2020 Overview: Cycles Of Crisis & The Containment Of Crisis

2 DVD Set With Companion Manual

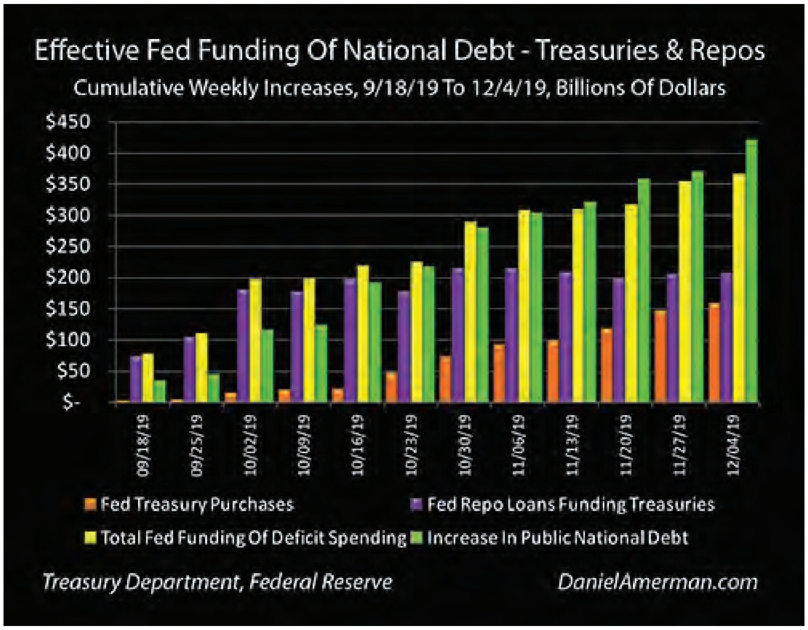
2020 Overview: Cycles Of Crisis & The Containment Of Crisis

Table Of Contents

2 DVD Set With Supporting Manual

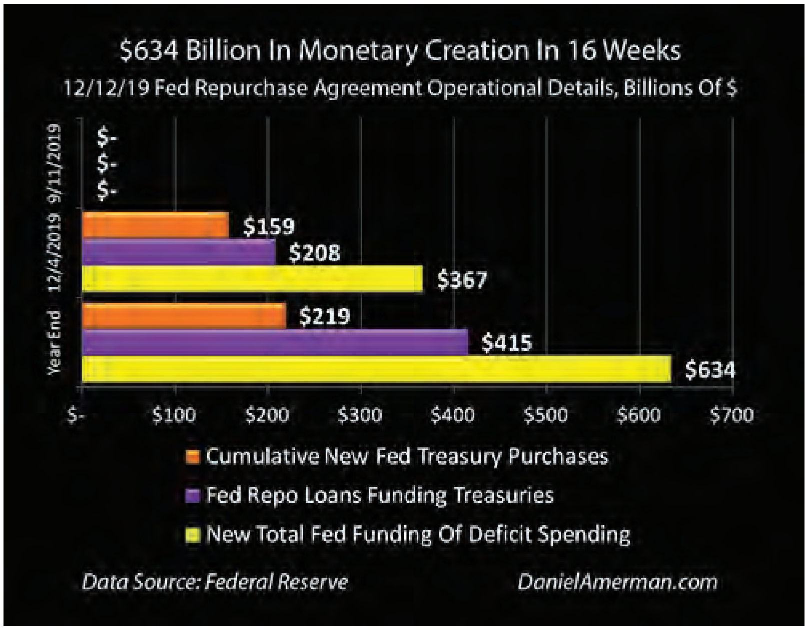
The Liquidity Crisis, Monetization Mechanics & Limitations

As explored in the two analyses linked below, the U.S. financial system fairly abruptly moved into a quite extraordinary place in the last four months of 2019.



The Federal Reserve has been effectively funding 90% of $422 billion in deficit borrowing by the U.S. Treasury Department.

http://danielamerman.com/va/ccc/F1DefFund1219.html



In the attempt to prevent a crisis, the Federal Reserve announced plans on December 12th, 2019 to increase the amount of monetary creation up to at least $634 billion by year end, if needed.

http://danielamerman.com/va/ccc/F2YrEndRepo.html

This doesn't mean that there will necessarily be an immediate new round of financial crisis, the Fed could successfully contain this round. On the other hand, the situation could slip out of control, and the rapid growth in the U.S. national debt could indeed end up being the "tipping point" that causes the Fed to lose control, with a new financial crisis and radical changes for stock, bond, housing and gold prices being among the results.

Even if the situation is (hopefully) successfully contained in early 2020, so long as 1) the U.S. government continues to remove over $1 trillion in cash per year from the system to fund deficit spending, while 2) the stability of the financial system continues to depend on the Federal Reserve making sure that the interest rates on that new debt are lower than what a rational investor would accept in a free market, then 3) there will be an ongoing and building collision between these two titanic forces throughout the 2020s, that could manifest in crisis again at almost any time, in multiple different ways.

(For long time readers, I've been running the numbers and discussing why this was on the way for some years now, and with the liquidity crisis of late 2019 it has indeed arrived for real.)

The place that the United States is at right now, is that a fantastic degree of monetary creation by the Federal Reserve is arguably what is holding the U.S. financial system together as 2019 ends and 2020 begins - and it might or might not work.

The particulars of the monetary creation process that is involved isn't even remotely "running a printing press", nor is it the "fractional reserve banking" that many people may have studied in school (although there is a relationship). This creates a major problem - very few people understand what it is that is holding the financial system together right now, how it works, and what the risks are likely to be in the coming years.

To better understand, at the workshop we will walk through the process of how trillions of dollars in new money have been and can be created to finance the national debt, at very low interest rates (that can even be negative), with a particular focus on the seven items below:

1) Debt based monetary creation;
2) The relevant principles of financial repression;
3) Excess asset reserves;
4) Interest on excess reserves (IOER);
5) Sterilization & the limitations thereof;
6) Liquidity coverage ratios (LCRs); and
7) High quality liquid assets (HQLAs)

At first blush, the jargon can sound a bit daunting, and that is very unfortunate. The current way monetary creation works arguably can't be understood without understanding those terms. Fortunately - the concepts themselves aren't that hard, and I will be explaining each one of them in layman's terms. Once these concepts are understood and integrated, then something very important indeed can be understood, which is the limitations on this process.

Running a printing press is an infinite source of money. This isn't. What the Federal Reserve has been doing since 2008 has major limitations - and major hidden costs. When those limitations are reached, then either the process becomes much more dysfunctional in terms of the hidden costs to the financial system, or some much more dangerous forms of monetary creation have to be used (or perhaps what is most likely, both greater costs and greater dangers).

If we take the recent rapid surge in monetary creation being done at a rate that is effectively funding 90% of the growth in the national debt, and extrapolate that forwards in time - those limits will be reached, the game will change, and monetary creation will become much costlier for the nation, or much riskier, or both.

