INVESTOR REPORT

THE BEST RETIREMENT INSURANCE

for a China-Driven Market Crash

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The Best Retirement Insurance for a China-Driven Market Crash

When the Dow Jones Industrial Average plummeted 1,000 points at the start of trading Aug. 24, 401(k) account holders immediately remembered the pain of 2008-2009… That's when their retirement savings were nearly slashed in half, as the Dow fell all the way below 6,700.

The last massive market crash stemmed from irresponsible mortgage lending that fueled a speculative investment bubble – resulting in Wall Street bankruptcies and trader panic.

This time, the problems are much bigger… So big, they've been forming since 2011, when gold's staggering 10-year price climb came to a halt.

Now oil prices are down more than 50% in the past year…

And the rest of the commodities have collapsed to multi-year lows…

The problem is, of course, China.

China has grown at double-digit rates over the past two decades and emerged to become the engine driving the global economy. But now that engine appears to be running out of gas.

This sudden downturn is rippling through the global economy. And the big question now for investors and retirees is how to prevent their savings from being slashed in half over the next year.

First, let's take a closer look at the nature of China's growth, and what's putting the brakes on it…

What's Behind China's Economic Rise and Fall

China's gross domestic product (GDP) has grown at an average of roughly 10% since the country reformed its markets in 1978. This enormous economic expansion has created massive industrial demand that absorbed most of the world's commodities – like oil, coal, iron ore, copper, and aluminum.

At the same time, China has supplied the world with cheap labor, which spurred growth in global corporate profits, along with extremely cheap exports, which have propped up consumer classes in the west.

The country's expansion has helped moved the needle toward growth across the globe. But all of this growth has required financing...

With its capital markets still in the embryonic stages, China financed its incredible industrial expansion by taking on tremendous debt.

Total public, private sector, and household debt in China now exceeds $25 trillion, and this huge amount of debt has been weighing on the government. Chinese leaders had hoped to monetize the debt of state-owned corporations by turning it into equity shares. And to do this, they engineered an extraordinary rise in the Chinese stock market.

Investors enthusiastically entered the Chinese market, believing that the government would never allow stocks to collapse. Many of them did so by buying in on margin – more debt in an already debt-burdened system.

With the Shanghai Composite Index dropping more than 1,060 points over 10 days in August – and the subsequent devaluation of the yuan – individual Chinese investors have now watched their nominal savings, along with their purchasing power, diminish.

Those in Beijing with the right "guanxi" – or government connections – were able to get out at the right time. The number of traders with holdings worth 10 million yuan ($1.56 million) or more declined by 28% in July, according to China Securities Depository and Clearing Corp. data.

But China's "regular" investors and savers didn't have the benefit of this privileged information.

While wealthy Chinese investors have been moving their money overseas, the average investor there has simply gotten crushed. These new investors watched their stock holdings bleed 38% in value in just over two months.

We've now seen the bursting of the Chinese debt bubble –set in motion by the plunge in stocks.

When any system becomes overextended like this, the increasing fragility is likely to cause contagion. Our interconnected world has placed China at the very center. And now – just as the debt-backed instruments and derivatives that caused the financial crisis of 2008 spread across the global economy – the interdependence of world economies threatens similar contamination today… potentially on a much larger scale.

Now a recent development has made matters even worse…

In August, China devalued its currency for the first time since 1994 – a move that caught the financial markets off guard and could signal desperation on the part of Chinese officials.

Not only does this damage the competitiveness of foreign exports to China, but the yuan devaluation has now ignited fears of a worldwide currency war.

Despite reassurances from China's central bank, the day following China's surprise devaluation saw Indonesia's rupiah and Malaysia's ringgit hit 17-year lows. The Australian and New Zealand dollars also dropped to six-year lows. Other countries are following suit, and no one wants to be left behind…

That means it's time for investors to protect their assets…

Protect Your Retirement from Another Debt-Fueled Collapse

What's happening in China is part of an inevitable reality that all rapidly growing economies must eventually contend with – amplified in this case by the extremes that characterize China's rise.

The U.S. and other developed economies in the West have been running current account deficits since long before the financial crisis of 2008. China has been running a massive current account surplus. This is a reversal of historical dynamics between established and emerging economies.

Now the country has run head-on into the fundamental changes that are demanded of an economy after it transitions from "emerging" status to being the largest in the world… You can only get so far on central planning while ignoring the giant proportion of the population that is left out.

But, for regular investors here in the West, there are three moves that will help you adjust your investments for protection – and profit:

1. Pad your portfolio with a solid base of crash insurance, like gold and silver.
2. Seek opportunities to profit on downward moves in the broader markets, with investments like inverse-index ETFs.
3. Support your income with solid, long-term dividend-paying companies.

