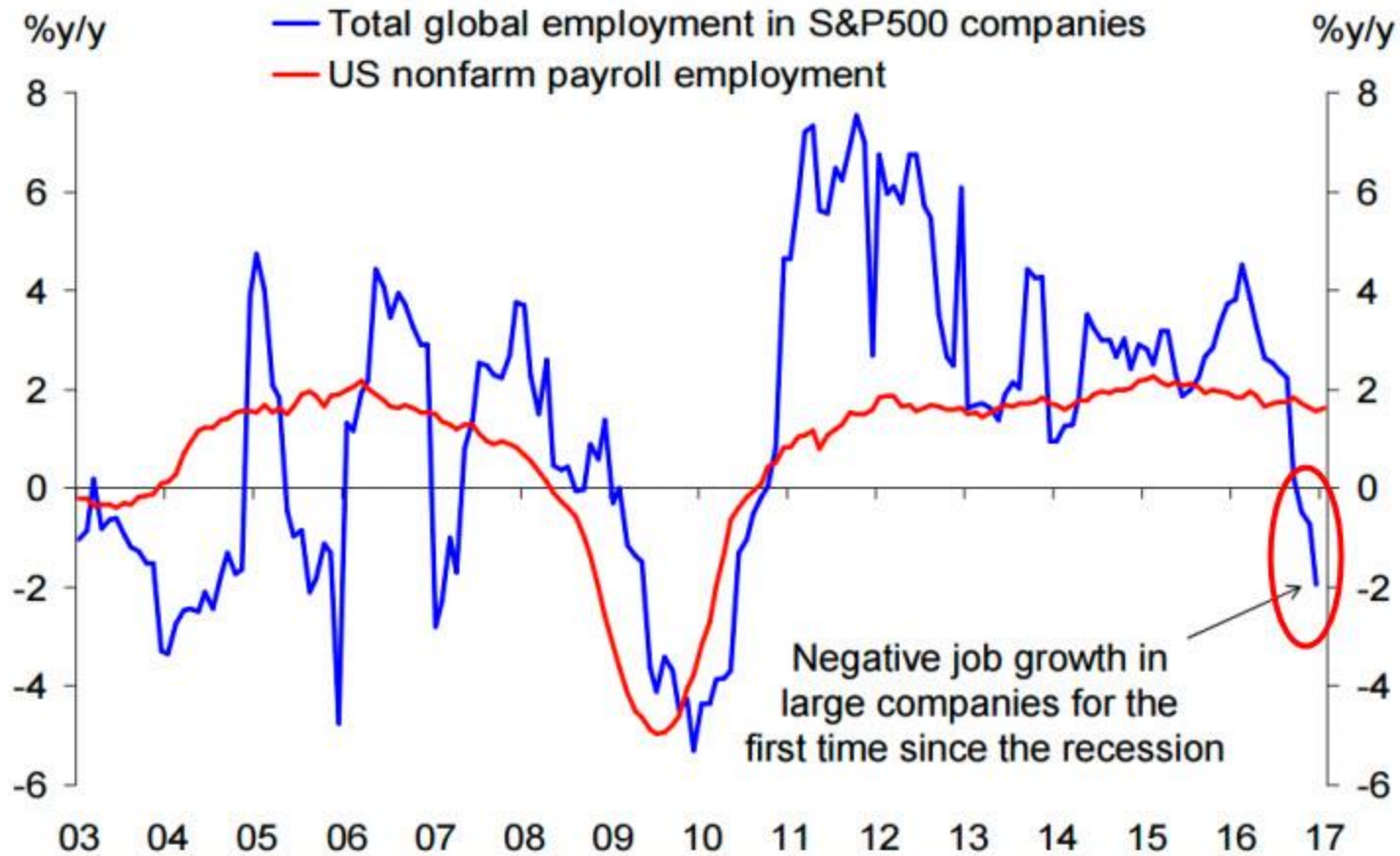
Shaded areas indicate U.S. recessions

Source: U.S. Bureau of Labor Statistics

fred.stlouisfed.org

NEGATIVE JOB GROWTH FOR LARGE COMPANIES

Significant decline in employment growth in S&P500 companies in recent months



Source: Bloomberg Finance LP, BLS, DB Global Markets Research

VEHICLE INVENTORIES RISING FAST



US FEDERAL RESERVE

- In Dec 2015 the Fed finally raised interest rates a quarter point & promised 4 more hikes in 2016. In Dec of 2016 they raised rates .25 points and made the same prediction for 2017...
- However at the end of Jan they left interest rates unchanged while acknowledging rising confidence among consumers and businesses following Donald Trump's election victory.
- Last year Chairwoman Yellen said the Fed wouldn't rule out using negative interest rates to boost the economy and the VC thinks its working well in the rest of the world
- A year ago the Fed reported the US banking system was unsound & Bloomberg reported .5 million bank jobs have vanished since 2008
- In 1985, there were over 18,000 banks in the United States. As of the end of 2015, there were only 4,441 left.

US DEBT

- In 1981 US debt was \$900B & 30% of our GDP, today its \$20T and 104% of our GDP
- Every year the FBO issues a financial report to the public, this year it's a net loss of \$1T and this was a normal year...
- After adding up all of its assets (like tanks, aircraft carriers, government buildings, parks etc.) and subtracting liabilities (the national debt), the government's "net worth" was MINUS \$19.3 trillion, and that number doesn't include unfunded Social Security entitlements, which the government estimates is another \$42 trillion
- The US federal government is insolvent, plain and simple. This isn't some wild conspiracy theory. It is a statement of fact based on publicly available data published by the US government itself.
- [https://www.fiscal.treasury.gov/fsreports/rpt/finrep/fr/16frusg/01112017FR_\(Final\).pdf?inf_contact_key=93bd2f6d0bc138ff6e8126e02d3bbb28cdb6d953df61746a5c9a90a8e7da926d](https://www.fiscal.treasury.gov/fsreports/rpt/finrep/fr/16frusg/01112017FR_(Final).pdf?inf_contact_key=93bd2f6d0bc138ff6e8126e02d3bbb28cdb6d953df61746a5c9a90a8e7da926d)

US Govt Reports that Social Security Medicare & Social Security Disability are Not Solvent



JAPAN

- The Japanese Central Bank continues to print 200B Yen per month for the fourth year in a row
- Last Aug at Jackson Hole meetings, BOJ Chair Kuroda said he would not hesitate to boost monetary stimulus, which could mean going further negative
- The problem is that they ran out of govt bonds and had to buy corporate bonds and then ETFs...
- In the first week of February Bloomberg discussed the most important thing the BOJ needs to do is to keep the value of the Yen down in 2017
- Their debt maintenance is 400% of their GDP

EUROPEAN UNION

- The ECB extended its -.4% interest rate & their euro printing in place for 2017 until after EU elections
- EU nations citizens will continue to lose .4% on their deposits
- Many of these nations are issuing negative coupon rates on their sovereign bonds, meaning these bonds are guaranteed to lose money
- EU Banks are sitting on over 1 trillion of bad debt and Deutsche Bank & other EU banks are borderline insolvent
- EU markets are treading water & their growth rate is basically zero
- EU leaders are up for elections & there are more referendums to exit like the UK

NEGATIVE INTEREST RATES & YIELDS

Point of No Return

Government bonds across Europe increasingly trade at negative yields, indicating buyers who hold the debt to maturity will get back less than they paid.

