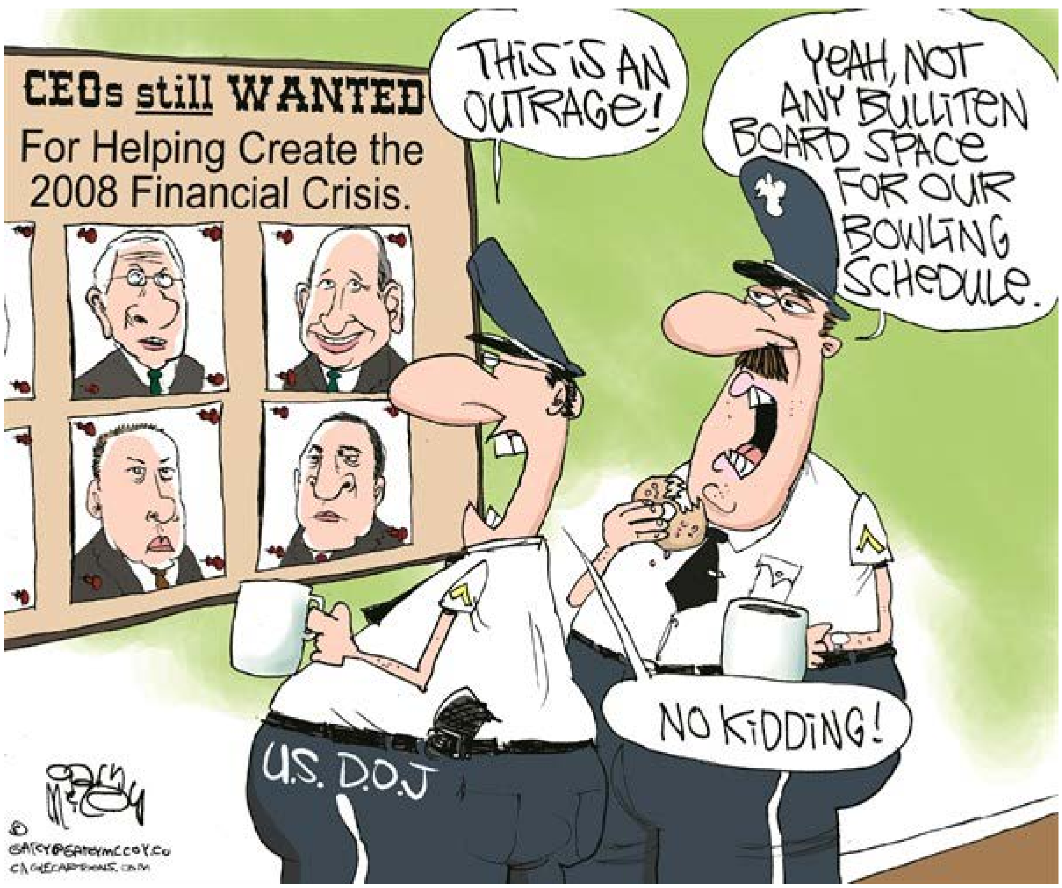
Hello Everyone,

Today's missive compares what happened with Lehman Brothers in 2008 and what may happen with Turkey later this year. I thought the below cartoon would give you a chuckle, but also make you aware that not much has changed since 2008.

As usual, I hope you find this helpful to your investment future.

Signed, Your Wishing-The Mid-Term-Elections-Were-Already-Over Financial Advisor,
Greg



<u>KKOB 08.24.2018 Turkish Default?</u>

Bob: So, Greg, on Monday you made me the dictator of Turkey and said I was going to default on my debts. You also said, this would be the biggest emerging-market debt default in history. So, what happens when ---or, better said, if---that happens?

Greg: You're right. Turkish default is not a certainty, but they are clearly on the same glide-path as Russia, Venezuela, & Argentina before they defaulted. Thus, if Turkey executes a hard default, it will likely look like this.

Complete capital controls will be imposed and foreign creditors (think Western Banks) won't be able to get their money out. Translation: The Turkish government will impose a near total direct loss of half a trillion dollars on the global financial system…most of that owed to European banks.

I say direct loss, because that does not include the derivatives exposure, which is multiples more.

Bob: Now, again, I don't know much about this…so, what does this mean to us in America? This issue is a half a world away.

Greg: You're right; to make this relevant let's revisit the lessons from Lehman's default in '08. The direct losses from Lehman were about $500 billion. That's very close to Turkey's number today.

What most Americans don't realize is the Lehman event affected European (!) banks. Even though the Lehman loss was "only" half a trill, Lehman's derivatives exposure was $35 trillion--- owed to banks worldwide! This is why Warren Buffett calls derivatives "financial weapons of mass destruction."

Anyway, to compensate back then, our Federal Reserve initiated something called a swap-line to European banks for (get this) $16 trillion. That $16 trill kept Europe afloat. On top of that, the Fed pumped $4.5 trillion into US banks. When that wasn't enough, foreign central banks printed over $12 trillion more to hold the global system together. Thus, a half a trillion-dollar Lehman problem turned into a "tens-of-trillions" solution.

Bob: So, you're saying if ***global banks*** were affected by an ***American banking failure i***n '08 , then it is reasonable to believe ***European***

banking failure in ‘08 , then it is reasonable to believe ***European banking failures*** today would affect ***American banks***…because it’s all connected.

Greg: Right. And, I wish I could tell they fixed things; but we didn’t. After Lehman, the experts identified the problems as too much debt, too many derivatives, and too-big-to-fail banks. Today? The debts and banks are bigger. Oh, and the current derivatives exposure is north of a quadrillion dollars…that’s a thousand trillions. You’d think we’d learn.

Bob: I can’t comprehend a trillion much less a quadrillion. So, Greg, give us the bottom line. What does this mean to investors?

Greg: OK. And, Bob, please know this is just Greg from Albuquerque trying to noodle through all this. My take: Even though many expect it---a Turkish default will still shock the global financial system. Germany’s mega-bank, Deutsche bank, (whose stocks has already fallen 90%!) will incur more losses. Italian banks (which are already technically insolvent) will do the same. All have trillions in derivatives exposure.

Thus, big banks could once again ask governmens for bailouts. But, this time, the people will say, “No way! We tried that 10 years ago and Wall Street got rich, while Main Street got nothing! Any stimulus goes to us, not the banks!” So, Bob, can you envision that scenario?

Bob: I can. And, if it’s not Turkey that triggers it, it could be someone else.

Greg: Great point. So, pretend you’re a politician, and bailout money is needed. Where would you direct the bailout money?—to the people or to the banks?

Bob: Directly to the people. I want to save my job.

Greg: Bingo. Spray the money--- and pray it works. I call it the spray and pray plan.

Bob: But, now inflation rises.

Greg: Which is exactly how you erase debt, which is what governments want.

Bob: So, this is why you keep telling our listeners to invest with an eye toward inflation.

Greg: Among other reasons. And Bob, even if my fanciful scenario doesn't come to pass, the inflation argument is still strong.

Bob: Enjoyed it as usual. How do people reach you?

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