*The* DAILY RECKONING *presents...*


# RICKARDS' REACTION:

## A Model For Predicting Financial Collapse'

**JIM RICKARDS**

James G. Rickards is the editor of *Strategic Intelligence*, the latest newsletter from Agora Financial. He is an American lawyer, economist, and investment banker with 35 years of experience working in capital markets on Wall Street. His work is regularly featured in the *Financial Times*, *Evening Standard*, *New York Times*, *The Telegraph*, and *Washington Post*, and he is frequently a guest on BBC, RTE Irish National Radio, CNN, NPR, CSPAN, CNBC, Bloomberg, Fox, and *The Wall Street Journal*. He has contributed as an advisor on capital markets to the U.S. intelligence community, and at the Office of the Secretary of Defense in the Pentagon. Rickards is the author of three *New York Times* best sellers, *The Death of Money* (2014), *Currency Wars* (2011), *The Road to Ruin* (2016) from Penguin Random House.

# Rickards' REACTION: A Model For Predicting Financial Collapse

## REACTION: The New Model to Predict Financial Collapse

We have invented an entirely new model that will teach you identify an impending financial collapse. With this model, you will never be caught off guard.

Dear *Daily Reckoning* Reader,

The cycle of monetary collapse has happened three different times over the past century. Each collapse has been worse than the one before. The central banks have done bailouts before but their balance sheets are extremely bloated.

We are now at the point where the ability of central banks to reliquify the system is in doubt because they're heavily stretched.

Central banks have printed so much money already, it's not obvious that they can do it again from the current levels without destroying confidence in the dollar, and all major currencies.

The question is, where will the liquidity come from in the next financial crisis if it can't come from the central banks?

In the face of such a crisis we have a looming total monetary lockdown of the financial system.

In my book *The Road to Ruin: The Global Elites' Secret Plan for the Next Financial Crisis* I reveal exactly what the crash will look like. I also offer analysis on how you can best position your wealth and hard-earned money before it is wiped out forever.

We have gone ahead and reserved a copy for you. Click right here to learn how to claim your free copy now.

As a reader of the *Daily Reckoning* I want to give you exclusive access to my formula for avoiding a crash and hitting rock bottom when the dollar collapses.

This is a revolutionary way of looking at the financial system and stock markets. It's unlike anything you've ever seen.

Understanding the risks and the state of the international monetary system will leave you better prepared for the immenent currency collapse and the death of the dollar.

## What Every Investor Must Understand — REACTION

A 5-Part framework will make sure you're never caught off guard by financial crisis

As an economist and economic theorist, I favor a rigorous analytical approach to risk management over glib talk and clichés about market collapse. Those predicting doom-and-gloom are on every street corner. But, what good does that do investors if the prediction is not backed up with hard facts, good science and sound analysis?

Markets actually do collapse periodically. If you yell, "the sky is falling" you will be right eventually. As the saying goes, "Even a broken clock is right twice a day."

The challenge for analysts is, "Can we do better?" Can we produce models and analysis that have predictive value and that provide accurate estimates of the magnitude and timing of financial collapses and panics?

By using a more rigorous approach, we can come closer to the Holy Grail of risk management — enjoying good times while they last, but avoiding the crashes that periodically wipe out hard-earned gains.

The goal of analysis is not to yell doom-and-gloom all the time, but to yell it just in time to avoid real panics. That's what we do at *Strategic Intelligence* and the *Daily Reckoning* with a blend of analytic tools including complexity theory, causal inference, behavioral psychology, and historical perspective.

Advanced practitioners in many intellectual endeavors have recently embraced team science.



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The idea is that the best solutions to hard problems come not from a single super-expert in one discipline, but from an interdisciplinary approach involving experts from a number of subject-matter domains who both contribute to and learn from the pool of knowledge residing in the team as a whole.