Yields on benchmark sovereign bonds by maturity, annual percentage*

	Maturity, in months				Maturity, in years								
	ONE	THREE	SIX	NINE	ONE	TWO	THREE	FOUR	FIVE	SIX	SEVEN	10	30
Germany	-0.401%	-0.345%	-0.289%	-0.374%	-0.300%	-0.263%	-0.224%	-0.165%	-0.099%	-0.063%	-0.007%	0.164%	0.553%
Finland						-0.212%	-0.142%	-0.085%	-0.024%	0.010%		0.268%	0.597%
Netherlands	-0.212%	-0.226%	-0.246%			-0.187%	-0.152%	-0.074%	-0.033%	0.034%	0.101%	0.296%	0.680%
Austria					-0.210%	-0.190%	-0.165%	-0.102%	-0.041%	-0.012%	0.044%	0.258%	0.710%
Belgium	-0.166%	-0.191%	-0.190%	-0.203%	-0.195%	-0.186%	-0.148%	-0.079%	-0.011%	0.059%	0.157%	0.401%	0.986%
France	-0.188%	-0.189%	-0.187%	-0.191%	-0.188%	-0.174%	-0.133%	-0.065%	0.029%	0.070%	0.142%	0.404%	1.025%
Ireland					-0.075%	-0.100%	-0.057%		0.207%		0.415%	0.750%	1.413%
Spain	-0.026%	-0.020%	0.019%	0.034%	-0.116%	0.072%	0.162%	0.432%	0.584%	0.819%	0.950%	1.387%	2.278%
Italy	0.000%	-0.003%	0.008%	0.022%	0.032%	0.182%	0.255%	0.417%	0.614%	0.877%	0.995%	1.402%	2.306%
Portugal		0.006%	0.014%		0.027%	0.076%	0.346%	0.684%	0.940%	1.180%		2.006%	2.846%
Greece	8.815%	3.675%	3.450%		26.623%				18.719%			12.539%	9.463%

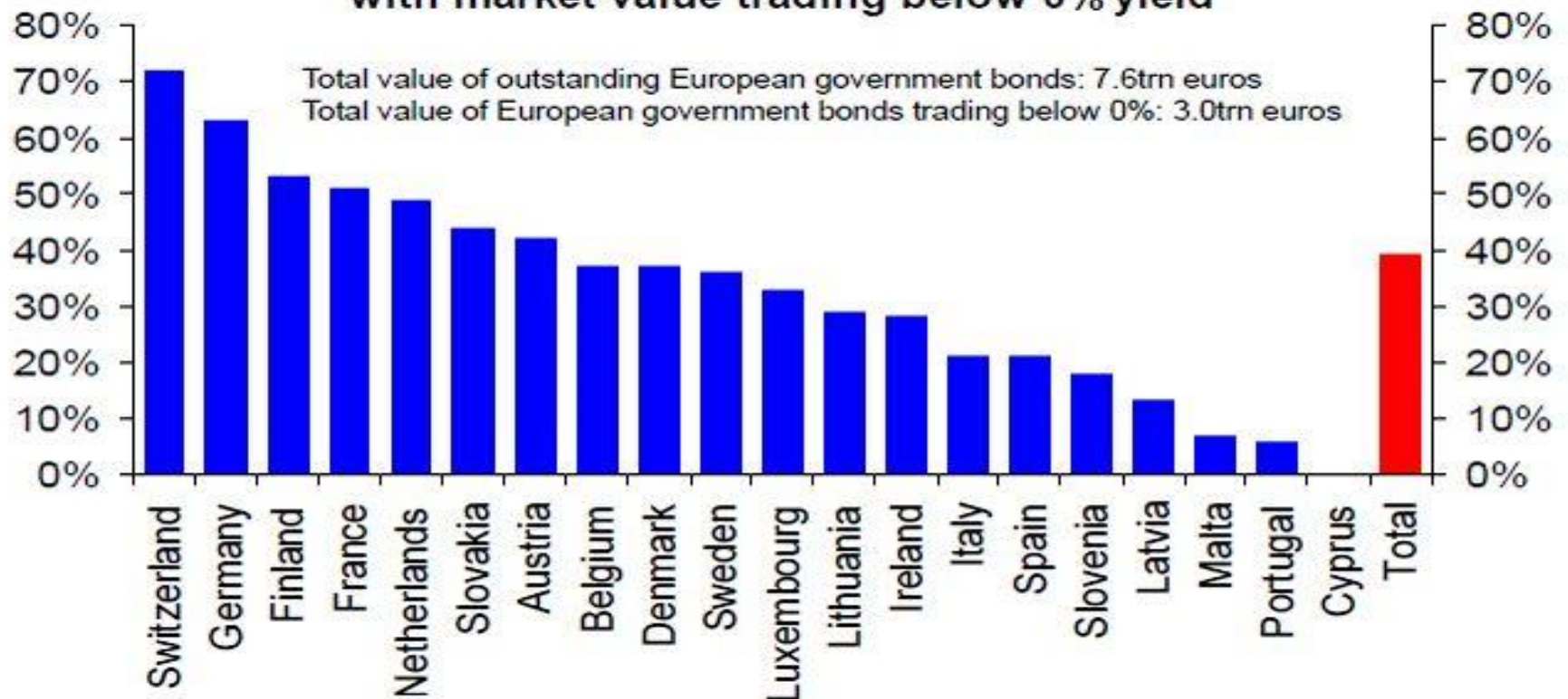
*Midyields as of April 22; countries don't necessarily have benchmark bonds of every maturity Source: Thomson Reuters

