Sunday, July 3rd 2016
Feet to the Fire Radio Guest, Lional Parkinson:
Negative Interest Rates are Coming

This PDF accompanies the interview of Lional Parkenson as he presents his warnings for the US Banking system. What follows are clips and references that will be used in the presentation. This document will be updated in time as things pertinent to this interview appear in print or on the Internet.

Lional does not have a "dog in the fight" so to speak. He is offering this information free and clear to help F2F listeners prepare with what he sees is coming. He is not selling or promoting anything of personal gain; with is more that can be said for 95% of the information, newsletters, and investment organs cluttering the information super highway,

This document is being written (by James, the host) per-interview, and the information and links below are not arraigned in as particular order (as in a presentation) but as a list of referenced that will apply to this interview.

The audio and video archives will be posted post live broadcast and the links will be added to this document later. See http://FeetToTheFireRadio.com for more info.

Janet Yellen, Chairwomen of the US Federal Reserve warned that negative interest rates are coming, here is what she said:

Federal Reserve chairman Janet Yellen has said ***"negative interest rates in the U.S. are not off the table."*** Critics of negative and near-zero rates complain that they hurt savers. They do a hell of a lot more then that, as your about to see. They will wipe you out if you don't know what to do!

Bond guru Bill Gross PIMCO founder, who now runs Janus' Global Unconstrained Bond Fund sees negative interest rates as a threat to the very fabric of capitalism itself.

Let me quote Bill: ***"Investors have few options in a world of low or negative interest rates." He went on to say "The sun, which sustains and nourishes life, will one day devour the earth. The sun, in this image, is the "global, credit based economic system" which, according to Gross, "appears to be in the process of devolving from a production oriented model to one which recycles finance for the benefit of financiers." He cites astounding growth in credit, from $1 trillion in the U.S. in 1970 to $58 trillion***

today. To Gross' thinking, negative interest rates in Japan and Europe are what happens when this debt star enters its death throes. Investors are left with almost nowhere to turn, as bank deposits, equities, Treasuries and Bunds have returns that are "inadequate relative (negative Rates) to historical as well as mathematically defined durational risk."

Jimmy Rogers, Fund Manager of George Sores fame, joined the course of economists warning about negative inters rates. He said: ***"We're all going to pay a horrible price for the incompetence of these central bankers," he waned "We got a bunch of academics and bureaucrats who don't have a clue what they're doing." Rogers said central bankers are doing everything they can to prop up financial markets, but it's all for naught. He predicts their unconventional monetary strategies (negative rates) will lead to.... deep trouble later this year and into 2017. "This is going to be a disaster in the end," he said. "You should be very worried and you should be prepared." Central bankers around the world have been increasingly using negative interest rates to prop up inflation and support their economies, but Rogers said the moves aren't working. He said they are simply trying to rescue stock markets and help brokers keep their Lamborghinis. "These guys think they're smarter than the market. They're not."***

Mark to model

From Wikipedia, the free encyclopedia
Jump to: navigation, search

Mark-to-Model refers to the practice of pricing a position or portfolio at prices determined by financial models, in contrast to allowing the market to determine the price. Often the use of models is necessary where a market for the financial product is not available, such as with complex financial instruments. One shortcoming of Mark-to-Model is that it gives an artificial illusion of liquidity, and the actual price of the product depends on the accuracy of the financial models used to estimate the price. [1] On the other hand it is argued that Asset managers and Custodians have a real problem valuing illiquid assets in their portfolios even though many of these assets are perfectly sound and the asset manager has no intention of selling them. Assets should be valued at mark to market prices as required by the Basel rules. However mark to market prices should not be used in isolation, but rather compared to model prices to test their validity. Models should be improved to take into account the greater amount of market data available. New methods and new data are available to help improve models and these should be used. In the end all prices start off from a model. [2]

From the actual FAS 157 report made in 2008

11. The fair value of the asset or liability shall be determined based on the assumptions that market participants would use in pricing the asset or liability. In developing those assumptions, the reporting entity need not identify specific market participants. Rather, the reporting entity should identify characteristics that distinguish market participants generally, considering factors specific to (a) the asset or liability, (b) the principal (or most advantageous) market for the asset or liability, and (c) market participants with whom the reporting entity would transact in that market