*Jim Rickards during a visit to the floor of the New York Stock Exchange in lower Manhattan. To the right is Steven Guilfoyle, known as "Sarge," Director of floor operations for NYSE. In any future market panic or meltdown, the NYSE floor will be ground zero.*

Effective team science takes humility and open-mindedness, two qualities not found in abundance among economists. Still, for those able to listen to and share ideas, the team approach can be both fruitful and exhilarating.

There are numerous examples of good team science. Complexity theory began with an accidental discovery by a lone meteorologist, but is now applied in countless dynamic systems including seismology, urban planning, forest management, and economics. Causal inference (based on Bayes Theorem) has been used to find missing aircraft, hunt enemy submarines, and crack the super-secure ENIGMA code used by the Nazis in World War II.

Behavioral psychology began with simple experiments that showed a subject preferred a $3.00 guaranteed return over a $3.20 expected return (because the $3.00 was a "sure thing"). It has gone on to revolutionize economics by overturning stale dogma about efficient markets and rational expectation. *Strategic Intelligence* is on the cutting edge of these and other intellectual developments.

Yet we don't just follow new techniques — we help invent them. In this special report featured to *Daily Reckoning* readers that was exclusively featured in *Strategic Intelligence*, we present an entirely new five-part model for analyzing financial distress. With this model, you'll be able to determine the difference between market adversity that is temporary and reversible, and when it is heading into an abyss that will wipeout your accumulated wealth before you know what hit you.

Our five-stage model is structured along the same lines as the well-known Kübler-Ross model of the five stages of grief.

The Kübler-Ross model was introduced by Elisabeth Kübler-Ross, a Swiss psychologist. It is a behavioral model of how human beings respond to grief. Such grief may be induced by death of a loved one, divorce, severe disability, loss of a job or other emotional setback. In Kübler-Ross, the five stages are Denial, Anger, Bargaining, Depression and Acceptance. The acronym for these fives stages is DABDA.

In *denial*, individuals learn of the bad news but believe the news is mistaken and cling to some false reality. In *anger*, the denial fades, but the new reality is met with frustration and claims such as "It's not fair!" In the *bargaining* phase, the individual hopes to avoid the unpleasant outcome by offering something in return. You might tell your boss, "If you don't fire me, I promise to do a better job," etc. In *depression*, the individual finally accepts the adverse result, but becomes withdrawn, reclusive or sullen. Finally, in the *acceptance* phase, the individual adjusts to the new reality and decides to move on with a sense that, "This is going to work out OK."

Importantly, Kübler-Ross noted that this was not a liner, deterministic model. Not all individuals would be affected in the same way. Some individuals might experience none of these phases; others might experience only some. In some cases, the experience might occur in a different order than she presented. For example, bargaining might come before anger, and so on. Notwithstanding these variations, the model is a robust and useful way to understand human behavior in the face of adversity. The model is also useful for those who are supporting or counseling victims of adversity as a way to help them adjust and reach acceptance.

Our model of the five stages of financial collapse is called **REACTION** for **Re**pricing, **Ac**celeration, **T**ransmission, **I**rrationality and **O**blivio**n**.

Like Kübler-Ross, the REACTION model allows some flexibility in its use and interpretation. Not every adverse market development will go through all five stages. In fact, many market moves will stop at *repricing or acceleration* and not proceed to *irrationality or oblivion*.

Yet it is critical to understand that any market adversity that starts with repricing has the potential to go all the way to oblivion. It all depends on the exact initial specifications of the dynamic market as the process begins.

This is the essence of complexity theory. Every avalanche starts with a snowflake, but not every snowflake causes an avalanche. Some do and some



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don't. The key is to understand the dynamic forces at work and look for the indications and warnings that tell you in advance when the process is going through a phase transition from one stage to the next.

With that as background, here is a more detailed explanation of the five-phase REACTION model of market collapse: Repricing, Acceleration, Transmission, Irrationality and Oblivion. We begin with *repricing*.