NEGATIVE INTEREST EU BONDS

Negative interest rates on 40% of outstanding European government bonds

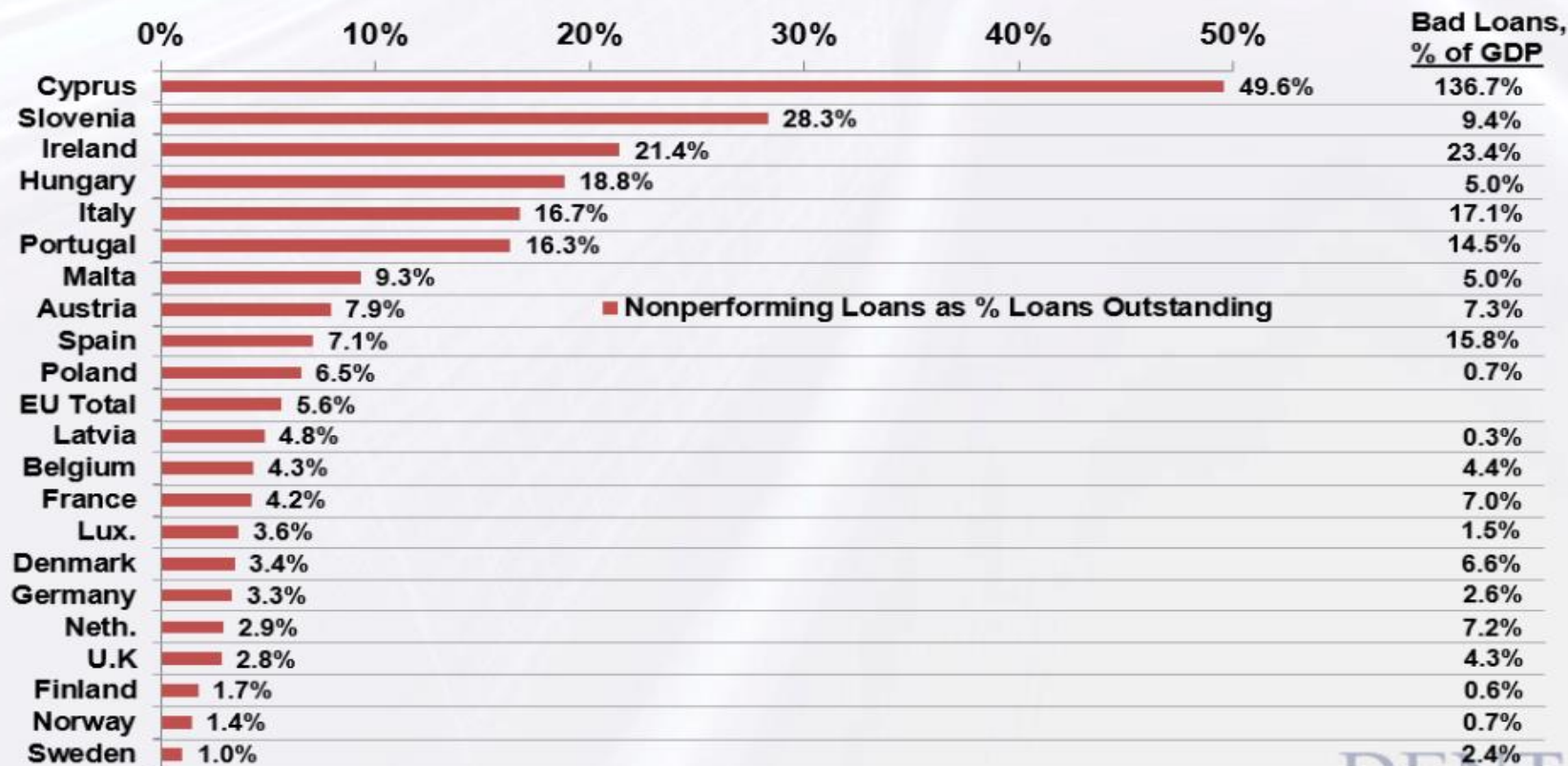


Percentage of marketable government bonds with market value trading below 0% yield



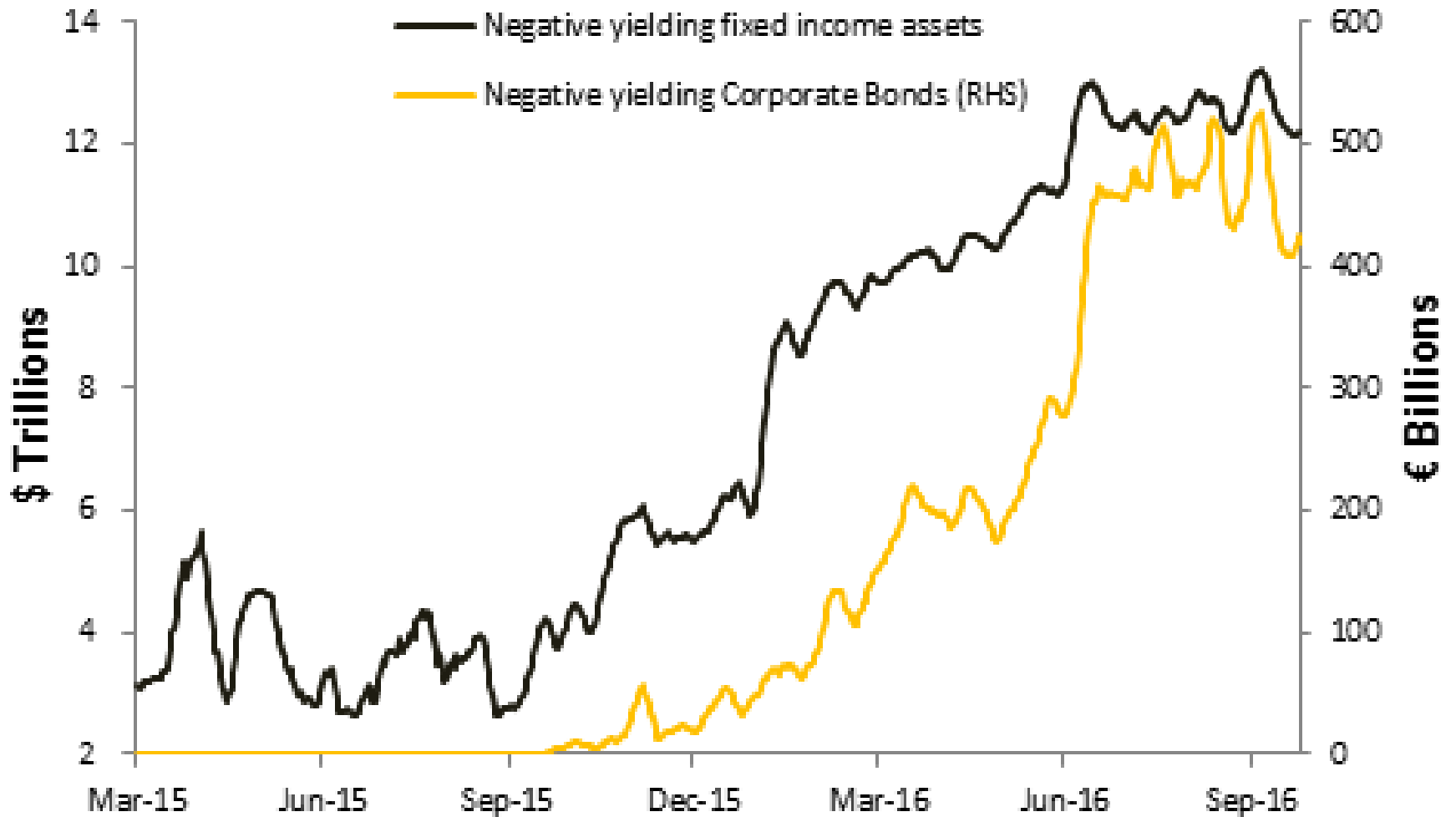
EU BANKS HAVE TOO MANY NON-PERFORMING LOANS OUTSTANDING

Europe Can't Shake Its Bad Loans



DENT
RESEARCH

NEGATIVE YIELDING BONDS INCREASING



IS THE EU A SINKING SHIP?



THE EUROPEAN DIS-UNION

- The EU's massive bureaucracy and overbearing policies on immigration, excessive regulation, bad financial decisions and other policies caused the UK exit and other EU nations to question their membership
- Sweden & Iceland voted to rescind their memberships and more referendums are being talked about
- Dutch PM said, "The whole idea of an ever-closer Europe has gone, it's buried," and dismissing calls for full political union as a dangerous romantic fantasy. "The fastest way to dismantle the EU is to continue talking about a step-by-step move towards some sort of super state."
- The EU wants to make an example of the UK, but if May does a hard Brexit they in effect ignore the EU...

EVEN EU OFFICIALS QUESTION CONTINUED EXISTENCE

The London Telegraph reported, *“the eurozone must break up if its members are to thrive again,”* according to a former European Central Bank official Jürgen Stark, who served on the ECB’s executive board during the financial crisis. *“As long as the ECB gives a signal in its operations to governments that ‘we are the backstop’ and ‘we will prevent country ‘a’ or country ‘b’ from becoming insolvent’ - there will be no structural reforms,”* he said.