What is substantially worse is if we do assume a recession occurs while this extraordinary funding of the national debt is ongoing, and the deficits soar even while the Fed smashes down interest rates.

I think the natural reaction of many people would be to say that this whole process would have to be very unstable - but *with the current sterilized form of monetary creation* that isn't necessarily true. Quantitative easing has been in place for 11 years now, the goal is actually to create a form of stability based on market interventions, and today's elevated retirement account values and home values are arguably all based on the (artificial) stability produced by previously created money.

That said - what is happening right now, and particularly what is coming up over the next several years as the national debt continues to grow, is likely to stress this new monetary creation process in ways that far exceed what we have seen in the last decade. There are limits, there are major risks, this is no "magic bullet", and if it fails, then the stability of the system is quite likely to fail with it, and potentially in a way that is much harder to put back together again than what was experienced in 2008 and 2009.

The goal is not a course in economic theory, but to quickly provide a practical understanding of what is actually happening, the essentials of how it works in the most basic terms, and how it can change all of our lives. No prerequisites are involved in terms of the formal study of finance or economics.

The intention is to take a few hours out of the weekend, some prepared slides, some supporting written analyses, a whiteboard, explain what each of the seven pieces are, and as a group walk through how they all fit together to do something which relatively few people understand - but the success or failure of which could determine whether the future is one of stability and high asset prices, or of crisis and plunging asset prices.

I've been avoiding going into this level of detail so far, because when people come to workshops, they want to discuss tangible things that are impacting their lives right now, that help them make better financial decisions with regard to investments, retirement accounts, and income property investing. I knew the specifics of how monetary creation actually works was likely to become extremely important as the limits of the current process were approached, but so long as the limits seemed off in the future, that didn't fit the screen for what to talk about at the workshops.

The world has changed. The year end monetary creation surge may not continue, and the Fed may even find a way to back off a bit. That said, unless the Federal Reserve finds some sort of "off ramp" for the cash funding of trillion plus dollar a year deficits at irrationally low interest rates - we could just be getting started, and heading towards those limits - where the risk levels could change entirely - at a pretty fast pace.

For at least now, what is holding the financial system together is rapid monetary creation. If the Fed hadn't created the money to support the repo market, the financial system would be in danger of another round of crisis. If the Fed wasn't creating the money to fund ongoing U.S. deficit spending at extremely low interest rates - paying the true free market interest rates needed to pull in those fantastic sums on a weekly basis could already be collapsing stock, bond and home prices.

Particularly for long time readers, I hope that you will permit me to say that we are at a somewhat surreal moment. The markets look great! On the institutional side, there is an emergency happening in real time in the systemically important repurchase agreement market and with the funding of the national debt. What stands between wonderful asset values and life changing near term crisis is something that almost nobody seems to really understand, which is how central banking monetary creation is actually currently working in the United States - and the risks and limitations thereof. I will be doing my best to correct that situation at the workshop.

I am also almost completely redoing DVD #1 of the 2020 Overview DVDs to better explain what is currently happening, since it could have major implications for the entire coming year. Fitting this in as one part of a single DVD does of course mean that there won't be nearly the level of detail that we can go into in a workshop, but I think that what will be included will be enough to be very useful and interesting, particularly at this somewhat surreal time. This means pushing back my delivery of the companion manual to the printer, which will unfortunately but necessarily delay the delivery of the DVDs until the week of January 6th.

A Model That Better Fits The Data

Let's say that our goal is to maximize our investment returns, and minimize our risks. And in order to do that, we have to make a choice:

A) Invest for reality and the situation as it is, wherever that may lead us; or

B) Take the easy and popular route, even if it ignores the situation we are in.

Which is the better choice, "A" or "B"?

Many people would not see the distinction - for the easy and popular route, what we are encouraged to believe, is that the process of reliably and safely creating wealth over the long term is no mystery, but rather is effectively a solved science.

What this belief system boils down to is that the financial patterns of the United States and other developed nations in the 20th Century are assumed to be a fixed and governing reality. And while the specifics may vary in the short term, we can supposedly be confident over the longer term that the past will endlessly repeat itself when it comes to how stocks, bonds and other assets will perform in the future.

However, there is a problem with that belief system when it comes to the last twenty or so years - it hasn't been working. We have seen the collapse of two asset bubbles, with results that include the Financial Crisis of 2008, and the most severe recession since the Great Depression of the 1930s. We have also had unprecedented Federal Reserve interventions to contain those crises, including creating trillions of dollars out of the nothingness, and forcing the lowest interest rates in history.

Most importantly, we have also seen record or near record valuations for stocks, bonds, real estate and precious metals.

From the perspective of the patterns of the past - those are all abnormalities, although what is abnormal is a matter of perspective.

From a mainstream perspective, the ruinous financial damage from the collapses of the bubbles, the Great Recession, and the Federal Reserve effectively wiping out the ability of retirees and retirement investors to earn interest income were each complete shocks and surprises, abnormalities that should never have happened.

The traditional alternative to the mainstream is a "doom and gloom" perspective, and from that perspective, the last twenty or so years have also been deeply abnormal. It is now the crises that are expected - but the Federal Reserve actions are a bizarre form of "cheating" that should not have worked, and the record high prices for stocks, bonds and real estate are all completely unexpected abnormalities.

In most fields, if we have to disregard most of the data for the last 20 years because it doesn't fit the model, then a question should arise - are we using the right model? And if the subject is important - such as the value of our life savings and potential standard of living for what could be decades of retirement - then shouldn't we be insisting on a model that actually fits the data, instead of ignoring much of the data as being "abnormalities"?

The Crisis & Containment Of Crisis Analysis Series

The series of analyses linked below is based upon the foundation principles of finance and economics, as well as many years of work. The premise behind the analytical series is that investment results in the 21st century have in practice been dominated by cycles of crisis and the containment of crisis.

http://danielamerman.com/va/ccc/RedBlackSeries.html

As developed in those analyses, when we take that perspective - the abnormalities disappear and the data far better fits the model.

The sharp losses caused by the popping of asset bubbles become rational and expected.

Federal Reserve interventions and the destruction of interest income for retirement investors becomes rational and expected.

Most importantly, record or near record prices for stocks, bonds, real estate and precious metals all become rational and expected at various points in the cycle.

The last twenty years have included some of the worst financial conditions that most of us have experienced in our lifetimes. The last twenty years have also included some of the most profitable market conditions that we have ever seen.

Both are true simultaneously - and there is good reason to think that both could potentially be true in the future. To protect ourselves from the risks and to position ourselves to profit from the opportunities, we have to be able to truly see and understand the logical relationships between crisis, the containment of crisis, and investment price movements in each of the major categories.

What If There Is A Third Iteration?

Finding an investment model that better fits the data may sound quite abstract for the average person.

What needs to be kept in mind, however, is that these data points are our lives, our financial security, what our actual standard of living will be in retirement, and whether we can retire at all.

