

Hello Everyone,

I thought about doing a story about the demise of Deutsche Bank (DB) this morning, but I wanted to close out the Loser Nation series.

Still, please realize DB is big deal. I did a KKOB report on it 11 months ago and I have wondered how many times it could circle the drain before heading down the pipe. It's close.

The problem with the DB isn't the restructuring---which is all you are hearing about---it's the derivatives exposure that is in the 10's of trillions. Yes. Trillions. I have yet to hear an explanation of how those will be reconciled.

This was Lehman's issue 11 years ago.

Anyway, besides today's missive, I am attaching the DB piece from last August at the end of today's transcript. I hope it helps you understand what is going on.

Signed, Your Things-That-Can't-Go-On-Won't Financial Advisor,

Greg

## **KKOB 07.08.2019 Loser Nations Part 6 Eat Your Peas & Gravy My Boy**

**Eric:** So, Greg, at your request, this morning we have **Men-at-Work** as the bumper music.

But, before you get to that, let me do a quick recap. You and Bob have been talking about Loser Nations and why people should not invest there. And so far, we have determined Loser Nations do many of the same things wrong:

- They control information.
- They subjugate women.
- They don't value hard work.
- They don't value education,
- They reward based on family, or clan, or race--- rather than merit, &
- They embrace ridged and dogmatic religious beliefs.

So, what's the last trait, and what does the song, **Settle Down** have to do with any of this?

**Greg:** Besides liking the song, there is line that goes, "***Knuckle down and find a job and take some responsibility.***" And, Eric, it's the taking responsibility part—or better said, the inability for some nations to take responsibility---that marks them as Loser Nations.

Let me explain.

Some nations embrace a cult of victimhood. "*We're poor because you're rich. It's the injustices from centuries past that have inhibited our growth.*"

Eric, this kind of thinking is a cancer in large swaths of the world. And, if your nation accepts failure as someone else's fault, you will not make it. Oh, and coming out this mindset is difficult, because it requires a nation to look at itself... with eyes wide open. And sometimes it's ugly.

**Eric:** But, we're pretty good at that here. I mean, we are constantly examining ourselves---maybe sometimes to an extreme. But we're good at saying, "We messed this up. We own it. How do we fix it?"

**Greg:** You're right. It is one of our strengths. I mean, we spent decades beating ourselves up over the failures in Viet Nam. This isn't true in many nations where they ignore their past. Or else, they blame the so-called "foreign devils" when their own miserable behavior is exposed.

For example, Turkey still denies the Armenian holocaust of 100 years ago. Or, going to the other side of the globe...the Japanese are still struggling with their atrocities from World War II.

Here's a quick story...

Several years ago, I went to Nagasaki's Atomic Bomb Museum. And, as you enter the museum, there's a big timeline on the wall of WW II events. You know---Hitler and Stalin did this. Churchill and Roosevelt did that. And, then boom (!), we here in Nagasaki got bombed.

Eric, there was no mention of Pearl Harbor, the Bataan Death March, the Rape of Nanking. Nothing. Japan does a lot of things right, but this isn't one of them. And, yes, I get the "save face" thing. But, really?

**Eric:** That's interesting. And, I think I see where you're going with this investment-wise. If any entity won't own up to its mistakes, you should question putting money there. Because, the odds are, they will continue to make them.

**Greg:** Exactly. And the other thing avoiding responsibility does is encourage conspiracy theories. For years, every time the electricity failed in Latin America, they blamed the Yankees for trying "*to get them.*" Venezuela's President Maduro is doing this same thing today. And, clearly Venezuela has become a Loser Nation.

With that said, however, many South and Latin American countries have now rejected the blame game. They're owning their past failures. The result is predictable---a growing middle class...more honest & responsive government...more efficient services...better universities and hospitals. It's not perfect, but the improvements from only 20 years ago are remarkable.

**Eric:** I think we have seen the responsibility thing within our families, but I've never applied the principle to a nation. It makes sense. So, to wrap up our series, what would you say?