## STAGE 1: Repricing

A market meltdown begins with the rapid repricing of a particular instrument or asset class. This typically occurs when the market has valued an asset using unrealistic or incorrect assumptions. The wrong valuation can persist and reach extreme levels — as long as reality does not intrude on the market's wishful thinking. But, eventually, reality always intrudes.

Inevitability some definitive event occurs that makes it impossible for the market to indulge in its alternative reality. A classic illustration of this phenomenon is the 1837 Hans Christian Andersen tale, *The Emperor's New Clothes*. In that story, two tailors convince the Emperor that the new suit of clothes they have made for him is invisible to those who are stupid, unfit or incompetent. When the Emperor goes on parade naked, everyone in the crowd pretends to "see" the new clothes so they will not be regarded as stupid. Finally a child yells "But, he isn't wearing anything at all." Suddenly everyone in the crowd takes up the cry, and the Emperor is understood to be naked in full view.

Something similar happens in markets. A stock like Tesla (TSLA) can have a lofty valuation for years based on grandiose promises by Elon Musk, all the while running on unpayable debt, and losing billions of dollars of shareholder money. Someday, a prominent Wall Street analyst will yell, "Hey, this company is destroying value and heading to bankruptcy!" Then the stock will crash suddenly and dramatically. Until then, the belief that Tesla is wearing a fine suit of clothes will persist.

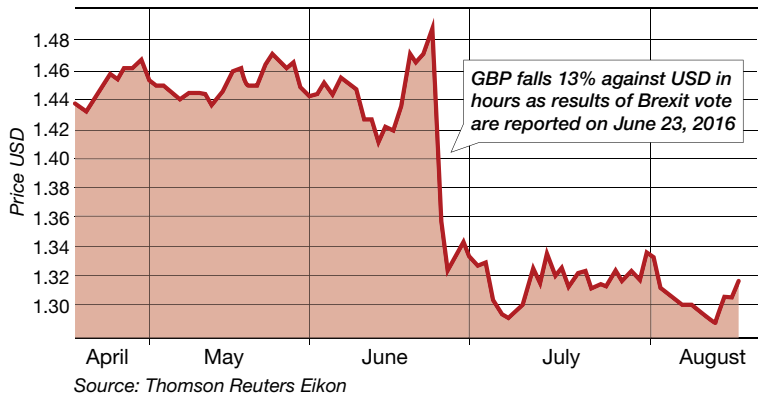
The intrusion of reality into a collective delusion can also come from a definitive event, such as an election result or a criminal complaint. A recent example of this is the exchange rate between pounds sterling (GBP) and U.S. dollars (USD), (GBP/USD or "cable") prior to the Brexit vote on June 23, 2016.

Brexit was a UK referendum on whether to leave the European Union or not. The two sides called themselves "Remain" and "Leave." In the weeks leading up to the vote, the polls were close. Most showed a slight edge for Remain, but certain polls showed Leave ahead. An objective observer would conclude the vote would be close and the outcome uncertain. Nevertheless, markets, betting odds, and elite commentary all favored Remain to win. This delusion (relative to objective data such as polls) was reflected in the markets. Sterling rallied to $1.49 the day of the vote, its highest level in months. Likewise, gold fell to $1,255 per ounce on the day of the vote after trading near $1,300 per ounce in mid-June. In effect, cable and gold were both fully "priced" for a Remain victory despite powerful evidence that the vote would be close.

What happened next was that reality intruded on the market's delusion. This is shown in the chart below:

**USD/GBP Cross-Rate**

*"Repricing" Based on Changed Expectations*




*Source: Thomson Reuters Eikon*

Within hours of the polls closing (at 5:00 pm New York Time with markets just opening in Asia), it became apparent that Leave would win a substantial victory. The market's wishful thinking crashed into the reality of hard facts. The Emperor had no clothes.

