



This May Be the Biggest Breakthrough in a Decade...

Because a revolutionary new drug wipes out cancer when radiation and chemo simply can't. Just ask once leukemia-riddled Natalie Langworthy. Sent home by hospital doctors in October to prepare for the worst, she learned of this treatment at the last minute. Now, just months later, the 34-year-old mother is cancer-free. Only one small company makes this drug. Its stock is moving fast. And it could hand investors a windfall very soon.

[Get all the details right here.](#)



U.S. AA+ Credit Rating Downgrade: Here's The Worst-Case Scenario... And How To Protect Your Wealth

If there's a "worst-case scenario" for this whole credit downgrade, this is it.

U.S. stocks have plummeted with the Standard & Poor's downgrade, but the final results of the AA+ credit rating could be much, much worse.

After studying everything that could happen due to the downgrade of the United States' top-tier AAA credit rating, and the potential default on its debt, we found a scenario that would result in forced asset sales so widespread that global stock-and-bond markets would plunge – and economies around the world would crash.

Tangible evidence that this frightening scenario could really play out surfaced, when the Chicago Mercantile Exchange (CME) announced it was increasing the "haircut" that it applies to U.S. government debt posted as collateral by traders transacting on the exchange.

The retail investors who didn't just ignore this announcement altogether probably dismissed it as a boring bit of administrative housekeeping by the CME.

In truth, however, this kind of re-evaluation of U.S. Treasury securities, widely used as loan collateral, could trigger global margin calls and widespread asset sales. If that occurs, it's only a matter of time before the ripple effects of escalating margin calls could weigh down asset prices around the world.

Let's take a look at how and why this could happen.

The "Haircut" Nobody Wants

Because U.S. Treasury bills, notes, and bonds are considered "risk-free" they are every lender's preferred collateral class.

All of America's too-big-to-fail banks, major securities broker-dealers and giant hedge funds – and most of the world's biggest financial institutions – hold hundreds of billions of dollars of U.S. Treasuries that they use as collateral to borrow in the overnight and term “repo” market.

Traders use their U.S. Treasury securities to borrow more money to buy still more Treasuries, as well as other more-speculative securities. The intention is to leverage the capital they have by borrowing against balance-sheet assets to take on bigger positions.

But what happens now that U.S. sovereign debt has officially been downgraded?

The actual answer to that question may not matter as much as the uncertainty that's been created.

The Frankenstein-like facelift will change markets for years to come. And it's all going to start with a “haircut” that trims the collateral value of U.S. Treasury debt.

Now would be the time to get as far away from Treasuries as possible. There is a strategy to protect your portfolio from U.S. debt fallout and that could beat growth stocks by 3,000%. [Learn more here](#) in the latest free presentation.

Lately, the word “haircut” has been transformed to mean a loss – as in “my stocks went down in the bear market ... man, I took a real haircut.”

But that's not the technical definition.

A “haircut” is actually a securities-industry term that pertains to the U.S. Securities and Exchange Commission (SEC) Uniform Net Capital Rule 15c3-1. Securities broker-dealers, regulated by the SEC, have to maintain a minimum amount of “net capital” – or enough of a capital cushion to remain solvent.

When calculating their net capital, securities firms weigh their liabilities against their assets.

But not all assets are treated equally.

In some cases, such factors as credit risk, market risk and even its maturity can bring about an increase in uncertainty for certain assets. If that happens, the SEC can demand that firms “haircut” that asset – marking down its cash value using general formulas that discounts its “present value.”

The more an asset has to be haircut, the less its collateral value becomes.

The Collateral Calamity

Because U.S. Treasuries are U.S. government obligations and have traditionally been considered to be essentially risk-free, they typically haven't had to suffer much in the way of haircuts.

In fact, short-term Treasury bills aren't haircut at all and the longest-dated Treasury securities are only haircut by 6%. For the most part, haircuts on government securities are based on weekly yield volatility measures calculated by the Federal Reserve Bank of New York.