If we invest all that we have on the basis of a model that has been a poor fit with the data for almost 20 years, and the model continues to be a poor fit - then we have no security and no assurances.

Perhaps the easiest way to illustrate this is to ask a quite simple question: what if we get a third iteration? Starting in the year 2000, we’ve had two Red Zone crises (more on what that means in the pages that follow), and we’ve also had two Black Zone containments of crisis. What if there’s another round to the cycle?

From a mainstream individual financial planning perspective, the data points of the last two bubbles popping, the tech stock bubble and the Financial Crisis of 2008, have already been (effectively) thrown out as being rare abnormalities that never should have happened in the first place. That means that the potential data point of a third crisis - and perhaps the largest crisis if amplification continues - is ignored, and the possibility of it is more or less precluded by definition.

So, if there is a third iteration, and our only protection was to theoretically exclude the possibility of a third crisis - then we have no protection whatsoever. There would be devastating financial damage to tens of millions of retirees and retirement investors (and pension funds).

Because we have in practice had two previous rounds of "abnormalities", a previously obscure term has become part of the professional vocabulary, and that is "sequence of returns risk". As was demonstrated in the real world in 2000 and 2008, long term averages do not protect individual investors if there is a sharp enough loss that occurs near to the year they retire or in retirement. There may not be enough time to recover from the damage, and the loss of financial security and/or lifestyle can be permanent over their remaining years.

Not Seeing The Third Containment

Now, let's consider a different financial model, which is that of "doom & gloom" investors. Their financial model completely incorporates the previous two episodes of crisis, for they are the very core of the model. So if there is a third round of Red Zone crisis - these investors are likely to come through with flying colors, with financial security intact and possibly in better shape than ever.

However, what if there is not just a third round of crisis, but a third round of the Black Zone containment of crisis? A third crisis could be an existential event for the United States government and the Federal Reserve, and they would have extraordinary motivations to do whatever they could to contain the crisis, prevent a financial meltdown, and try to get the economy going again.

That could be a daunting task - but never forget that the law and the very nature of money itself are not fixed, but are variable, and can be changed by the government and Federal Reserve if the need is urgent enough. We saw this the last time around, and it could certainly happen again, perhaps even in amplified form if there is an amplification of the crisis.

Now, a crisis can deeply impact asset prices and returns across all the asset categories, and that is reasonably well understood. What is far less understood is that extraordinary interventions to contain crisis can also have a dominating impact on asset returns and prices.

How the containment of crisis can produce record or near record prices for multiple asset categories including stocks, bonds and real estate - even while destroying the interest income that is one of foundations of retirement financial planning - is not taught in Finance 101, and it is not part of the conventional wisdom. It not only not part of Modern Portfolio Theory, but it contradicts the very foundation assumptions of MPT, which are based upon investors determining prices rather than governmental interventions.

But nonetheless, what we have seen since 2001 has been ever more aggressive Federal Reserve interventions, including the lowest interest rates in 50 years, followed by ZIRP (Zero Interest Rate Policies) and the lowest rates in history. We've seen the Federal Reserve using quantitative easing to create dollars by the hundreds of billions to stop a collapse of the global financial system in 2008, and then even more to effectively fund the purchase of most of U.S. homes that sold in 2009 and early 2010, and then even more trillions to effectively fund a big chunk of the U.S. national debt.

And the results of this seemingly bizarre process have been not been some dark scenario, but record real estate prices, record bond prices and record stock prices. The price of not understanding the process is to miss out on record profits in different asset categories at different times.

Because the "doom and gloom" model does not incorporate the containment of crisis - it cannot see this process. The amount of data that must be thrown out here is actually worse than with mainstream investors, because most of years since 2001 have been dominated by the containment of crisis.

In a classic "doom and gloom" model, crisis is supposed to lead to an annihilation of the value of paper currency as well as much of the financial system. From that perspective, record asset prices and profits in the aftermath of crisis are completely illogical events that should not have happened in the first place, and they can therefore be safely ignored as abnormalities that won't happen again.

So while a "doom and gloomer" can come through a third round of crisis just fine, the risk is that they will not be able to see a third round of the containment of crisis. They therefore risk staying hunkered down in their financial bunkers for many years after the crisis has passed, discarding the data points of what is actually happening and missing out on what could be extraordinary profit opportunities in multiple markets, even while the value of their crisis oriented investments continues to decline.

The Advantages Of Seeing & Using All The Data

This is a short introduction to a much larger body of work, and there is not room herein to fully develop what follows. But as a start, let's consider the advantages of using a financial model that includes all of the data points.

There is no certainty that there will be another Red Zone crisis. But if it does happen for a third time then a model that sees with clarity the data points that have already happened, and allows for the significant possibility of crisis has major advantages over a model that ignores what has happened and precludes the possibility of its happening again.

There are greater chances of defense, and of being able to preserve the value of assets. There are greater chances of offense, and of being able to aggressively take advantage of the major price swings that accompany crisis.

There is no certainty that there will be another Black Zone containment of crisis. But if it does happen for a third time, and if we see the data points, and if we understand why they are happening and what the implications are - then we have the ability to potentially benefit from major price swings in multiple different asset categories at different points in time.

The greatest benefit of all that comes from moving to a model of crisis and the containment of crisis is the ability to see the cycles.

A key difference between normality and cycles of crisis and the containment of crisis is that with the cycles there are higher highs, and lower lows, and they can occur closer together. So a cycle is a major price movement across multiple categories in the first half of the cycle, followed by quite different major price movements across multiple categories in the second part of the cycle. This is true whether we are looking at a Red to Black cycle, or a Black to Red cycle.

If the price swings are from higher highs to lower lows for us on both sides of the cycle - the results could be life changing in a quite negative way.

If we mix it up and our strategy gets one side of the cycle right and the other side wrong - then it all depends on the specifics.

But if we were to get both sides of the cycle right, and go from lower lows to higher highs, two times in succession on both sides of the cycle - then the results could be life changing in a very positive way.

The future is never certain - but the knowledge we have and the choices we make can shift the odds in our favor, compared to what would otherwise be the case.

If the model we are using to make our choices requires throwing out large chunks of the last twenty years as being abnormalities because they don't fit our model - then our odds of success may not be what we think they are.

On the other hand, if our decision making changes to a model that fully includes all of the data points, where none are abnormalities but rather all are rational and expected - then the odds may indeed move materially in our favor.

How The Model Performed: Seven 2019 Scenario Results

The seven major investment market and economic changes listed below, including new highs for stocks, bonds and home prices, all occurred in 2019 - and all were discussed in advance in the DVD set "*2019 Overview: Cycles Of Crisis & The Containment Of Crisis*", which was released in December of 2018.

The methodology used to *discuss in advance* what would be some of the largest determinants of investor results in 2019 was not random, but rather all seven developments were the internally consistent results of the application of the "Red/Black Matrix", a framework and system for understanding how the heavy-handed interventions of a trapped Federal Reserve are changing stock, bond and housing prices and returns in ways that are very different from the historical patterns that most investors rely upon.