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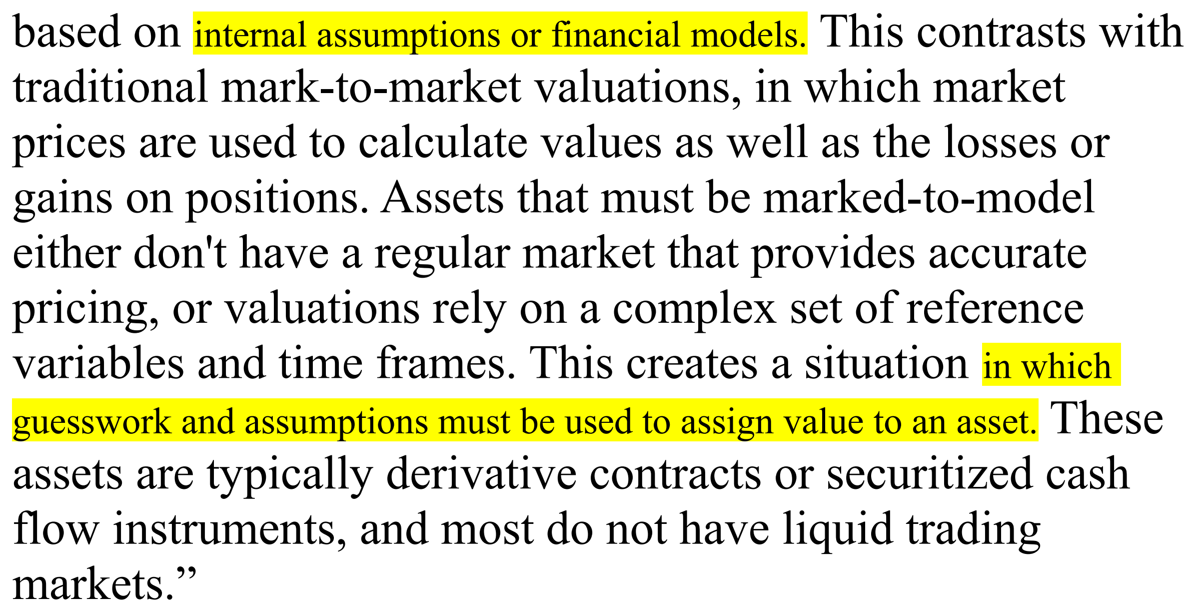
The answer lies in accounting rule FAS 157

Necessity is the mother of invention and in this case the mother of deception. Allow me to explain. In the 2007/08 financial wipe out the FED had to save the system. Remember the FED is a creature of the banking system. And its blood brothers were stone cold broke with massive losses they had to book. The FED provided massive amounts of liquidity in the form of very low interest, massive loans to the dead broke banks. But it soon became apparent that was not enough. At that time banks, like other mere mortals, had to record their trades at mark to market. That meant that trades profit or losses (in this case massive losses) had to be recorded.

If that happened the banking system would be in ruin no matter how much money the Fed loaned the banks. So the banking lobby kicked in and what was supposed to be a temporary accounting change was made known as Rule FAS 78. For the first time ever dead broke banks did not have to record the actual losses they were taking on their derivative trades. They were allowed to mark to model.

Here is the rule change. Quoted is the definition of Mark To Model by the Financial Accounting Standards Board (FASB) Known as FAS 157 for financial assets and liabilities like derivatives. It allows:

> "The pricing of a specific investment position or portfolio


based on internal assumptions or financial models. This contrasts with traditional mark-to-market valuations, in which market prices are used to calculate values as well as the losses or gains on positions. Assets that must be marked-to-model either don't have a regular market that provides accurate pricing, or valuations rely on a complex set of reference variables and time frames. This creates a situation in which guesswork and assumptions must be used to assign value to an asset. These assets are typically derivative contracts or securitized cash flow instruments, and most do not have liquid trading markets."

How can they do this, you ask?

Simple. When you deposit money in a checking or savings account, that money no longer belongs to you. Technically and legally, it becomes the property of the bank, and the bank just issues you what amounts to an IOU. As far as the bank is concerned, it's an unsecured debt.

The way Dodd-Frank has managed to screw things around, derivatives (bets banks have made in the Wall Street casino) have priority over your checking and savings accounts when it comes to paying off *their* debts. And don't think that the FDIC (Federal Deposit Insurance Corporation) will save your money. The assets of the FDIC are minuscule (in the billions) compared to the valuation of outstanding derivatives (in the trillions). Your deposits are protected only up to the $250,000 insurance limit, and also *only to the extent that the FDIC has the money to cover deposit claims* or can come up with it.

Ellen Brown asks, "What happens when Bank of America or JPMorganChase, which have commingled their massive derivatives casinos with their depositary arms, is propelled into bankruptcy by a major derivatives fiasco? **These two banks both have deposits exceeding $1 trillion, and they both have derivatives books with notional values exceeding the GDP of the world**."

The answer is a Cypress style bail-in.

Bail-in Under Dodd-Frank

That is all happening in the EU. Is there reason for concern in the US?