But since traders have used those Treasury securities to borrow more money to buy more government bonds and other (more-speculative) investments, a bigger-than-normal haircut on federal debt obligations will cause lenders to demand additional security on the loans they've made to leveraged trading desks around the world.

Leverage is all fine and good, as long as one of the following two things don't happen to you.

The first thing that's bad news for a leveraged trader is if prices fall. If you're leveraged enough, and the prices of the assets you're loaded up with start to decline, you can quickly start eating into your capital base.

For example, if you are leveraged 10-to-1, meaning you have \$1 of capital and a \$10 asset position, the price of your position only has to fall by 10% to completely wipe out your capital. In the current market environment, a 10% move in just about any asset class can happen in a day or two – if not in a matter of hours or minutes.

The second thing that wreaks havoc with leveraged trades is if the collateral that's been posted to borrow money (with which the leverage is accomplished) falls in value, then lenders will demand additional collateral, usually in the form of cash.

Of course, the double whammy occurs if the value of your collateral (in our present scenario, that means U.S. Treasury securities) falls at the same time that the securities you're leveraged up with (we're once again referring to U.S. Treasuries) also fall in value... then, well, you're toast.

And the fallout won't end with you.

The Ultimate Credit-Rating Disaster

If the value on both collateral and leveraged investments fall simultaneously, it could actually result in a kind of "global margin call" – kicking off a worldwide de-leveraging scenario that could sink global markets and torpedo world economies. That's the Frankenstein-like facelift I referred to earlier.

Here's why.

The ratings downgrade affects America's perceived credit quality. And this will mean that Treasuries and other forms of U.S. debt will be subject to deeper haircuts.

There's the "trigger" I've been talking about.

As leveraged institutions have to take deeper haircuts on the Treasuries they've put up as

collateral for their loans, they'll have to come up with additional collateral. At the same time, their leveraged positions are being marked down. These institutions will have to raise cash somehow, meaning there's likely to be a sell-off of multiple asset classes as cash has to be raised.

Government securities will no longer be pure-interest-rate instruments. They will immediately assume the risk profile and characteristics of lesser-credit products and not be the baseline against which all other credits are measured, but demand new measures of their own default probabilities.

It's bad enough that the U.S. government securities market is the largest securities market in the world. What's even worse is that the derivatives market – which is at least 100 times as large as the U.S. government securities market – principally uses Treasury securities as collateral for their “private contracts.”

If you don't think this is a real scenario, think again: The move by the CME shows that it's already started.

It's only a matter of time before the effects of building margin calls weigh on asset classes around the globe.

To be forewarned is to be forearmed.

And investors who look outside the U.S. for their “safe” investments will congratulate themselves in coming months.

Investors who still want to buy government debt have four excellent choices for countries with solid economies and governments with sound budget policies. These countries have solid economies, stable government spending and don't have outside obligations consuming their wealth. Their AAA-credit rating is a solid bet in months and years to come.

- **Canada** – It's a pretty solid outfit in my view, and one of the world's safest economies – something we've told *Money Morning* readers on several previous occasions. The fact that Canada got itself into trouble in the early 1990s has proved to be a blessing; it has reduced government spending since then – to the point that, overall, it's slightly lower than in the United States. Granted, Canada has a reputation for being boring. But for bond investors, boring is good!
- **Norway** – This Scandinavian country isn't an EU member, so nobody can make it bail out Greece, Italy, Ireland or Spain. Now you're talking! Plus, it's a major oil exporter, with a huge (\$570 billion), well-managed sovereign wealth fund. If you can find any Kingdom of Norway debt, buy it!
- **Switzerland** – Let's be honest. Switzerland is basically a Norway – but with banks instead of oil. It, too, is rock solid.
- **Singapore** – This is the most solid economy of the S&P AAA-credit-ratings,

chiefly because it has a more diverse economy than Norway. Singapore is beautifully run, and one of the least-corrupt countries in the world. In short: It's rock solid.

- As for other “safe” investments right now, find stocks that aren't connected to government debt (like financial institutions) or government contracts (like defense companies). To learn more about one such stock, [click here](#). 🌱



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