GBP/USD plunged 13% from $1.49 to $1.30 within minutes (it rallied back a bit before the close, but fell further in following days). Gold rallied from $1,255 per ounce to $1,315 per ounce in one day (and was even higher on an intra-day basis).

Considering that dollars, pounds, and gold are all highly liquid major country reserve assets, these types of price moves are extraordinary. The market had suddenly and violently "repriced" assets for a new reality, or a new perception of an existing reality.

There are many examples of such extreme repricing based on news or new perceptions. The devaluation of the Thai baht in June 1997 led to an immediate reevaluation of emerging markets' currencies in Malaysia, Indonesia, South Korea and later Russia and Brazil. The entire landscape of emerging markets changed overnight based on one confrontation with reality by one overvalued local currency and an overheated local property market.

Another more recent example is the sudden change in perception in the value of subprime mortgages in July 2007. From 2004 to 2007 the subprime mortgage market expanded exponentially.

This was based on Alan Greenspan's "too low for too long" rate policy, and the exertions of corrupt



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investment bankers who dumped junk mortgages into structured products and obtained "AAA" ratings from incompetent ratings agencies while regulators turned a blind eye. A few objective analysts and investors could see through this (as portrayed in the recent film "The Big Short," and the Michael Lewis book of the same name) but most did not.

Again, reality intruded in the form of weak earnings reports by major banks in the spring of 2007, and the collapse of two Bear Stearns hedge funds that had made leveraged bets on junk mortgage-backed securities in July 2007. Analysts suddenly looked at these securities and yelled, "But, he isn't wearing anything at all!"

The collapse of mortgage valuations and real estate continued in stages from August 2007 to March 2009. When the market hit bottom, many of the securities and underlying properties had lost 80% of their value. In truth, the securities and properties were never worth face value to begin with, but that market delusion persisted until reality set in.

Such repricings represent more than just normal market movements based on preferences of buyers and sellers. They represent an entirely new perception of a particular asset or asset class. The new perception quickly becomes ingrained and becomes the anchor on which future expectations are based. The old perception is gone forever.

Some repricings are just that — one time repricings. Losers lick their wounds, winners count their gains, and life goes on. But some repricings don't stop there. They gather momentum and continue into stage two of the REACTION model: *acceleration*.

## STAGE 2: Acceleration

Acceleration happens when a repricing overshoots the new reality and continues based on momentum and market dynamics that are independent of the original shock. In military terms, acceleration is a "force multiplier" to the original repricing — it takes what is going on already, and makes it more violent and powerful.

The main reasons that repricing continues into the acceleration stage are margin, leverage, and stop losses.

Leverage is the use of explicit or implicit borrowed money to place a bet in markets. Explicit leverage appears on a balance sheet in the form of bank loans, repurchase agreements, or securities lending agreements. Implicit leverage exists off balance sheet in the form of derivatives such as futures, options, or swaps.

With derivatives, there is no need to borrow money to hold a large trading position. The position itself is synthesized out of thin air, in whatever size the counterparty desires, through the use of contracts that specify the gross notional size of the bet. No money or securities change hands except when the profit or loss on the bet is settled up.

Simply put, leverage of any kind amplifies whatever non-leveraged gain or loss is happening in the markets. If a currency position drops 5% and your position is leveraged 3-to1, then you will lose 15% on your position. This creates a much more painful experience than what the non-leveraged market participant would have.

Once large losses arise in leveraged positions, the counterparty (typically a bank) worries that the losing party might not be able to cover its losses and might actually go bankrupt. This leaves the counterparty bank unable to collect its winnings.

That bank will demand immediate collateral to protect itself from possible credit losses in case the losing trader goes out of business. This demand is a margin call and can be for an amount even greater that the loss if the bank deems it necessary to protect its paper profits.

