

How to recognize when our financial ship has hit a Spanish iceberg

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Here is an [article](#) explaining the process of how the Euro may collapse as Germany refuses to spend any more bailing out Spain. If the Euro does fall apart British and American banks will probably collapse due to their large exposure to Euro debt. And there is a large chance of sovereign default not just in Spain, Greece, Ireland but also in France, UK and USA. That will mean a combination of high inflation, spending cuts (health care, pensions etc) , confiscation of private pensions, extended bank closures

No one knows the timing of this - it is rather like being on the deck of the Titanic just after it hit the iceberg. For the first hour or so to the passengers all seemed fine. It was only the boat's builder who recognized that the ship was fatally hit and would sink. At first very few people wanted to take the inconvenience of getting in a lifeboat. But if you recall the movie at the end the ship started to shift suddenly and then there were not enough life boats for everyone and there was a panic.

The same thing happened in the [Argentinean financial collapse](#) in 2001 - at first very few people took action to get some money out of Argentinean banks or move it abroad. By the time it was clear to most people that there was a problem it was too late to save their bank account and pensions.... and you were not allowed to withdraw cash or move it abroad. I have talked with several Argentines and read blogs and books about this and the few people there who were both aware and took action did much better than those who did not. And I don't just mean financially better, I mean emotionally better too because there were a lot of mental health problems, alcohol/drug abuse and suicides there in 2002 in the masses of people who felt betrayed and helpless.

I recommend taking some small steps for a "[financial insurance plan](#)" that I described in my previous blog post now while all appears relatively fine. If I am wrong and the boat stay afloat no harm done. If it does sink it will be sudden and messy and you will be very glad that you took action.

If Spain's Problems Are Solved... Why Are They Putting Together "Plan B"?

The following is an excerpt from my latest client letter explaining why Spain is such a big deal and why when it defaults it's game over for the EU.

We have entered an extremely dangerous environment: one in which the primary prop for asset prices (Central Banks) are running out of ammunition. This will have profound consequences for all asset classes as well as the financial system at large.

This was the real problem with Central Bank responses to 2008 all along: by attempting to prolong a peaked economic/ credit cycle, they have set the stage for an even larger Crisis, one that will see the Central Banks themselves collapse along with numerous sovereign defaults.

These are the key take home points ALL investors must come to grips with:

- 1. Going forward the Easy Money props are going to be removed from beneath the market.**
- 2. Sovereign defaults are coming. Whether it's through hyperinflation, reneging on promised future social welfare / pension/ healthcare spending, or outright messy defaults (or various combinations of these) we will see most of the Western world defaulting on its debts in the coming years.**

How soon all of this unfolds remains to be seen. The Multi--Trillion Dollar Question is whether the markets realize that Central Banks are virtually powerless sooner rather than later.

By the look of things, it's coming relatively soon. Spain, which is now at the forefront of the Great Western Debt Default Collapse, has opted to seek funding from the mega-bailout fund, the European Stability Mechanism (ESM) rather than going directly to the ECB or the IMF.

The reasons for this are clear: the IMF doesn't have the funds (nor will it as the US won't fund a European bailout during a Presidential election year). And the ECB is now backed into a political corner with Germany.

However, as Spain has discovered, even ESM funding doesn't come without strings attached:

Germany Rejects Spain Banks Tapping Bailout Fund, Meister Says

Spain's rating downgrade at Standard & Poor's doesn't alter Germany's stance that banks can't have direct access to Europe's financial backstops, a senior lawmaker from Chancellor Angela Merkel's party said.

"The German position is absolutely strict," Michael Meister, the deputy caucus chairman of Merkel's Christian Democrats, said in a phone interview in Berlin. "And since such aid programs require unanimity, there's not going to be any change. All sorts of people can try to set things in motion, but Germany won't vote for it."

<http://www.bloomberg.com/news/2012-04-27/germany-rejects-spain-banks-tapping-bailout-fund-meister-says.html>

The ESM funding idea is really just Spain playing for time (the ESM doesn't actually have the funds to bail Spain out). But the fact that Germany is now making the ESM a political issue indicates the degree to which political relationships are breaking down in the EU. And once the political relationships break down... so will the Euro.

Indeed, Germany has no choice. If it decides to prop up Spain it will receive a ratings downgrade (something which France is about to experience anyway). Europe with a downgraded Germany is not a pretty sight.

Moreover, Germany's decision to prop up the Euro is finally beginning to arouse furor from the German population. In particular, the below story which reveals that Germany has in fact put German taxpayers on the hook for over €2 trillion in back-door EU rescue measures could be the proverbial tipping point that sends German voters over the edge.

German tempers boil over back-door euro rescues

Professor Hans-Werner Sinn, head of Germany's IFO Institute, said German taxpayers are facing a dangerous rise in credit risk from a plethora of bail-out schemes. "The euro-system is near explosion," he told Austria's Economics Academy on Thursday.

Dr Sinn said Germany is on the hook for much of the €2.1 trillion (£1.72 trillion) in rescue measures for EMU debtors- often by the backdoor- that will saddle Germans with ruinous losses one day.

Read more an [here](#)