According to former hedge fund manager Shah Gilani, writing for *Money Morning*, there is. In a November 30th article titled "Why I'm Closing My Bank Accounts While I Still Can," he writes:

> [It is] entirely possible in the next banking crisis that depositors in giant too-big-to-fail failing banks could have their money confiscated and turned into equity shares. . . .
>
> If your too-big-to-fail (TBTF) bank is failing because they can't pay off derivative bets they made, and the government refuses to bail them out, under a mandate titled "Adequacy of Loss-Absorbing Capacity of Global Systemically Important Banks in Resolution," approved on Nov. 16, 2014, by the G20's Financial Stability Board, they can take your deposited money and turn it into shares of equity capital to try and keep your TBTF bank from failing.

Once your money is deposited in the bank, it legally becomes the property of the bank. Gilani explains:

> Your deposited cash is an unsecured debt obligation of your bank. It owes you that money back.
>
> If you bank with one of the country's biggest banks, who collectively have trillions of dollars of derivatives they hold "off balance sheet" (meaning those debts aren't recorded on banks' GAAP balance sheets), those debt bets have a superior legal standing to your deposits and get paid back before you get any of your cash.
>
> . . . Big banks got that language inserted into the 2010 Dodd-Frank law meant to rein in dangerous bank behavior.

The banks inserted the language and the legislators signed it, without necessarily understanding it or even reading it. At over 2,300 pages and still growing, the Dodd Frank Act is currently the longest and most complicated bill ever passed by the US legislature.

Propping Up the Derivatives Scheme

Dodd-Frank states in its preamble that it will "protect the American taxpayer by ending bailouts." But it does this under Title II by imposing the losses of insolvent financial companies on their common and preferred stockholders, debtholders, and other unsecured creditors. That includes depositors, the

largest class of unsecured creditor of any bank.

Title II is aimed at "ensuring that payout to claimants is at least as much as the claimants would have received under bankruptcy liquidation." But here's the catch: under both the Dodd Frank Act and the 2005 Bankruptcy Act, *derivative claims have super-priority over all other claims*, secured and unsecured, insured and uninsured.

The over-the-counter (OTC) derivative market (the largest market for derivatives) is made up of banks and other highly sophisticated players such as hedge funds. OTC derivatives are the bets of these financial players against each other. Derivative claims are considered "secured" because collateral is posted by the parties.

For some inexplicable reason, the hard-earned money you deposit in the bank is not considered "security" or "collateral." It is just a loan to the bank, and you must stand in line along with the other creditors in hopes of getting it back. State and local governments must also stand in line, although their deposits are considered "secured," since they remain junior to the derivative claims with "super-priority."

Turning Bankruptcy on Its Head

Under the old liquidation rules, an insolvent bank was actually "liquidated" – its assets were sold off to repay depositors and creditors. Under an "orderly resolution," the accounts of depositors and creditors are emptied to keep the insolvent bank in business. The point of an "orderly resolution" is not to make depositors and creditors whole but to prevent another system-wide "disorderly resolution" of the sort that followed the collapse of Lehman Brothers in 2008. The concern is that pulling a few of the dominoes from the fragile edifice that is our derivatives-laden global banking system will collapse the entire scheme. The sufferings of depositors and investors are just the sacrifices to be borne to maintain this highly lucrative edifice.

"The bail-ins. How you and your money will be parted during the next banking crisis" by John Lawrence.

"A crisis worse than ISIS? Bail-ins begin" By Elle Brown

"FAS 157 - Financial Accounting Standards" by the lobbyists of congress.

two charts on zero coupon bonds 20 year and 25 year US treasuries

BREAKING DOWN 'Zero-Coupon Bond'

When a zero coupon bond matures, the investor receives one lump sum equal to the initial investment plus the imputed interest.

The maturity dates on zero coupon bonds are usually long term, with many having initial maturities of at least 10 years. These long-term maturity dates can allow an investor to plan for a long-range goal, such as paying for a child's college education. With the bond's deep discount, an investor can put up a small amount of money that can grow over many years.

Investors can choose zero coupon bonds that are issued from a variety of sources, including the U.S. Treasury, state/local government entities, and corporations.

Example

Most bonds provide semiannual interest payments, while zero coupon bonds do not pay cash coupons. Rather, the investor receives one payment at maturity which is equal to the principal invested plus the interest earned, compounded semiannually, at a stated yield. Zero coupon bonds credit investors with regular interest although the cash coupon is not paid until maturity.

Zero coupon bonds are sold at a substantial discount from the face amount. For example, a bond with a face amount of $20,000 maturing in 20 years with a 5.5% yield may be purchased for roughly $6,757. At the end of the 20 years, the investor will receive $20,000. The difference between $20,000 and $6,757 represents the interest that compounds automatically until the bond matures,

Read more: Zero-Coupon Bond Definition | Investopedia
http://www.investopedia.com/terms/z/zero-couponbond.asp#ixzz4DI4cMqOQ
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