Margin calls can only be met with the highest quality collateral, such as cash or Treasury bills. A losing trader who gets a margin call at 9:00 am may only have an hour to two to provide the margin before the bank terminates the position. This would lock in the loss and eliminate any chance for the losing trader to recoup the loss if the market turns around. You can't meet a margin call with the same junk securities you are betting on. You must provide cash or cash equivalents to avoid getting blown out of the trade.

Given this toxic combination of leverage and margin calls, the leveraged trader protects himself with "stop loss" provisions. A stop loss is a pre-arranged sale with a broker that will automatically close out a losing position once the losses reach a certain threshold. The idea is to make sure the position is closed out before too much bleeding has occurred.

Stops can be extremely "tight" depending on the trading position. Examples of tight stops would be, say, a 1% loss on a foreign exchange position, a 2% loss on a stock position and a 5% loss on a relative value position or spread trade.

The stop loss process can be automated. No human judgment is necessarily involved in whether an initial repricing has achieved its purpose of rationalizing the old price to the new reality. The computers will sell the position automatically even if cooler heads might conclude that the position was now reasonably valued.

The potential for market devastation from tight stops and automation can be seen in this simplified



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example. Assume a certain asset is valued at 100. Further assume five hedge funds have stop losses set at five different levels. Fund A is set at 99 (down 1%), Fund B at 98 (down 2%), Fund C at 97 (down 3%), Fund D at 96 (down 4%) and Fund E at 95 (down 5%) respectively. Now a market shock emerges and the asset is instantaneously repriced down 1% in the market.

Once the price hits 99, the stop loss of Fund A is triggered and it automatically sells the asset in a falling market. This selling causes the market to fall further to 98, at which point the stop loss for Fund B is triggered and it too sells into a falling market. This second sale pushes the market lower until it hits 97 at which point Fund C automatically sells, and so on all the way down to Fund E at 95.

Examples such as this are much more complicated in the real world and momentum can be much more extreme than described here. It is also true that some funds are on the prowl for bargains even as the weak hands are selling. Some strong hands may step in as buyers and markets may eventually stabilize on their own.

The point in this example is that a 1% market repricing (due to news) is converted into a 5% market fall due to the acceleration and momentum from automated stop loss trading.

The most famous example of this kind of robo-panic was the October 19, 1987 stock market crash called "Black Monday." On that day, the Dow Jones Industrial Average fell 22.6%. As later detailed in the official Brady Commission Report, much of the selling pressure came from automated "portfolio insurance" programs.

These programs sold stock futures automatically once stocks had fallen a certain amount. The selling pressure ricocheted back and forth between the stock market and the futures market, and the crash continued as new sell programs kept getting triggered by prior sales.

An equivalent crash today would take the Dow Jones index down over 4,000 points in one day, from the current level of about 18,200 to just over 14,000.

Don't think it can't happen again. It probably will. We have seen various "flash crashes" in stocks (May 6, 2010), bonds (October 15, 2014), Euro v. Swiss franc (January 15, 2015), and sterling (October 6, 2016).

What these crashes have in common is that they are not merely repricings, but are accelerations of initial repricings based on automated stop loss momentum. Those algorithms are still in place and the market leverage is still huge. More such crashes should be expected with even more dire consequences than we have seen so far.

Once a market disruption passes the repricing and acceleration stages, the next stage in the REACTION model is *transmission*.

## STAGE 3: Transmission

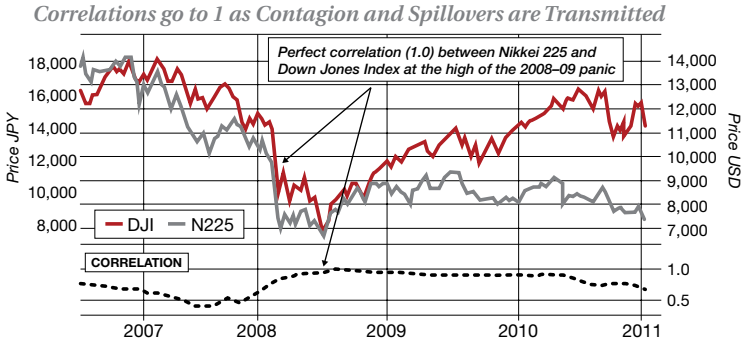
Transmission occurs when disruptions in one market spread to other markets which seem unrelated or uncorrelated with the initial market. Other names for transmission are "contagion" and "spillovers."