UNITED KINGDOM

- UK citizens voted to exit the EU & Cameron resigned and Theresa May became prime minister
- There was an attempt to negotiate but the UK & EU couldn't get past square one, immigration
- The UK has decided to a hard Brexit and will trigger Article 50 in March
- The dire predictions did not come true and the British economy is expanding and exceeded expectations
- PM May has met with the US, Japan, China and others teeing up trade deals to be announced after the exit

FRANCE

- The French economy is set to grow only 0.2% in the fourth quarter from the previous quarter, instead of 0.4%
- Unemployment continues to rise, reaching an 18-year high of 10.6% last year and finishing up at 9.6% for 2016
- No growth & terrorist acts have taken their toll on the French economy as tourism is down, manufacturing is down, and the only thing rising is unemployment and their national debt
- French presidential candidate Marine Le Pen said she would take France out of the euro if elected and is currently leading in the polls

ITALY

- Italian unemployment remains high at 11.8% its debt is 136% of gross domestic product; they have massive amounts of non-performing loans which could put them in a worse position than Spain if they do not improve soon
- Italy's Finance Minister Carlo Pier Padoan has repeatedly blamed the EU authorities for pushing Italy into a banking crisis that could easily have been avoided. "The problem with Europe, is Europe."
- PM Renzi resigned in December after his referendum failed
- Another euro exit is in play where the Five Star Movement -- which is running close to the leading Democrat Party in polls -- favors a referendum on membership

SPAIN

- Premier Mariano Rajoy lost his absolute majority, which slipped from 44% to 29%. The Podemos party won 20.7% and threatens to overturn the government's bank bail-out and to restructure financial debt
- Spain's unemployment rate is 21.6% and has already seen a “dramatic deterioration” in the underlying public finances over the last eighteen months. Public debt has jumped to 100% of GDP and is nearing the safe limit for a country in a currency union with no sovereign central bank
- The IMF says Italy has, “Deep structural problems remain and vulnerabilities persist,”
- Germany wants to raise interest rates, but Spain with over 20% of its work force idle does not.

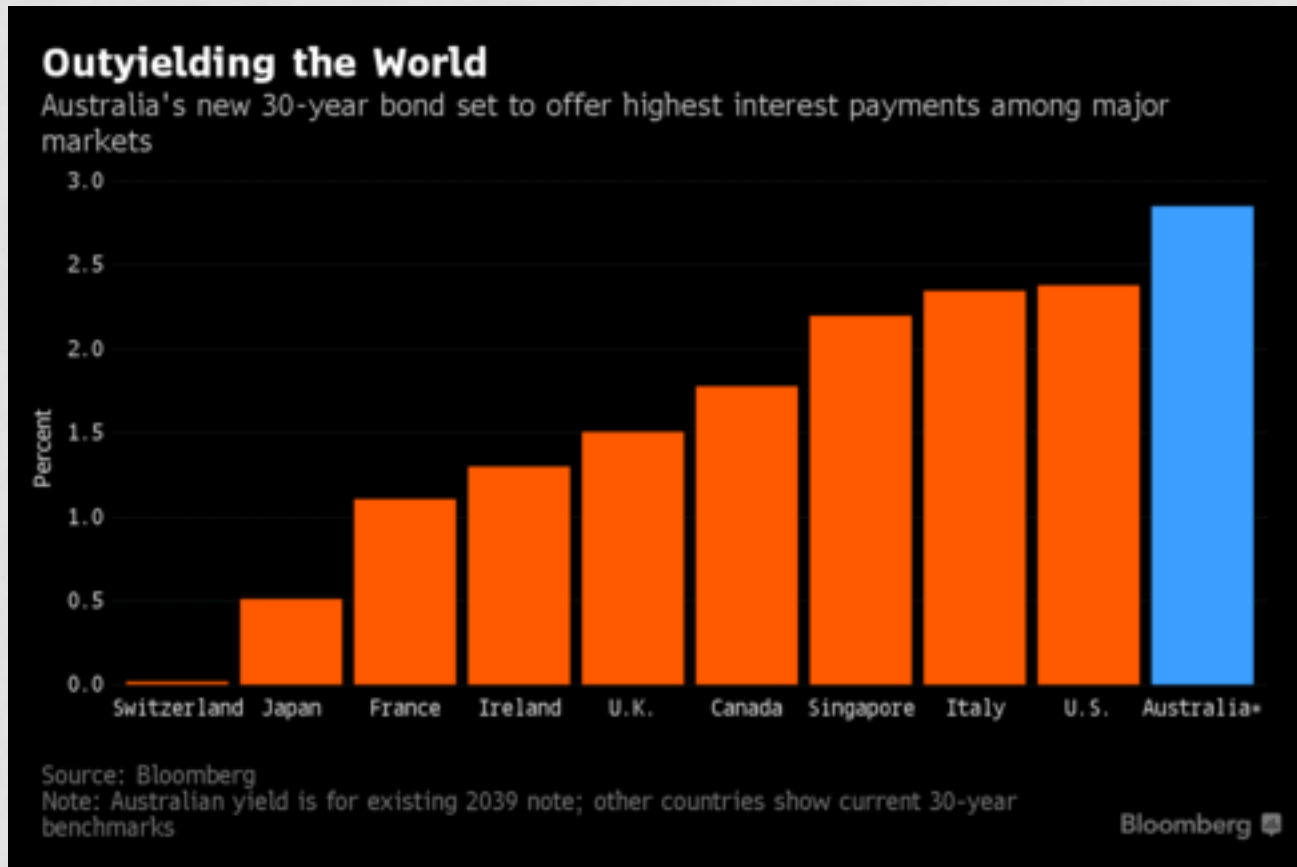
GERMANY

- **Germany & the Netherlands passed the 2nd balanced budget** in two years and both actually had to defend their decisions to the EU's Mario Draghi and US Treasurer Jack Lew, who were pressing them to deficit spend to spur the region's economy
- **Germans are not happy** with negative interest rates or the printing of more Euros. Some German banks have sent letters telling their customers to remove their cash.
- **Both EU members and German citizens** are very unhappy with Chancellor Merkel because of her relentless immigration position and her approval ratings have fallen dramatically and she is trailing in the polls

AUSTRALIA

- Their major banks are considered the best capitalized in the world & their sovereign debt is considered the safest in the world
- They are well positioned for the future and likely will become a safe haven, when other Western nations falter
- July elections weakened PM Trumble and he will now have to form a coalition government that leans more conservative
- Australia's corporate bond market is attracting world-wide attention because of the sharp drop in funding costs
- The RBA didn't lower interest rates in their first 2017 meeting. "There's so much household debt that a couple of rate hikes here would completely knock the wind out of the housing market, and a lot of people would be impacted by it," said Gareth Aird, economist at Commonwealth Bank of Australia, the nation's largest lender.

AUSTRALIA HIGHEST BOND YIELD IN ALL THE MAJOR MARKETS



RUSSIA

- Central-bank chief Elvira Nabiullina is credited for Russia's resurgence. Russian markets are red hot again
- Two years after plunging oil prices and Western economic sanctions fueled an investor exodus, the Micex stock index on Tuesday hit an all-time high. It was up 25% in 2016
- Russia was the best performing against the USD in 2016
- Russia's local currency bonds rank third this year in performance out of 15 countries tracked by J.P. Morgan Chase
- Many credit Russia's resurgence to her de-pegging the ruble from the USD and raising interest rates 15% back in 2014. The moves were painful and difficult on the Russian economy but those steps created stability and restored faith in Russia in the international market place
- The US will probably lift US sanctions against Russia

GREECE

In 2011 Greece would have defaulted but the EU co-signed...

- Greece defaulted in June 2015 & 3 days later the Greek people voted against the EU plan, and 2 days after that the EU said accept our plan or you are out of the EU, & Tsipras relented
- Greece's bond rating is in the C category and UE rate is 25%
- The IMF doesn't think Greece will fulfill the agreement as their debt is 180% of their GDP. They may WD from process...
- Greek 2-yr yields approach 10% amid IMF standoff with EU
- Greece will only agree to bailout measures that are socially sustainable and will allow the country's bonds to be admitted to the European Central Bank's Quantitative Easing program

PUERTO RICO

- Puerto Rico is a domestic protected nation or commonwealth; it is to the US what Greece is to the EU
- Both smaller nations will cost the larger ones a lot, no matter what is decided
- “PRs Governor Garcia said, “The debt is not payable; there is no other option. I would love to have an easier option. This is not politics, this is math.”
- As of Jan 1, 2016, PR is in technical default and they have defaulted on their bond payments each quarter
- PR’s problems affect the greater \$3.7 trillion market for debt sold by U.S. state and local governments.