Information about a free book which explains the matrix and the methodology which were used is linked below.

http://danielamerman.com/atwo.htm

As reviewed in more detail in the "Red/Black Matrix Framework" section that follows, *these were not firm forecasts per se, and there was no "crystal ball".* Instead the premise of the framework (and the 2019 Overview) was that if one starts by understanding the constraints faced by the Fed, and its plans for dealing with economic problems within those constraints, then a set of scenarios can be identified, which could lead to potentially unprecedented results in multiple investment categories in ways that may make little sense from a conventional investment perspective - but that are logical, self-consistent and can even be discussed in advance within the perspective of the framework. As explored below, this discussion within the framework did indeed include - *as one of two of the major scenarios* - the new highs in stock prices, bond prices and housing prices that did later occur in 2019.

Seven Major Developments In 2019

1) One key component of last year's "2019 Overview: Cycles Of Crisis & the Containment of Crisis" DVD set (released at the end of 2018) was a detailed exploration of the multiple and converging reasons why the Federal Reserve would likely need to abruptly cease its plans for 3 interest rate increases in 2019. (DVD #1: Chapter 1, Chapter 2, Chapter 4; DVD #2: Chapter 6.)

That is what indeed happened in 2019 - the Fed did have to stop raising rates, in a dramatic reversal of its plans and expectations.

2) There was discussion of the strong possibility that in the attempt to avert the increasing chances of a recession, the Federal Reserve would not just stop the cycle of increasing rates, but would reverse course, and enter into a preemptive lowering of interest rates. (DVD #1: Chapter 1: DVD #2: Chapter 6.)

That is also what happened in 2019, the Fed decreased rates three times instead of the planned three increases, these were the first rate decreases since 2008.

3) How rapidly rising government deficits could pressure interest rates, and how the growth in the national debt could begin to change Federal Reserve actions was discussed as well. (DVD #1: Chapters 2 & 3.)

That is what happened, nine months later, beginning in September of 2019, when the need to fund new deficit spending and tax collections in the same month created a liquidity crisis and spiking overnight repo rates.

4) How the preemptive containment of a developing crisis could cause the Fed to reverse direction, cease shrinking its balance sheet, and to create the money for an early and aggressive expansion of its balance sheet, including unprecedented funding of the U.S. government debt was discussed. (DVD #1: Chapter 3; DVD #2 Chapters 6 ,7 & 9)

That is what happened, seven months later in July when the Fed ceased shrinking its balance sheet, and then two months later after that, beginning in September of 2019, when the Fed began rapidly growing its balance sheet again and resumed its major monthly purchases of U.S. Treasury obligations using newly created money.

5) How in the face of developing economic issues, the Fed could be forced to reverse course *and how this could in turn lead to the highest stock prices in history*, was quite explicitly discussed in detail. (DVD #2: Chapters 6, 7 & 9.)

At the time the "2019 Overview" DVDs were prepared the stock markets were reeling, with punishing declines in all of the major indexes in October, and with the Dow losing 1,500 points in two trading days in early December of 2018. Yet, ten months later, after a double reversal and the resumption of both lowering interest rates and the expansion of the Fed balance sheet - the Dow, S&P 500 and NASDAQ were all simultaneously setting record highs. (And as further discussed in the DVDs, there is a scenario with strong historical precedent that shows the possibility that the rally could still just be getting started.)

6) Housing prices were sputtering with fast rising mortgage rates reaching a seven year high of almost 5% in late 2018, and home prices were in danger of reversing course and falling, much like they did in 2007. Why the Fed might reverse directions on interest rates and quantitative easing, and how this could lead to plunging mortgage rates that would allow housing prices to climb, even as stock prices climbed were all discussed. (DVD #1: Chapter 3; DVD #2: Chapters 6 & 8.)

The Fed did reverse direction, mortgage rates did plunge to extraordinary lows in 2019, the housing market was supported, and home prices did rise over the course of 2019 to record levels on a national basis.

7) How sophisticated institutional investors anticipating the possibility of a recession, and then anticipating the Fed's response, could change the yield curve and create a potential "major arbitrage opportunity" in long bonds was

discussed, as was how we could see "larger bond profits than what we have seen in the past". (DVD #1, Chapters 3 & 4; DVD #2: Chapters 6 & 7.)

In practice, there was a huge bull market in long bonds in 2019, with returns of 25%+ over the first eight months of the year, in what would become one of the most popular investment strategies of the year for sophisticated institutional investors.

The Red/Black Matrix Framework

As it turns out, a series of really bad things happened in 2019. The U.S. nearly went into recession. Things were so bad that the Federal Reserve had to abruptly reverse direction, and reduce interest rates three times in the effort to rescue the economy and the markets.

Things were so bad, that the Fed had to reverse course, and stop reducing its balance sheet. Things were so bad that the repo market nearly blew up, and the Federal Reserve is committed to spending $60 billion per month to buy U.S. Treasury obligations, using monetary creation as the source of the funds to do so, in order to keep interest rates from exploding upwards .

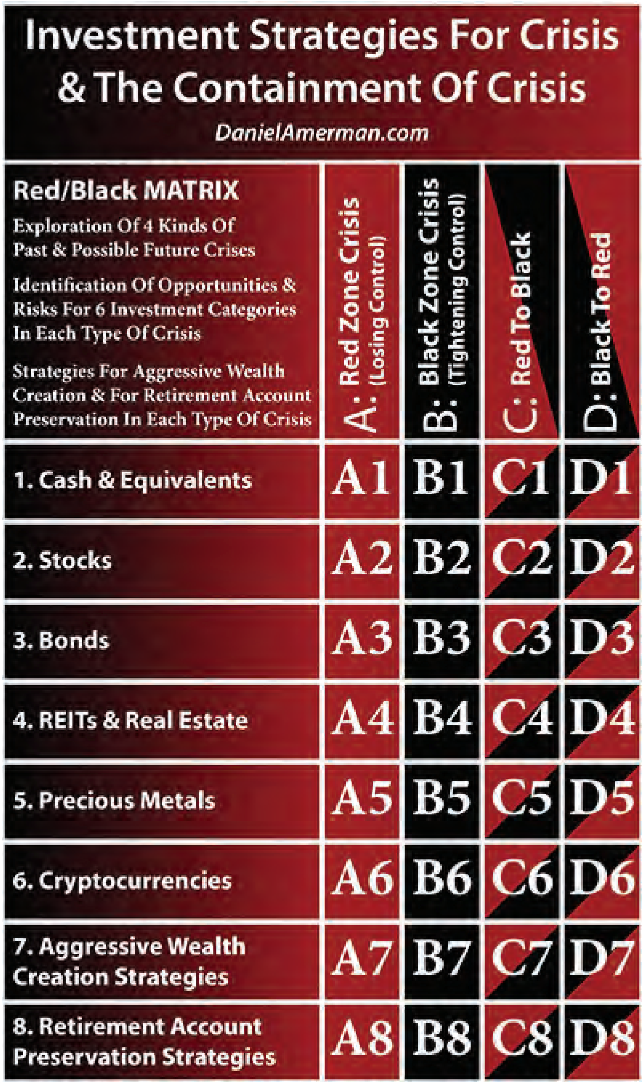
But for most investors - the idea that 2019 was a bad year (now that it has mostly happened) would be ludicrous. The stock markets set a series of new highs - and housing market also set new highs. Bond prices soared, creating extraordinary profits for investors along the way. If that is a bad year - there are probably quite a few investors and homeowners who would like to see a lot more bad years just like it!