The usual unforeseen consequence of contagion is that "correlations go to 1." What this means is that two or more market indices that are normally uncorrelated suddenly and unexpectedly become correlated. My former partner, Myron Scholes, winner of the Nobel Prize in Economics, called this "conditional correlation." In other words, this unexpected correlation results from a certain conditional circumstance.

The chart below is a classic example of transmission and so-called conditional correlation. The red line is the Dow Jones Industrial Average. The gray line is the Japanese Nikkei 225 index.

**Nikkei 225 vs. Down Jones Index**

*Correlations go to 1 as Contagion and Spillovers are Transmitted*




*Source: Thomson Reuters Eikon*

The black dotted line at the bottom of the chart is a measure of correlation between the two indices, which can range from zero (completely uncorrelated) to one (perfect correlation). Technically this measure is called "r-squared.' Generally, statisticians regard an r-squared of 0.70 or higher to exhibit a strong degree of correlation. An r-squared of 0.30 or lower is considered weak correlation.

Some correlation between U.S. and Japanese stocks is unsurprising, but it should not necessarily be high. There are many factors (including demographics, exchange rates, structural impediments, etc.) that could cause Japanese and U.S. stocks to take divergent paths.

What we see is revealing. Shortly before the panic of 2008 the correlation between Japanese and U.S. stocks was 0.37, which is quite low. At the height of the 2008 panic and in the early months of 2009 when the U.S. stock market bottomed, the correlation soared and came close to 1.0, which is perfect correlation. In effect, market panic was a condition that took correlation from low to almost perfect.



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Correlation did soar in the panic, but most conditional correlation analysis is nonsense. It begins with a belief in normally distributed risk, equilibrium systems, efficient markets, and mean reverting behavior in markets. None of those assumptions is a good reflection of the real world.

A better way to understand this phenomenon is to think of capital markets as a densely connected web of nodes (the individual markets) and edges (the connections between markets). Market forces can move along one edge or another, and from one node to another, based on specific events that have their own dynamic and have nothing to do with normal distributions or efficient markets.

Specifically, the transmission mechanism between the U.S. and Japan had to do with liquidity and margin calls, as discussed above. The panic in the U.S. was caused by subprime mortgages, which had nothing to do with Japanese stocks. But, when U.S. hedge funds suffered losses on mortgages, they needed cash to meet margin calls. They would have preferred to sell the bad mortgages but they couldn't; mortgages went "no bid."

So they sold Japanese stocks, not because they wanted to, but because they had to in order to raise cash to meet margin calls on the bad mortgages. This transmitted the illiquidity from the U.S. markets to Japanese markets. The latter began to exhibit the same selling pressure and loss of liquidity that had already infected the former.

Imagine this same phenomena happening not just in two markets (the U.S. and Japan), but in scores of markets all over the world. Picture illiquidity spreading like the Ebola virus and you'll have a pretty good mental model of how financial market contagion works.

Once the *transmission* process moves financial stress from one market to many markets in our REACTION model, the stage is set for the next phase: *irrationality* in all markets.

## STAGE 4: Irrationality

The best description of financial panic I've ever heard is that "everybody wants his money back." In normal times, people think of stocks, bonds, real estate, and other assets as forms of "money." They say, "Oh, I have money in the stock market," or "I have my money in a money market account," and so on. In fact, none of those things are money. The only real money is cash, gold or silver. Everything else is just an asset.