CHINA

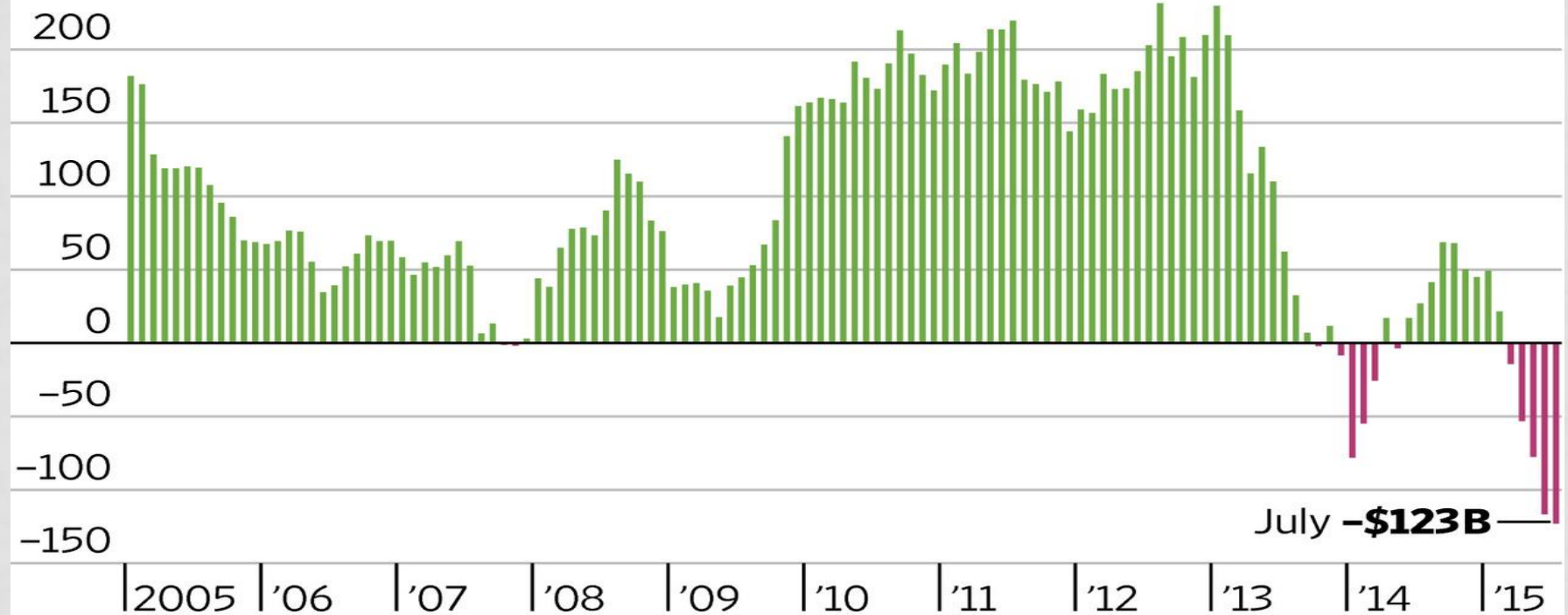
- The IMF added them to the Reserve Currencies/SDR basket
- China is selling large amounts US treasuries to prop up the Yuan
- The mounting debt and uncollectable loans are causing great concern in China as well as in global markets
- China's foreign-currency reserves edged just below \$3 trillion in January, falling to the lowest since early 2011 after the yuan capped its steepest annual decline in two decades
- "Most Chinese debt is "off the books" in so-called wealth mgnt products (something like the CDOs that sank Lehman Brothers in 2008), derivatives and a huge "shadow banking" system
- A maxi-devaluation is the easiest way to deal with their debt
- China began to tighten rates in February, but not their bench mark

ONCE THE BIGGEST BUYER, CHINA STARTS DUMPING U.S. GOVERNMENT DEBT (10-7-15) WSJ

The Tide Turns

Net foreign official purchases of U.S. Treasury notes and bonds,
12-month rolling sums

\$250 billion



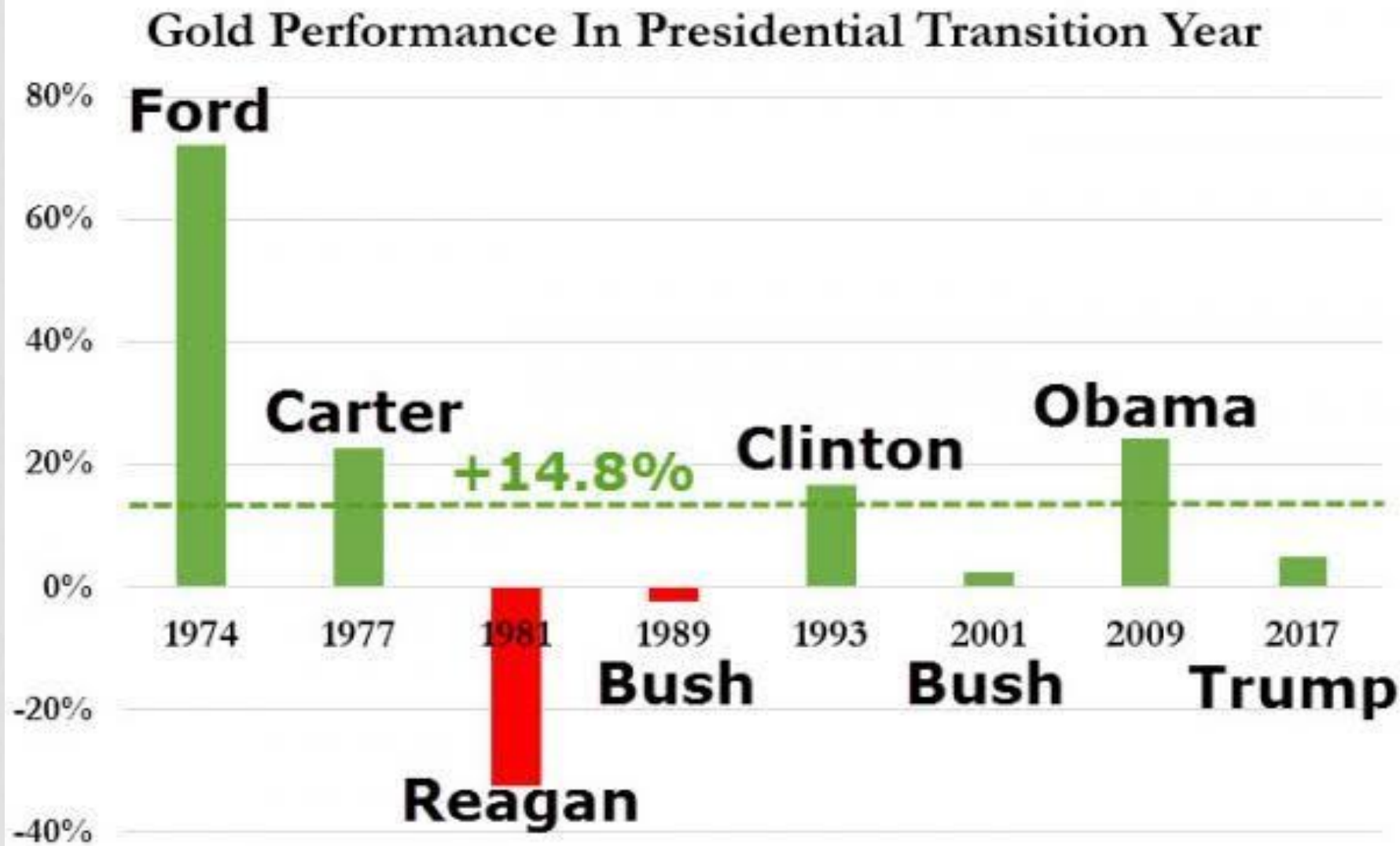
Source: Deutsche Bank

THE WALL STREET JOURNAL.