From the usual financial perspective - none of this should have happened. With the extraordinary trade tensions with China slowing down the global economy and the widely recognized and discussed imminent danger of a recession - the stock market should have been in deep trouble, and in worse shape than it had been in December of 2018. The markets should not have been so completely dominated by the extraordinary market interventions of the Federal Reserve, for such interventions are completely outside of the usual investment theory that conventional financial planning is based upon.

But - that is what happened, and the results were record stock highs, *that did not come from the usual sources*.

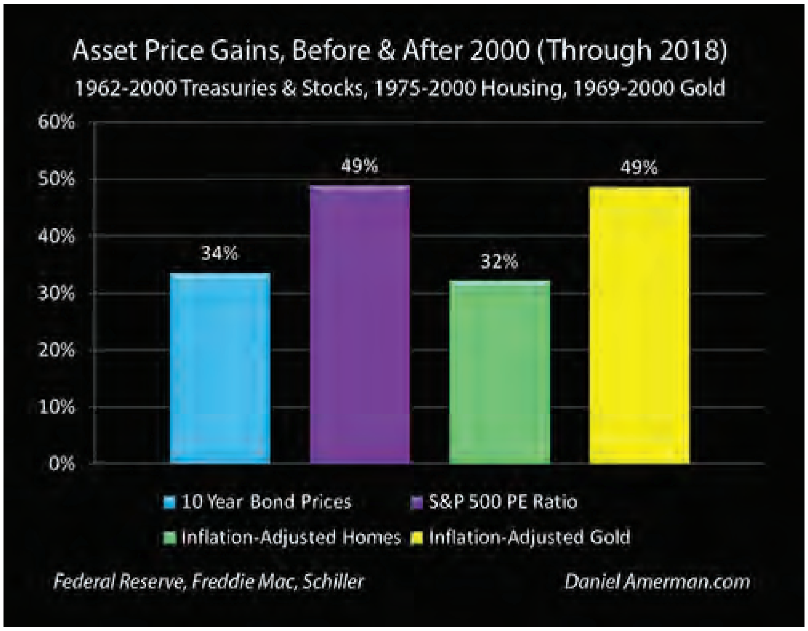
From the usual "doom and gloom" perspective - none of this should have happened either. With these extraordinary problems in multiple areas, with the elevated asset markets, with the huge and growing personal, corporate and government debt levels - there should have been a financial Armageddon event. There should have been (from that perspective) a simultaneous collapse of the stock and real estate bubbles, a collapse in the value of the U.S. dollar, and a new great depression. But yet, none of those happened, just as they did not happen in previous years *in spite of those many very real and genuine underlying issues*, and we instead saw yet another round of record highs.

However, when we apply the framework below, then not only did 2019 make perfect sense when looking backwards, but many of the critical elements and the relationships between them could even be anticipated and discussed in detail when looking forward from December of 2018, before any of it actually happened - as they were, as one of the two main scenarios (more below).



The Red/Black Matrix is the product of many years of development and there have been quite a few successful anticipations along the way. However it was not introduced as a complete framework until a workshop in April of 2018, which was followed by the release of the "Investment Strategies For Crisis & The Containment Of Crisis" DVDs in June of 2018.

Since 2001, we have seen the collapse of two asset bubbles, with results that include the Financial Crisis of 2008, and the most severe recession since the Great Depression of the 1930s. We have also had unprecedented Federal Reserve interventions to contain those crises, including creating trillions of dollars out of the nothingness, and forcing the lowest interest rates in history.



Most importantly, **we have also seen record or near record valuations for stocks, bonds, real estate and precious metals** (Chapter One link below).

http://danielamerman.com/va/RedBlackMatrix.html

While very much focused on the future, the Red/Black Matrix framework uses an ability to successfully explain that strange juxtaposition of deep crisis and elevated asset prices in ways that make a lot more sense than the models underlying conventional financial planning, or the "doom and gloom" alternative. This ability to logically explain the actual events of the past is referred to as "Ex-Post" and is a crucial part of both economics and finance.

That said, there is something much harder to do than "Ex-Post" and that is to come up with something that starts out as "Ex-Ante", which is the expectations or the anticipation of how a theory or framework (or earnings, or sales growth, or whatever) would work in the future - and then having things actually work out that way. (Ex-Post actual data and Ex-Ante anticipations always merge over time, the question is how far the gap is.)

The October of 2018 workshop and the subsequent release of the first annual overview DVDs (the "2019 Overview") in December of 2018 were each "Ex-Ante" - focused on "wargaming" a few major scenarios for 2019 using the following framework and methodology (which is explored in more detail in the free book and in the foundational "Investment Strategies For Cycles Of Crisis & The Containment Of Crisis" DVD set):

a) start with potential changes in the cycles and the reasons for them (matrix columns);

b) incorporate the motivations of the Fed and its constraints (matrix columns);

c) identify the major interventions or changes in direction and policies that would likely occur in response to the cyclical changes (or in anticipation of the cyclical changes), given the Fed's motivations, available tools, constraints and publicly stated intentions (matrix columns);

d) feed the combined impact of the outside Fed interventions through the economic changes, the market psychology changes and the underlying financial mathematics of the Red/Black Matrix (the rows, given the columns);

e) explore the potential financial impact on stocks (matrix row);

f) explore the potential financial impact on bonds (matrix row); and

g) explore the potential financial impact on housing (matrix row).

This framework worked in practice for 2019, and in advance. It was this application of this methodology which produced the seven interrelated major changes that are listed above, and which would end up dominating stock, bond and housing prices during the year that followed.

Now, this is a very separate thing from some purported ability to precisely predict a single path for what will definitively happen in the future. In this highly complex world that is traveling a path that we have never seen before, with a great deal of randomness and uncertainties - to make or believe such a claim of infallibility would seem to strain the limits of believability.

However, if we are to have a model, or a belief system, or a framework that we use today to make decisions for the state of uncertainty that is the future - then it should not only be able to explain the past, but if we go a year forward in the future - we shouldn't have to violate the framework, or make major changes in order to explain what actually turned out to have happened. It should continue to make sense in a rational and self-consistent manner at the end of the year, just as it did at the beginning of the year.