In a panic, this realization suddenly sinks in. Investors want to convert everything into money by selling their assets all at once. Of course, that irrational selling drives prices lower, which causes more panic selling in a feedback loop that can end in market oblivion.

In the *irrational* stage, the only thing that matters is cash. Investors don't care about relative value, long-term prospects, "bargains," or high-yields. They just want their money back.

In recent panics (1994, 1998, 2008), regulators and central banks responded to a demand for money by giving investors what they wanted. In 2008, regulators guaranteed bank deposits and money market funds in an effort to make these assets more like "money." Central banks printed money and made it available through asset purchases and swap lines.

In short, when everyone wants their money, governments find a way to give it to them.

Such massive provision of liquidity tends to truncate the panic. Certain crises that have proceeded through repricing, acceleration, transmission and into irrationality have been truncated (before reaching the oblivion stage) by massive infusions of liquidity by central banks.

The problem today is that the liquidity is still there in the form of bloated central bank balance sheets. It would be one thing if the Federal Reserve had expanded its balance sheet from $800 billion to $4.2 *trillion* (which it did) to deal with a crisis, and then somehow normalized the balance sheet at the $1 billion level. But that's not what happened.

Instead, the Federal Reserve balance sheet is still at $4 trillion. Other central banks are equally leveraged. This limits the ability of central banks to deal effectively with the next crisis.

The job of reliquifying the world will be handed over to the IMF, which will print trillions of dollars worth of special drawing rights (SDRs) to get the job done. That response is likely to prove highly inflationary, and will certainly diminish the importance of the U.S. dollar as a global reserve currency.

Panic or irrationality is as much a behavioral response as an economic one. Because of that, it is harder to deal with than the other stages in the REACTION five-stage model.

The official response function in the next panic will be to use the IMF for liquidity. If that response fails, or if there's not enough time, the response will be to freeze all accounts at banks and brokers.

In my latest book, *The Road to Ruin*, I go into greater detail about the likelihood of this response. This closing of markets and freezing of accounts leads straight to the fifth and final stage or our model: *oblivion*.



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## STAGE 5: Oblivion

Oblivion is another name for complete systemic collapse.

The notion of "oblivion" is necessarily subjective. It implies a situation in which markets are not only crashing, but one in which markets cease to function at all. Oblivion occurs on different time scales and physical scales.

At the highest scale, scientists have identified five mass extinctions. The first was 439 million years ago and the most recent mass extinction occurred 65 million years ago. This last one was called the Cretaceous-Tertiary extinction. It wiped out 47% of all marine life and 22% of all land vertebrates, including the dinosaurs.

The next extinction scale refers to civilizations. The two most recent civilizational collapses are well documented. In approximately 1200 BC, multiple Bronze Age civilizations collapsed. These included the Hittites, Egyptians, Mycenaeans and Mesopotamians. Approximately 1,600 years later, in about 400 AD, Roman civilization collapsed.

Both the Bronze Age collapse and the Roman collapse were followed by a "Dark Age." Each Dark Age lasted several centuries (from 1000 BC to 700BC after the Bronze Age, and from 500 AD to 800 AD after the Roman Empire) before civilization began another ascent. Historians and anthropologists are uncertain whether there was an earlier civilizational collapse around 2100 BC with the decline of Old Kingdom Egypt, although something like that does seem to have occurred.

Based on Old Kingdom Egypt, Bronze Age, and Roman Empire collapses, the tempo of major civilizational collapse appears to be about every 1,300 years. It has been 1,300 years since the end of the last Dark Age. Are we due for another civilizational collapse? That is certainly a possibility.

An even smaller scale involves financial or capital markets collapse. There have been many complete collapses in the past 150 years. In 1914, the New York Stock Exchange was closed for five months. In 1933, every bank in the United States was closed for eight days. These lock-downs are in addition to financial panics and near total collapses in 1907, 1931, 1987, 1994, 1998, and 2008.