COMMODITIES

- Crude futures plunged 32% in 2015 and hasn't improved much in 2016
- The Petro dollar died at 45
- US & Iran will starting exporting oil in 2016
- Industrial metals fell, capping the worst year since 2008, aluminum, copper, zinc, tin, lead, nickel dropping 42%, but in the Q-2 of 2016 are staging a comeback
- Gold finished 2016 at \$1,062 and closed at \$1.235 an ounce on Feb 7th, up 4.3% in 2017

GOLD PERFORMANCE IN TRANSITION YEARS



CURRENCIES

- The USD will be a roller coaster
- The Pound will initially go down but will end higher
- The Chinese Yuan will devalue
- The Indian Rupee has dropped not sure of the bottom
- The Russian ruble will rise
- The Yen will likely rise depending on the Yuan & USD
- The AUD & NZ will finish higher
- The Euro will most likely finish lower

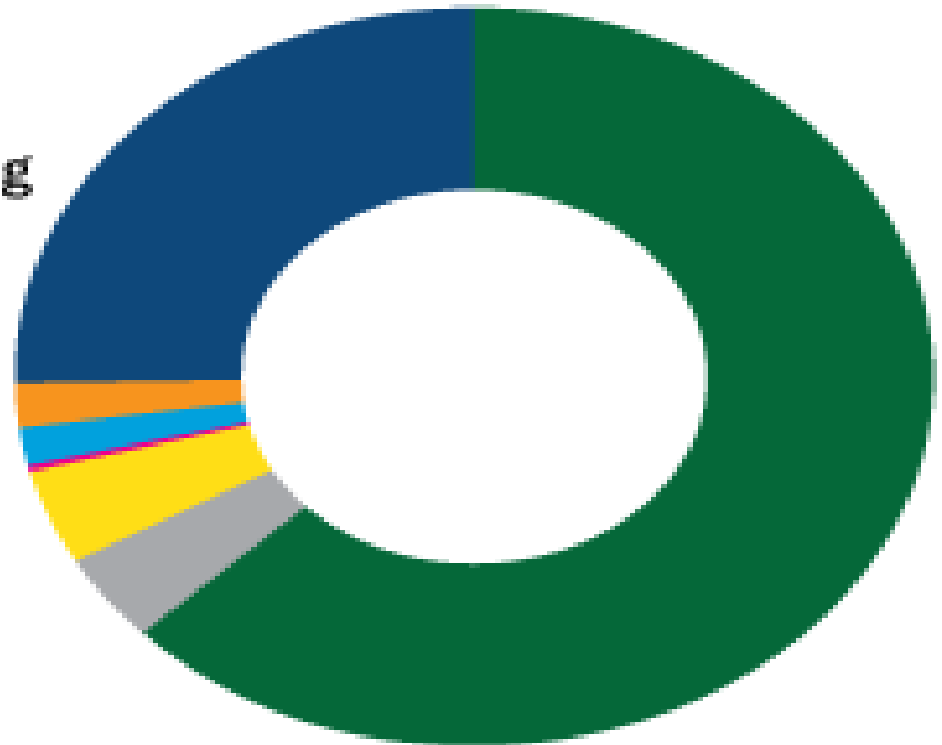
THE USD AS THE WRC

- So many nations have depegged from the USD
- Many treaties are now in place to exchange currencies directly and bypass the USD
- The Chinese yuan was added to the IMF SDR basket & World Banks currency reserve list
- The creation of the new AIIB World Bank which the US is not a member
- These things could make the WRC status less relevant

CURRENT WORLD RESERVE CURRENCIES

WHAT ARE THE WORLD'S RESERVE CURRENCIES

- U.S. Dollars
- British Pounds Sterling
- Japanese Yen
- Swiss Francs
- Canadian Dollars
- Australian Dollars
- Euros



New Asian Infrastructure Investment Bank (AIIB)

- For 70 yrs every wire in the world has gone through the World Bank in NY and the US has dominated & controlled both the WB and the IMF
- October of 2014: the Plan was finalized - on March 13th everything changed
- April 2015: China closed the enrollment window to join its new Asian Infrastructure Investment Bank (AIIB) as a founding member and the US was one of the only major nations not to join.
- In an editorial published in the Financial Times, former US Treasury Secretary Larry Summers summed it up plainly saying that “*this may be remembered as the moment the United States lost its role as the underwriter of the global economic system.*”
- On Jan 1, 2016 the AIIB became fully operational and is issuing loans

Authorized Capital Stock in the AIIB

China will contribute \$29.8 billion of the Asian Infrastructure Investment Bank's \$100 billion in initial capital, likely giving it veto power.



Member countries
■ Regional
■ Nonregional

Total: \$100 billion

Nonregional members

Regional members

\$25 billion

\$75 billion

Top-10 contributors

Germany	\$4.5 bil.	■
France	3.4	■
Brazil	3.2	■
U.K.	3.1	■
Italy	2.6	■
Spain	1.8	■
Netherlands	1.0	■
Poland	0.8	■
Switzerland	0.7	■
Egypt	0.7	■
Others*	3.4	■

Top-10 contributors

China	\$29.8 billion	■
India	8.4	■
Russia	6.5	■
South Korea	3.7	■
Australia	3.7	■
Indonesia	3.4	■
Turkey	2.6	■
Saudi Arabia	2.5	■
Iran	1.6	■
Thailand	1.4	■
Others†	11.4	■

*Sweden, South Africa, Norway, Austria, Denmark, Finland, Luxembourg, Portugal, Iceland, Malta

†United Arab Emirates, Pakistan, Philippines, Israel, Kazakhstan, Vietnam, Bangladesh, Qatar, Kuwait, New Zealand, Sri Lanka, Myanmar, Oman, Azerbaijan, Singapore, Uzbekistan, Jordan, Malaysia, Nepal, Cambodia, Georgia, Brunei, Laos, Mongolia, Tajikistan, Kyrgyzstan, Maldives

Source: staff reports

WHAT TO WATCH FOR

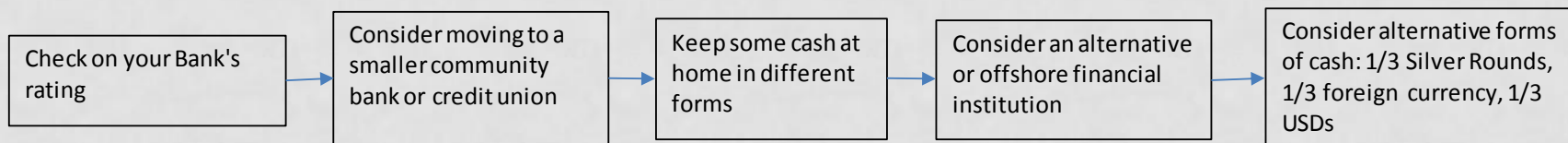
- After deflation subsides, accelerated inflation begins
- USD devaluation & real or practical loss of the WRC status
- World market unrest & increased defaults & layoffs
- People reacting to the uncertainty & WD from the markets
- Bank problems, increased capital controls making it more difficult for depositors to WD their money
- Wars & international unrest affecting markets
- US going to negative interest rates & printing more \$

WHAT ARE YOUR OPTIONS?