To be very clear - the seven discussions listed above were not the entirety of the "2019 Overview" DVDs. There were some fundamental uncertainties as of the end of 2018, and the biggest was whether the United States would indeed enter into a recession in 2019. If that had happened, or if the Fed had chosen not to reverse course - then we would have likely seen entirely different results for stocks, bonds and home prices in 2019.

Instead of taking a stand one way or another on a recession - *which was realistically unknowable at the time* - both possibilities were explored in depth. There was quite a bit of exploration within the DVD chapters of the *possibility* of what would happen if there were an actual recession, how the Fed would likely attempt to deal with it, the tools that would likely be used, and the radically different investment implications across multiple categories. (And if we do get a recession at the end of 2019 or in 2020 - those discussions could yet be the most valuable content within the 2019 Overview DVDs, particularly DVD #1: Chapter 3.)

The other most discussed *possibility* (including parts or most of 8 out of the 10 DVD chapters) was that of the Fed reversing direction, going "Black to Black" and attempting to prevent recession with preemptive deployment of crisis containment tools - which, Ex-Post, is what actually happened in 2019. All seven of the economic and market changes reviewed herein were interrelated parts of that possibility as discussed in the 2019 Overview, including the major reversals of direction, the tools used, the resulting increases in stock and home prices, and the creation of a major opportunity in long bonds. The framework for anticipating what could happen *in all three* *major investment markets* if a cornered Fed took aggressive actions to try to prevent a recession - stood the test.

Ex-Post, it is very easy to look back at the seven different major changes or developments that actually occurred in 2019, and say, well of course they did. However, if we go back to October and December of 2018, during a time when the Federal Reserve was still publicly quite committed to further increases in interest rates, while being committed to further reducing its balance sheet, and we look at the 1,500 point loss in the Dow in two trading days in early December, with 10 year Treasury yields above 3% in November, and the fears of 5%+ mortgage rates were sending shivers through the housing market - exploring Ex-Ante the potential seven interlinked components of the radically different path that would be traveled in 2019 would have seemed quite unlikely indeed for many people.

Simply put, if the framework we are relying upon to make financial decisions does not work Ex-Post, if it cannot explain the past - then it is also unlikely to deliver the future results that are desired. In my opinion, any investment model at the end of 2018, whether mainstream or contrarian, that did not take into account the compelling reasons why the Fed might reverse direction in 2019, and how such a reversal could create extraordinarily powerful ripple effects that would then dominate the stock, bond and housing markets in 2019 - would have failed, Ex-Post.

Having a framework that could set out the logical reasons for an unprecedented multi-part and interrelated set of economic and investment market changes in advance, and to have those hold up close to a year later, Ex-Post, with the anticipated end results in all three of the major investment categories - is not the same thing as being able to do the undoable, which is to predict the future with certainty. With that said and understood, there is nonetheless immense value for those seeking to achieve and maintain financial security, in having a comprehensive framework that can actually work in putting the pieces together and identifying in advance what is reasonable to happen - as one of a broader set of possibilities - and to then have that confirmed seven times over by what actually happened later, in this highly complex and fast-changing world of ours.

2020 Overview DVDs Content

As with last year's overview DVDs, the 2020 Overview DVDs will also use scenario analysis and the Red/Black Matrix framework to explore potential scenarios for the coming year and how these could change stock, bond, housing and gold prices.

The starting situation at the beginning of 2020 is of course quite different from the start of 2019 - and the path traveled in 2019 was not at all normal. As explored in advance in December of 2018 (as one of the main scenarios), and as covered in pages 10-19 of this brochure, a series of stresses led to major direction changes and a series of heavy-handed interventions by the Federal Reserve, that in turn led to a round of new highs for stocks, bonds and homes, leaving the nation feeling wealthier than ever.

To get to that somewhat counterintuitive end destination - where bad news of a certain type logically becomes good news for investment prices - requires being able to follow an essential sequence: 1) how stresses, challenges and changes in the markets and economic environment; can lead to 2) changes in interventions and policies by a non-market but dominating outside agency following its own agenda (the Fed); which can then lead to 3) non-traditional (and sometimes quite profitable) changes in investment prices. Following that type of sequence for each of the individual scenarios then becomes the overall scenario analysis.

This framework is not part of traditional financial education, and few individual investors understand how to use it. On the other hand, these factors have been dominating the markets for some years now, as is understood by many sophisticated institutional investors. This creates the unfortunate situation were some potentially attractive sources of returns - along with some major and potentially even life-changing risks - are not understood at all by the great majority of the population.

The Red/Black Matrix framework is fully developed in the "Investment Strategies For Crisis & The Containment Of Crisis" 5 DVD set with companion manual. That set is the foundation set for understanding the framework, and the annual overview 2 DVD sets do not provide that foundation. Instead, the annual overviews use the framework for scenario analysis, for a particular set of circumstances at a given point of time, which in this case is looking out over 2020 and beyond based upon what we know in December of 2019.

The 2020 Overview DVDs consist of ten chapters split out into two main sections. The first section explores what has changed, what the current situation is, what new factors are likely to be most important, what we need to be looking out for, how the constraints on the Fed have changed, and where the risks and potential returns have shifted.

The second section of the DVDs uses scenario analysis to put all of those together, explore the reasons for scenario, why it could happen, what would drive it, and then - taking into account the potential market dominating impacts of the Federal Reserve interventions to attempt to prevent or contain crisis with that scenario - walk through step by step in sequence to determine the potential impact on each of the four major asset classes of stocks, bonds, housing and gold.

The supporting companion manual consists of four sections. The first two sections are outlines of the ten DVD chapters. The third section is the supporting economic and financial graphics for what is on the screen - the 2020 Overview DVDs are the graphics intensive of any of the DVD sets to date. The fourth section is a selection of supporting analyses, which take some of the most important economic and financial concepts discussed in the DVDs, and provide much more supporting detail.

Please note that these are Overview DVDs and not detailed exploration DVDs - there isn't the room. The chapters average about 15 minutes each, and some of the individual subjects are worthy of spending hours on, in order to really do justice for each of them. The Overview DVDs are less expensive, far more convenient than attending a two day workshop in person, and they provide a great deal of potentially critical information in a relatively short period of time, but they are not a substitute for the two day workshops.

2020 Overview Expectations, Limitations & Value Delivered

From a starting point in December of 2019 – what will happen in the year 2020 and when? That is a very good question, and to answer it, we would need to know the answers to some other questions.

Will there be a full-blown global trade war in 2020?

Will there be a global recession and will it extend to the U.S.?

Will there be another financial crisis in 2020?

What will the 10 Year U.S. Treasury yield be in June of 2020?

What will home affordability look like in June of 2020?

Will stock prices be higher or lower by the end of 2020?

Will bond prices be higher or lower by the end of 2020?

Will average home prices be higher or lower by the end of 2020?

Will gold prices be higher or lower by the end of 2020?

Just to get this out of the way - and make sure the limitations and expectations are understood in advance - I don't have definitive answers, and the 2020 Overview DVDs won't contain them. As the saying goes, it is very difficult to make predictions, particularly about the future.