Stick to this strategy, and you won't have to lose sleep about what's happening in China… or what the pundits have to say about it.

Here's a closer look at how to apply this retirement "crash insurance" strategy to your portfolio today…

How to Add "Crash Insurance" to Your Portfolio

Let's start with precious metals.

Money Morning Resource Specialist Peter Krauth says that a renewed round of currency wars initiated by China just might be the "excuse" that the precious metals sector needs to finally find a bottom after four years of correcting.

"Gold," he says "has actually been in bull mode in a number of major countries, courtesy of their weakening currencies… Anyone using one of these currencies has been protected from local inflation by having a reasonable allocation to gold."

Peter thinks that when markets realize the U.S. dollar is about to be massively diluted by yet *more* quantitative easing, the dollar will lose its safe-haven status, and people will once again flock to gold.

With central banks desperate to shock their economies back into growth mode, they're all too quick to devalue their own currencies. Gold – the only currency that can't be printed – will be the largest beneficiary.

While many investors look to precious metals like gold for potential short-term gains, it is financial disaster insurance first and foremost. Investments like gold are not only protection against weakening currencies, but they also provide a defense against crises in general – as they are widely regarded as safe-haven investments.

For those who want an added sense of security, you can purchase physical gold with gold coins or bars. When buying coins, look for some of the most common, widely owned, and highly regarded gold coins whose cost is closely tied to their *gold content*.

When buying gold bars, make sure that the bars are considered "good delivery." The London Bullion Market Association (LBMA) and the New York Mercantile Exchange (NYMEX) are regarded as industry standards, and they publish lists of reputable refiners. If the bar's refiner is on that list, then it is considered "good delivery."

Use Inverse Funds to Profit as Prices Fall

Retirement crash insurance is also about pocketing gains when the markets go south…

To do that, ***Money Morning*** Capital Wave Strategist Shah Gilani recommends tapping into inverse investments.

For example, you can buy shares of the ProShares Short Dow30 (NYSE Arca: DOG) to cash in when the Dow Jones Industrial Average sinks. DOG is an inverse index fund that tracks financial instruments and securities positioned to directly counter the Dow's performance.

This fund has proven the performance of inverse funds amid the recent turmoil – just as the Dow reached its low during the August crash, the DOG jumped *up* almost 5% in two days.

Similarly, institutional investors track the S&P 500 – the broadest possible baskets of stocks. The ETF that returns the inverse of that is the ProShares Short S&P 500 (NYSE Arca: SH).

It's reasonable to expect widespread, sustained downward pressure across the broad markets as well. You can look at shorting the Nasdaq Composite with ProShares Short QQQ ETF (NYSE Arca: PSQ). And you can protect against sell-offs on the small-cap Russell 2000 by buying shares of the ProShares Short Russell2000 (NYSE Arca: RWM).

When you have those investments in place, protection is easy – and making money on the sell-offs is even easier.

Buy Must-Haves, Not Nice-to-Haves

While selling and short selling tend to be the knee-jerk reactions of investors and traders during a downturn, it's crucial to keep in mind that there will *always* be good, high-value companies to buy. These companies will simply be dragged down with the broader movements of the markets, and they'll be trading at a discount. You don't want to miss these profits when the markets eventually come back.

Money Morning Chief Investment Strategist Keith Fitz-Gerald suggests keeping focus on companies that have real, long-term value and getting rid of the "nice-to-have" shares, like Shake Shack Inc. (NYSE: SHAK) and Twitter Inc. (NYSE: TWTR), which he says are "weak-money stocks, driven by hype."

Keith says that the best strategy right now is to hunker down and confine your stock positions to quality shares of dividend-paying "glocals" – companies that are highly localized, but with an international presence and globally defined brands. They pay strong dividends, and they have the reach and "war chests" needed to offset downward pressure in one or more parts of the world.

The glocals are companies like Apple Inc. (Nasdaq: AAPL), Raytheon Co. (NYSE: RTN), and Altria Group Inc. (NYSE: MO). Altria currently

yields 4.24%, while Apple and Raytheon yield 1.85% and 2.56%, respectively…

By following the approaches above, you will have the tools you need to make your portfolio work in this or any environment. The key is to be defensive and watch for the right entry points.

History is rife with macro, geopolitical shifts that trigger enormous losses and transfers of wealth. It's easy to react emotionally and panic in the face of these, but remember the proverb (often attributed to the Chinese) – in every crisis there is opportunity.

With the right strategy, you will always find yours.

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