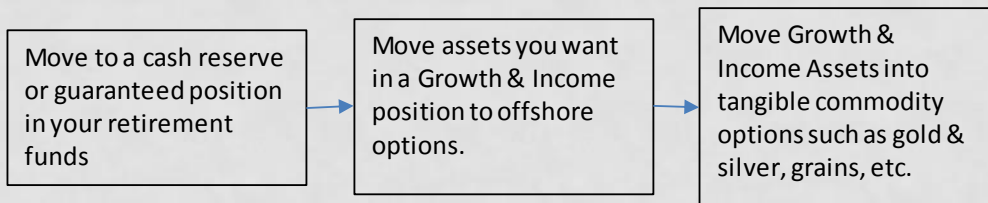
- Check your bank's rating, and derivative exposure, consider banking at a smaller community bank or credit union. Go to www.bauerfinancial.com to check ratings
- Make sure you have a cash reserve; try to have 3 months of expenses set aside and divide it up into at least 3 forms (ie: 1/3 USDs, 1/3 alternative currencies and 1/3 silver)
- Own tangible assets like gold, silver and other commodities
- Move out of the stock & bond markets into cash positions
- Real estate sell now, buy later
- Look into alternative options in banking, international securities, as well as nations with less debt, well capitalized banks, strong currencies and more stable economies

HOW SHOULD YOU PROCEED?

Cash:

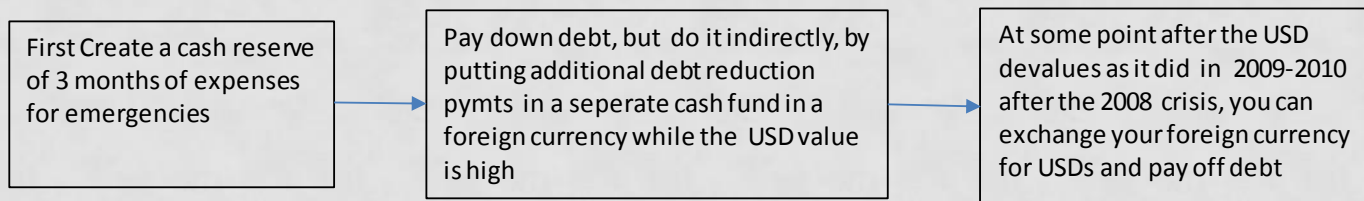


Stocks, Bonds, Mutual Funds & Annuities:



NOTE: You want to make provisions to be able to function and have access to your resources even if normal financial operations are disrupted.

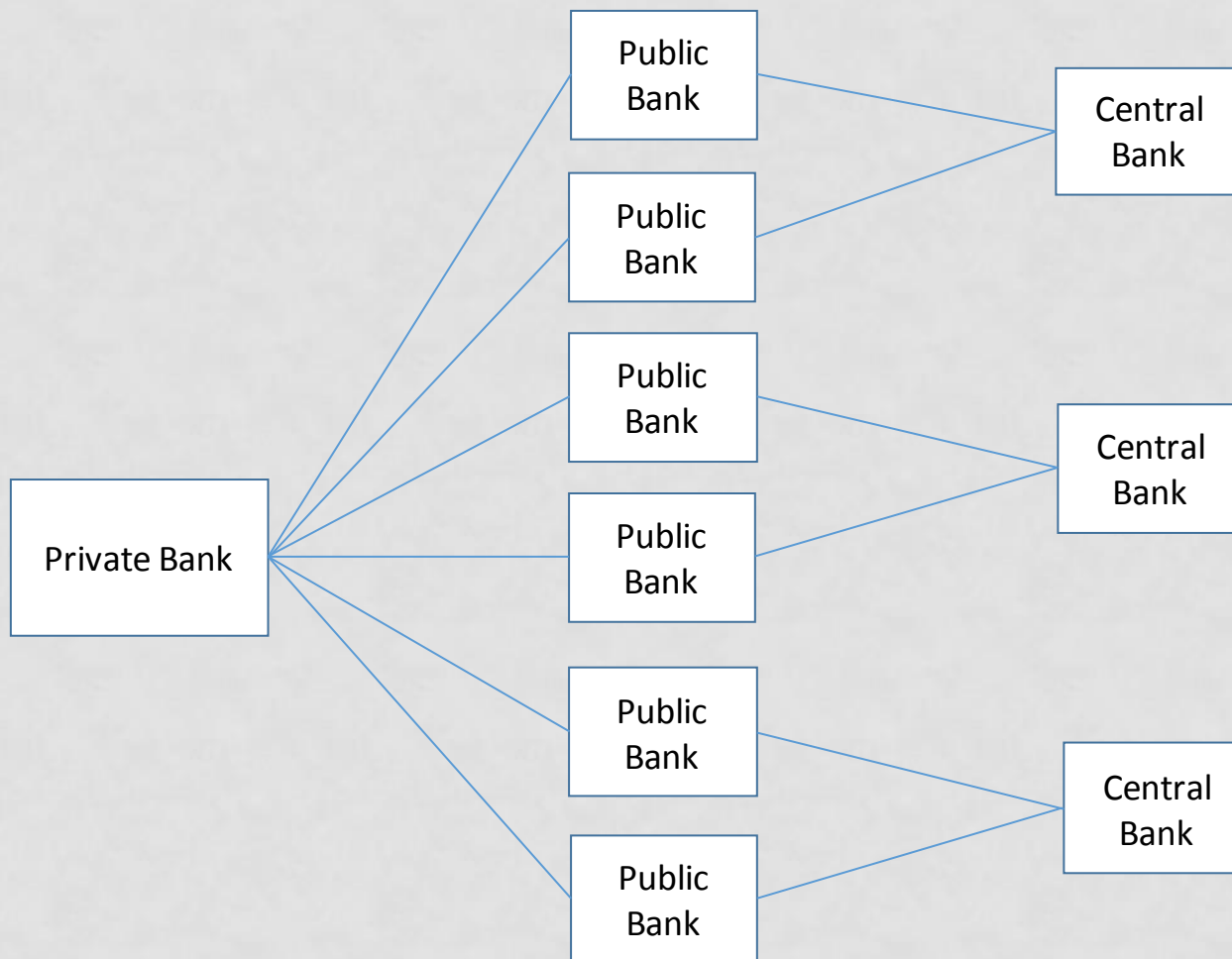
Pay Down of Debt:



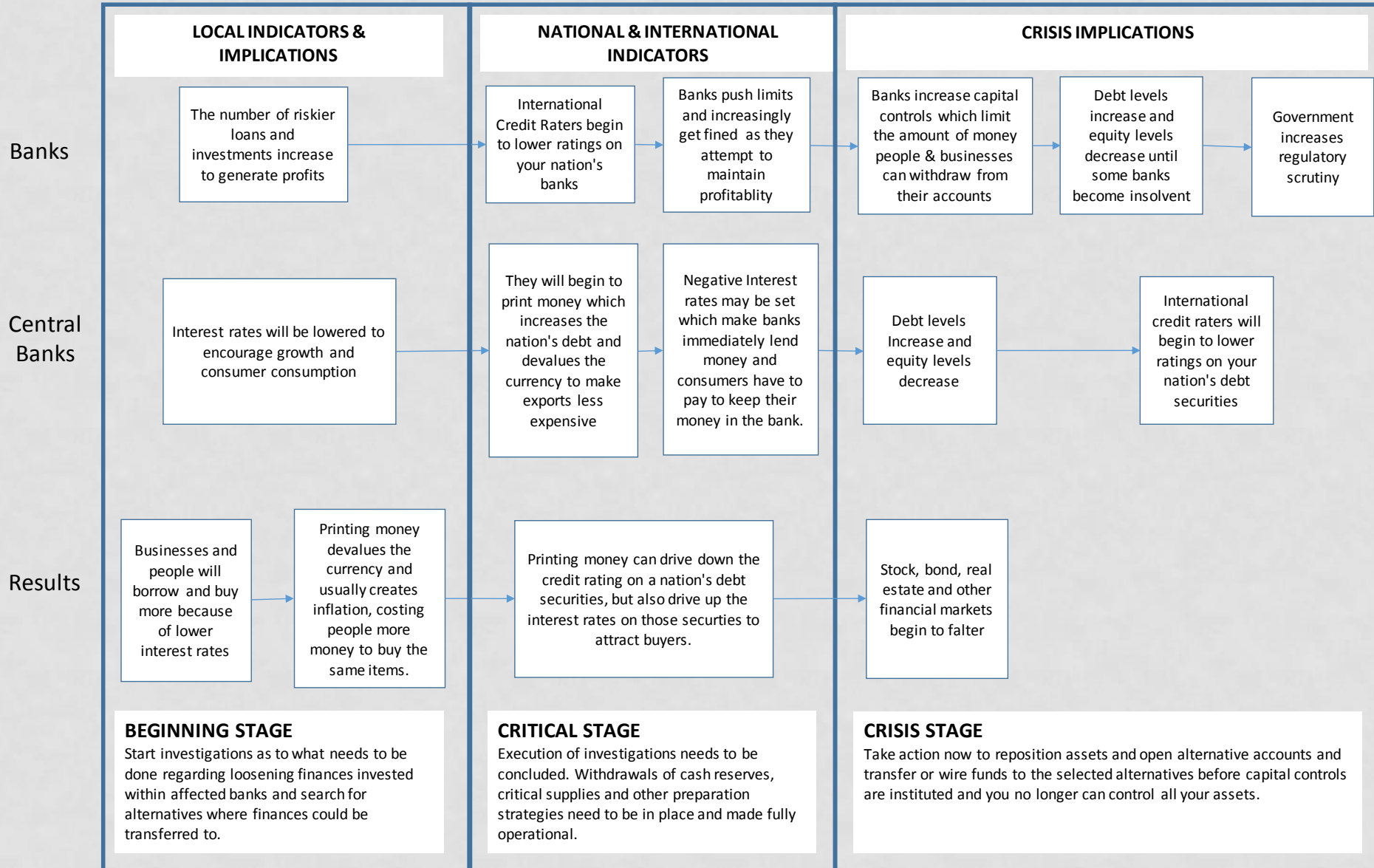
WHAT ARE THE OPTIONS AND ALTERNATIVES

Area	Conventional Structures	Alternative Options
BANK ACCOUNTS	One or more bank accouts in one nation's bank	Open bank accounts in multiple central banking systems
CASH	Cash Reserve is in your nation's currency	Diversify your cash reserve into multiple currencies, i-Accounts & silver rounds
INCOME	Bonds & Bond Funds, Fixed Annuities, Ceritificates of Deposit (CDs), Term Deposits Rental fees & private loans	Commodity based income funds & Promissory Notes
GROWTH	Stocks & Stock (equity) Mutual Funds	Precious Metals like Gold, ETFs, Commodity Based Equity Investments & Foreign Currency Exchange Market (Forex Trading)

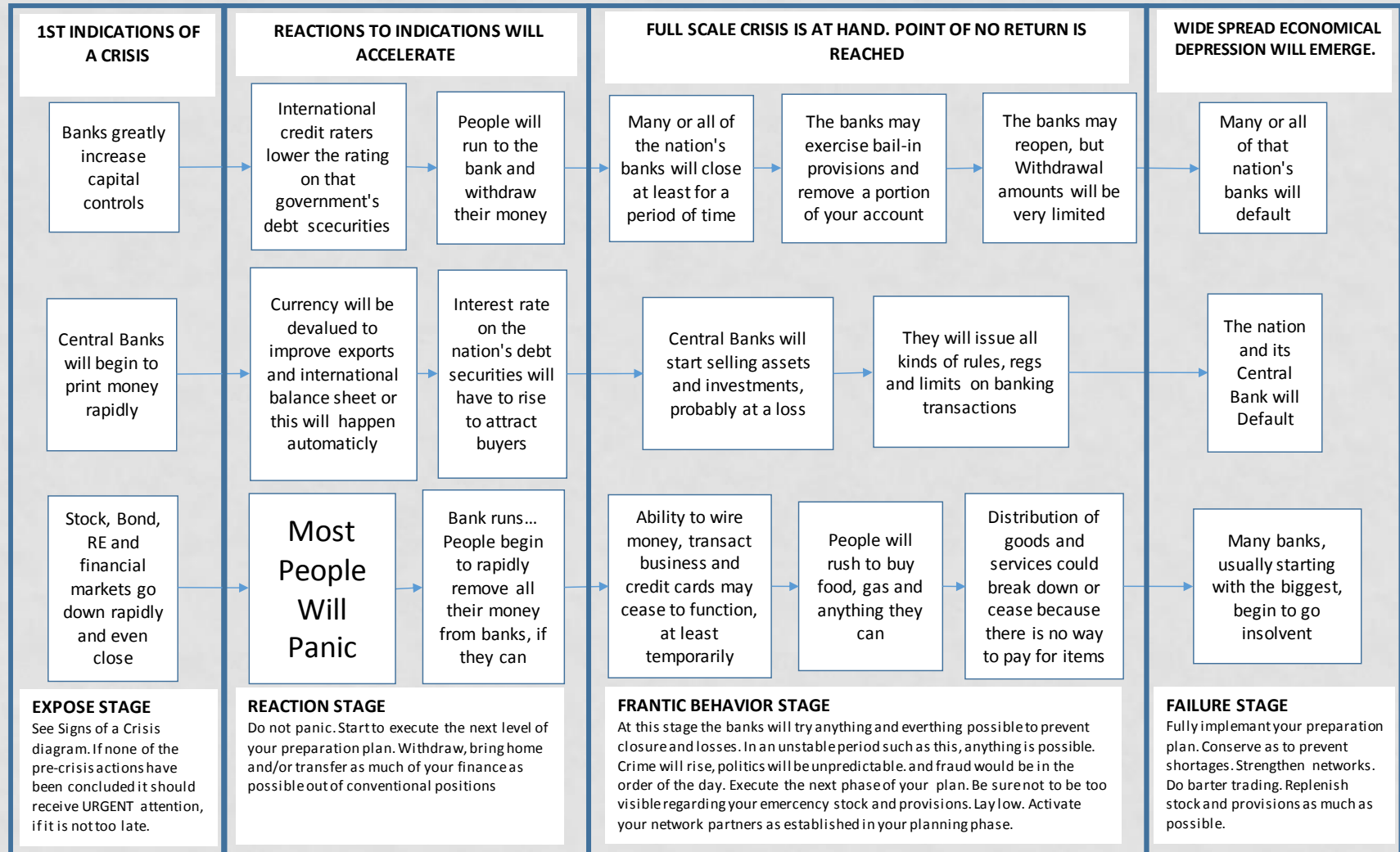
How to Function & Transact in a Financial Crisis



Signs of an Impending Bank Insolvency Crisis



What Happens During a Bank and/or Central Bank Insolvency Crisis



CONTACT INFO

Fulton Sheen

- FSheen@gmail.com
- Skype: Fulton.Sheen

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