Those are very complex questions - *and every one of them is interrelated*. In some cases they are not just related, but very closely related.

Now, if we look back over the broad scope of the business cycles and market cycles over history, then yes, there are absolutely ways in which those factors are historically interrelated.

However, we have had a complication over the last almost twenty years, particularly over the last 11 or so years. This "complication" is the subject of the free book, and it is the heavy-handed, market distorting interventions of the Federal Reserve, and how they have transformed the markets, as well as the prices and returns from stocks, bonds, housing and precious metals.

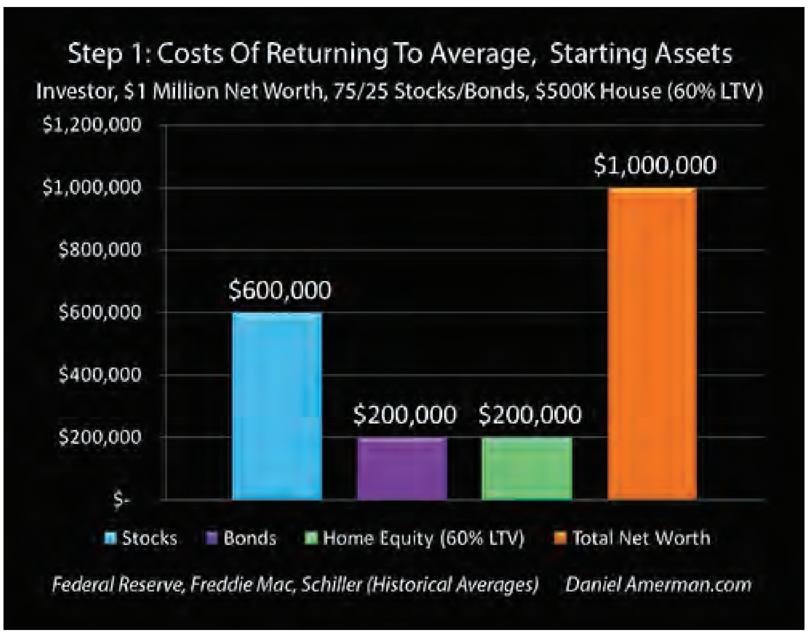
Expectations & Value Delivered

In December of 2018, the Fed was firmly committed to further interest rate increases - with expectations of three more increases - as well as slowly unwinding their balance sheet, releasing hundreds of billions of dollars of assets they had bought with created money in previous years.

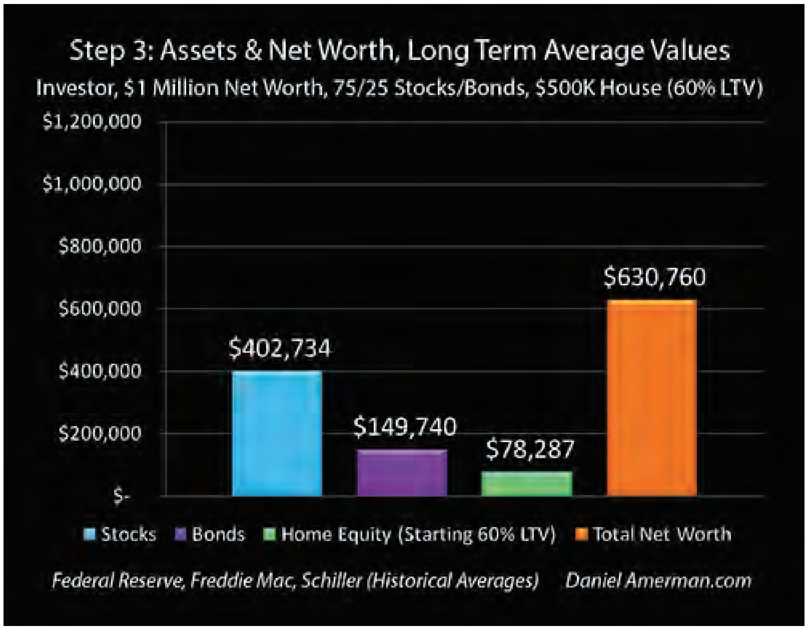
Because of a fear of imminent recession and market crashes - the Fed did a complete reversal of direction and lowered rates three times (for the first time since 2008), while beginning a rapid process of creating money to extend repo loans and buy U.S. Treasury bills, at one of the fastest paces since the financial crisis of 2008.

The end results of these major troubles - were new highs for stocks, bonds and homes. Without the Fed reversing direction, the chances are that we would have seen major plunges in stock and home prices. In a recent analysis (link below), the graph below was developed.

http://danielamerman.com/va/ReturnToAverage.html



The “Step 1” graph shows the highly elevated asset values for stocks, bonds and homes, specifically because of the Federal Reserve’s extraordinary and historically unprecedented interventions, using monetary creation to enforce very low interest rates that produced asset prices far above historic averages.



The “Step 3” graph above was also developed, showing the radically lower asset prices of what a regression to the mean, a mere return to historic averages, would entail for the illustrated retirement account investor and homeowner (keeping in mind that about half of long term history is valuations that are below those levels).

The difference between the two graphs means a potentially major difference in both standard of living in retirement, as well as financial security, for the millions of people who have spent productive and disciplined lifetimes in building those assets.

And most importantly, the difference between the two graphs is not based on the usual principles of long term financial planning. Because the entire difference between them was “in play” in 2019, and had a different path been followed, most of the people reading this could have already lost their entire 59% premiums above historic averages (adjusting for their own personal asset allocations), or possibly even quite a bit more with a new recession and potential crisis. As developed in Chapter 12, we also need to remember that there would be no reason to ever expect a recovery to current valuations, unless there was a return to highly distorted markets and interest rates.

The difference between the two graphs is also “in play” for 2020, and potentially for 2021 and beyond as well.

However, that brings us back around to the “complication” - to understand what could determine whether we have still more highly elevated asset prices versus plunging asset prices over the next year, we need to have a *dynamic* understanding of how future *changes* in economic and market conditions, can trigger future *changes* in the extraordinarily powerful and market dominating Federal Reserve interventions, which can then trigger potentially major and even life-changing future *changes* in stock, bond, housing and gold prices.

Because without that understanding, where we are at the end of 2019 would have been very difficult to understand from the vantage point of 2018. As explored in the preceding section on the Seven Scenario Results from the 2019 Overview DVDs, how negative changes in economic and market conditions could create radical changes in Federal Reserve interventions which could create higher stock, bond and housing prices - could indeed be anticipated through the usage of the Red/Black Matrix framework.

Not as a prediction but explored in advance, as one of the major scenarios.

This explained higher stock prices, both looking forwards from December of 2018 and looking back from December of 2019, in a logical and self-consistent manner.

This explained higher bond prices, both looking forwards and looking back.

This explained higher home prices, both looking forwards and looking back.

Whether we would end up with the stock, bond and home prices of the “Step 1” graph above, or of the “Step 3” graph above at the end of 2019, could not be predicted at the end of 2018 - nor can it for 2020 from the vantage point of 2019.