The point is not that extreme collapses are inevitable or happen like clockwork. The point is that *extreme collapse does happen*. And it could happen again tomorrow based on a wide variety of catalysts including social unrest, war, infrastructure failure, or natural disaster. More likely, there will be some combination of those events in which one collapse cascades into another, causing a total collapse.

Set against the dynamics of collapse is the policy response function. When a collapse into oblivion begins, the elites have the most to lose. This means they will fight the hardest to prevent it. The elites have powerful political, financial, and military tools at their disposal and they will use those tools in an effort to truncate the collapse.

Truncation is the expected elite response function to collapse. Truncation is impossible with regard to natural disasters (you can't stop an earthquake once it begins), but it is possible in man-made systems (if there's a run on the bank, you can close the banks "temporarily").

If the situation becomes more dire, and money riots break out, elites will use the military and militarized local police forces to maintain order.

For everyday investors, there is not much practical difference between extreme collapse and an extreme policy response function in the form of truncation. What difference does it make if you can't get your money because the bank failed, or if you can't get your money because elites closed the banks? Either way, you can't get your money.

The solution, of course, is to have assets than cannot be frozen, closed or hacked, such as physical gold and silver, physical cash, land, fine art, or private investments in contractual form where you know the entrepreneur personally.

Oblivion (defined as the end of markets) or truncation (defined as the freezing of markets to halt a collapse) are equally disastrous for investors. This is the end stage extinction event of the five-stage REACTION model.

## Conclusion: How You Can Apply the 5 Stages

This five-stage model — repricing, acceleration, transmission, irrationality, and oblivion— what we call REACTION — has powerful explanatory power to aid in the understanding of financial shocks and panics.

It is important to understand that not every financial shock will automatically progress through all five stages. A shock can lead to a repricing, but the process can end there with markets simply adjusting to a new level.

Similarly, a shock may progress through the repricing and acceleration stages, which will take markets to levels lower than repricing alone, but not exhibit signs of transmission or irrationality.

Sometimes market panics are confined to a single market or country. They progress from acceleration



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to irrationality without showing signs of transmission. Developing markets sometimes perform in this way. Argentina exhibited repricing, acceleration, irrationality and oblivion in 1999–2000, but there was no transmission to the rest of the world. The panic was confined to Argentina.

While not every financial shock exhbits all five stages of REACTION, *it is important to understand that they could*. When you see definite signs of a repricing, it is not prudent to let down your guard.

The market might stop at that, but it might not.

Once the dynamic begins it is impossible to say where it will end. The important task is to observe the phenomena and be prepared for the worst outcome, even if it does not actually materialize in every case. Considering that your net worth is at stake, it is far better to be prepared than to be caught unaware.

That's why understanding the REACTION five-stage model is critical to your financial health.

My exclusive *New York Times* bestselling book *The Road to Ruin* will alert you to the greatest financial threat yet, and it is headed directly toward you and your assets. This financial lockdown could very well separate you from everything you hold dear. As I highlight, when it hits the value value of your retirement accounts, stock portfolio, home and even your cash holdings could be swiftly cut. It is critical that you take steps to protect you and your family immediately.

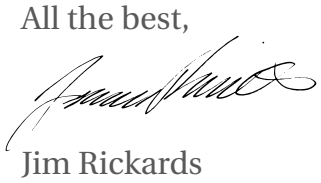
That's why I am sending any American willing to listen a copy of my book. Every American deserves to know the truth about the imminent dangers facing their wealth. That's why I have gone ahead and reserved a free copy of my new book in your name. It's on hold, waiting for your response.

You have now entered a true crossroads in your financial life. You can either take the information given to you and hide, or you can get in depth analysis and recommendations that could help prepare, protect and even grow your wealth in the coming financial lockdown.

Only you can choose the right path you want to take. You have the power to decide what to do.

**Click here if you want to learn how to take action.**

All the best,



Jim Rickards
Editor, *Strategic Intelligence*

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