**Greg:** I'd say this---- national failure is somewhat predictable. So, before investing, use the Loser Nation checklist. Does the nation in which you're thinking of investing restrict information? Subjugate women? Hold education and work in low regard? Play the blame game? Punish ability and merit? Embrace a repressive religion?

Not all nations will hit all boxes, but the exercise will help you make better investment decisions.

**Eric:** Good stuff. How do people reach you?

**Greg:** My number is 508-5550. 508-triple-5-zero. Or, go to my website at [zanettifinancial.com](http://zanettifinancial.com).

## **KKOB 08.27.2018 Deutsche Bank & Derivatives**

**Bob:** So, Greg, on Friday, you said the world's major banks are all connected. And, you said, back in 2008, it wasn't Lehman's collapse itself, but rather the trillions in derivatives bets that made things so bad. Then, almost in passing, you said stock in Germany's biggest bank was down 90%---- and that seemed to surprise people.

**Greg:** It did. It's funny what jumps out for people. I believe people think that because Germany's economy is strong, their banks must be strong as well. But, it's not necessarily true. Deutsche Bank stock (and think of Deutsche as Germany's equivalent of JP Morgan) is

actually down 93% from its 2008 highs; and the reasons are understandable. First, they have been found guilty multiple times for manipulating everything from interest rates to precious metals---and, the fines have been huge.

But, next, and Deutsche's bigger problem, is their derivatives book.

**Bob:** OK. Wait. There is that word again. You have explained derivatives before, but I need a refresher. Why is this always such a big deal to you?

**Greg:** I get that. Let's start with the refresher. A derivative is an investment that *derives its value* from something else. For example, if I buy a derivatives contract that says the *price of oil* will go up, I'm not really making an investment in oil itself, I'm just betting on its price. That's a derivative based on the price of oil. Meanwhile, since I'm betting the price will rise, obviously someone is betting the price will fall. Let's call that person my counterparty. Now, let's say the winner of the bet gets \$50,000.

**Bob:** So, this is why you say derivatives are like Vegas. An investment has substance behind it; a derivative is just a wager. It's air.

**Greg:** Right. But, it's air that banks can count as profits and losses on their balance sheets. Still, it gets weirder.

Bob, let's pretend you overhear me make my bet. You then turn to your friend and say, "I'll bet you \$20,000 Greg gets it right." Your friend says, "You're on!" Then some lady overhears you two betting and turns to her friend and says, "Hey, Betty, I'll bet you \$100,000 Bob's bet on Greg's bet is right. " And, Betty says. "I'll take that \$100K bet!" And, so it goes, bets on bets on bets. Derivatives layered on derivatives. And, each bet takes us further away from objective reality...oil.

Oh, and by the way, you can bet on anything...interest rates, the euro, soybeans, the stock market. You name it, there's a derivative. According to the ***Bank for International Settlements***, there are now over a quadrillion-dollars in derivatives bets swirling around the planet.

**Bob:** Wait...a thousand trillions in derivatives!? That's crazy. So, let's play the "what if" game. What if, someone can't pay the bet?

**Greg:** Ah. Now you've gotten to the counterparty problem. In 2008, the counterparty to \$35 trillion in derivatives was Lehman Brothers. They couldn't pay. Yet, Lehman's ability to pay was counted on by other counterparties to ensure they could pay on their derivatives bets. Thus, if Lehman couldn't pay, that meant maybe Goldman couldn't pay, which meant maybe Credit Suisse couldn't pay, and on down the line. That's called

contagion; and, in '08 it had to be stopped. Thus, the taxpayer bailouts.

**Bob:** And, that's the situation with German banks today, right? They have billions in loans to Turkey that could go belly up.

**Greg:** Right, and Deutsche also has a \$40 trillion derivatives book. Uh oh.

**Bob:** OK. I get this now. But, I also know you think there is opportunity in this, right?

**Greg:** Always. Wealth isn't usually destroyed. Wealth moves. You just want to be in front of the move. I'm out of time. If you want more on this, call me, 508-5550, or go to my website...[zanettifinancial.com](http://zanettifinancial.com) and I'll explain.

**Bob:** Thanks. Talk to you on Friday.

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