But key components of the non-traditional, interrelated and somewhat radical series of changes that would avoid “Step 3” and end up with “Step 1” in 2019 - and in the process determine much or most of the current net worth of many of the people reading this - could be and were identified and discussed in advance, as one of a set of reasonable possibilities.

That advance identification and exploration of non-traditional and interrelated new risks and new opportunities through the usage of the unique tool of the Red/Black Matrix framework - with an understanding of the corresponding limitations - is the intended and quite unique value of the 2020 annual Overview DVDs.

Special PrePublication Sale

Sale Prices Good For Orders Received Through December 29, 2019

Stand-Alone Savings

1) 2020 Overview: Cycles Of Crisis & The Containment Of Crisis

- List Price $197
- Prepublication Savings $30 (15%)
- Sale Price $167
- Shipping & Handling $9.95

Red/Black Matrix Value Package

1) Investment Strategies For Cycles Of Crisis & The Containment Of Crisis
2) 2020 Overview: Cycles Of Crisis & The Containment Of Crisis

- Combined List Price $694
- Prepublication Savings $150 (22%)
- Sale Price $544
- Shipping & Handling $19.95

Triple Investment Strategies Value Package

1) Investment Strategies For Cycles Of Crisis & The Containment Of Crisis
2) Five Wealth Strategies (Creating Win-Win-Win Solutions)
3) Gold Out Of The Box
4) 2020 Overview: Cycles Of Crisis & The Containment Of Crisis

- Combined List Price $1,191
- Ordinary Value Package Savings $300 (25%)
- Additional Prepublication Savings $150 (13%)
- Total Savings $450 (38%) + Gold Out Of The Box Bonus
- Sale Price $741
- Shipping & Handling $29.95

The anticipated shipment date for the new 2020 Cycles Overview DVD set is the week of January 6th, 2020. When purchased as part of a value set, the package will all ship together with the release of the new DVD set.

Satisfaction guaranteed or your money back. (30 day return period, see the purchase page for more information on the guarantee and the value packages.)

Expanded Collection Value Package

1) Research Report: How The National Debt & Surging Benefits Will Transform Retirement Planning
2) Investment Strategies For Cycles Of Crisis & The Containment Of Crisis
3) Five Wealth Strategies (Creating Win-Win-Win Solutions)
4) Gold Out Of The Box
5) 2020 Overview: Cycles Of Crisis & The Containment Of Crisis

- Combined List Price $1,688
- Ordinary Value Package Savings $600 (36%)
- Additional Prepublication Savings $150 (11%)
- Total Savings $750 (44%)
- Sale Price $938
- Shipping & Handling $29.95

Workshop Package Savings

1) Winter 2020 Workshop, January 11-12, 2019, Minneapolis, MN
2) 2020 Overview: Cycles Of Crisis & The Containment Of Crisis

- Combined List Price $1,692
- Early Registration Discount $150 (9%)
- Additional Prepublication Savings $192 (11%)
- Total Savings $342 (20%)
- Sale Price $1,350

Expanded Workshop Package Savings

1) Winter 2020 Workshop, January 11-12, 2019, Minneapolis, MN
2) Investment Strategies For Cycles Of Crisis & The Containment Of Crisis
3) 2020 Overview: Cycles Of Crisis & The Containment Of Crisis

- Combined List Price $2,189
- Early Registration Discount $150 (7%)
- Additional Prepublication Savings $544 (25%)
- Total Savings $694 (32%)
- Sale Price $1,495

DVD Sets Purchase Link:
http://danielamerman.com/Products/Purchase.htm
Workshops Purchase Link:
http://www.danielamerman.com/workshop/payment.htm

Relationship With Workshops & Investment Strategies DVDs

The "*2020 Overview: Cycles Of Crisis & The Containment Of Crisis*" set consists of 2 DVDs and a companion manual. It is a stand alone asset, with no additional purchases needed. That said, the *2020 Overview* DVDs a complementary asset for two other assets: the *Investment Strategies* DVDs and the workshop series.

Relationship With Workshops

The two day workshops explore the Cycles body of work based upon current market and economic conditions at the time of each workshop. The first day is primarily devoted to what is happening in the world, what is in the process of changing with economics and the investment markets, and how it all relates to the Cycles of Crisis & The Containment Of Crisis. The second day of each workshop is primarily devoted to pursuing the specific investment strategies implications for what is happening with the Cycles at that time, using the Red/Black matrix as an organizational framework.

A 2 DVD set is not the same thing as a two day immersion workshop presented live and with frequent discussions and participation from the attendees. However, what is presented contains many of key points from that presentation.

Link to workshop brochure:
http://danielamerman.com/workshop/Brochure.pdf

Relationship With Investment Strategies DVDs

The core "*Investment Strategies For Crisis & The Containment Of Crisis*" set consists of 5 DVDs that were released in the summer of 2018, as well as a companion manual. The *Investment Strategies* set is strategy intensive. It identifies and explores investment risks and opportunities in all 32 cells of the Red/Black matrix - and that is all it does.

The *Investment Strategies* set is not about any particular point in the cycles, but rather it presents all four columns of the different cyclical possibilities, and explores the individual asset categories as well as the combined strategies for each phase of the cycles. These strategies can then be implemented based upon what each individual believes is currently happening with economics and the markets, as well as what they anticipate are reasonable possibilities for the next several years. While the set will be updated as warranted with major changes, there is no need for frequent updates with ongoing changes in economic and market conditions.

Link to *Investment Strategies* brochure:
http://danielamerman.com/Products/RedBlackBrochure.pdf

Mastering The Cycles & Investment Strategies

The best way to learn about the Cycles of Crisis & The Containment of Crisis is to study the *Investment Strategies* DVD set & the *2020 Cycles Overview* DVD set in advance, and then attend a live two day workshop that will be based on then current economic & market conditions, with extensive back and forth discussion. A total of $694 in workshop registration discounts is currently available for those who buy both DVD sets now, which exactly equals the $694 price of the 2 sets purchased separately. This is a total savings of almost a third, and effectively pays for the DVDs and manuals in full, even while delivering all the learning benefits of a two day, discussion based workshop.

While the best value is found by purchasing as a package during this prepublication sale, savings of $300 is also be available for those who have purchased Investment Strategies DVD sets alone or as part of other packages within the previous twelve months, please see the workshop brochure for more information.

Disclaimer

Please note that the DVD set is of a strictly educational nature, rather than the rendering of professional advice. The future is uncertain, and there are no guarantees or promises of success or particular outcomes. As with any financial decisions, there is a risk that things will not work out as planned, and with hindsight, another decision would have been better.

The DVD set will not include specific investment, legal or any other form of professional advice. If specific advice is needed, it should be sought from an appropriate professional. Any liability, responsibility or warranty for the specific results of the application of the general educational principles contained in the DVDs and the written materials, either directly or indirectly, are expressly disclaimed.