How the perfect derivative storm could cost you 90% of your retirement

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Interesting article on when (not if) the stock market will crash, probably due to derivative and banking storm that will make 2008 look like a mild April shower by comparison.

> In the financial world, the month of October is synonymous with stock market crashes. So will a massive stock market crash happen this year? You never know. The truth is that our financial system is even more vulnerable than it was back in 2008, and financial experts such as Doug Short, Peter Schiff, Robert Wiedemer and Harry Dent are all warning that the next crash is rapidly approaching. We are living in the greatest debt bubble in the history of the world and Wall Street has been transformed into a giant casino that is based on a massive web of debt, risk and leverage. When that web breaks we are going to see a stock market crash that is going to make 2008 look like a Sunday picnic. Yes, the Federal Reserve has tried to prevent any problems from erupting in the financial markets by initiating another round of quantitative easing , but 40 billion dollars a month will not be nearly enough to stop the massive collapse that is coming. This will be explained in detail toward the end of the article. Hopefully we will get through October (and the rest of this year) without seeing a stock market collapse, but without a doubt one is coming at some point. **Those on the wrong end of the coming crash are going to be absolutely wiped out.**
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> According to Doug Short, the vice president of research at Advisor Perspectives, the stock market is somewhere between 33% and 51% overvalued at this point. In a recent article he offered the following evidence to support his position....
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> > *? The Crestmont Research P/E Ratio (more)*
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> > *? The cyclical P/E ratio using the trailing 10-year earnings as the divisor (more)*
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> > *? The Q Ratio, which is the total price of the market divided by its replacement cost (more)*
> >
> > *? The relationship of the S&P Composite price to a regression trendline (more)*
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> If a stock market crash does not happen this month or by the end of this year, that does not mean that the experts that are predicting a stock market crash are wrong. It just means that they were early.
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> ...
> [What about QE3 you ask?] The first two rounds of quantitative easing did indeed drive up stock prices . The same thing will happen under QE3, **unless** the effects of QE3 are overwhelmed by a major crisis. For example, if we were to see a total collapse of the derivatives market it would render QE3 totally meaningless.
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> Estimates of the notional value of the worldwide derivatives market range from 600 **trillion** dollars all the way up to 1.5 **quadrillion** dollars. Nobody knows for sure how large the market for derivatives is, but everyone agrees that it is absolutely massive. When we are talking about amounts that large, the $40 billion being pumped into the financial system each month by the Federal Reserve during QE3 would essentially be the equivalent of spitting into Niagara Falls. It would make no difference at all.
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> Most Americans do not understand what "derivatives" are, so they kind of tune out when people start talking about them. But they are very important to understand. Essentially, derivatives are "side bets". When you buy a derivative, you are not investing in anything. You are just gambling that something will or will not happen. I explained this more completely in a previous article entitled " The Coming Derivatives Crisis That Could Destroy The Entire Global Financial System "....
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> > *A derivative has no underlying value of its own. A derivative is essentially a side bet. Usually these side bets are highly leveraged. At this point, making side bets has totally gotten out of control in the financial world. Side bets are being made on just about anything you can possibly imagine, and the major Wall Street banks are making a ton of money from it. This system is almost entirely unregulated and it is totally dominated by the big*

international banks. Over the past couple of decades, the derivatives market has multiplied in size. Everything is going to be fine as long as the system stays in balance. But once it gets out of balance we could witness a string of financial crashes that no government on earth will be able to fix.

Five very large U.S. banks (including Goldman Sachs, JP Morgan and Bank of America) have combined exposure to derivatives in excess of 250 trillion dollars . Keep in mind that U.S. GDP for 2011 was only about 15 trillion dollars. So we are talking about an amount of money that is almost inconceivable. That is why I cannot talk about derivatives enough. In fact, I apologize to my readers for not writing about them more. If you want to understand the coming financial collapse, one of the keys is to understand derivatives. Our entire financial system has been transformed into a giant casino, and at some point all of this gambling is going to cause a horrible crash.

Do you remember the billions of dollars that JP Morgan announced that they lost a while back? Well, that was caused by derivatives trades gone bad. In fact, they are still not totally out of those trades and they are going to end up losing a whole lot more money than they originally anticipated. Sadly, that was just the tip of the iceberg. Much, much worse is coming. When you hear of a major "derivatives crisis" in the news, you better run for cover because it is likely that the entire house of cards is about to start falling.

And don't get too caught up in the exact timing of predictions. If a stock market crash does not happen this month, don't think that the storm has passed. A major financial crisis **is** coming. It might not happen this week, this month or even this year, but without a doubt it is approaching. **And when it arrives it is going to be immensely painful and it is going to change all of our lives. I hope you are ready for that.**

More at http://theeconomiccollapseblog.com/archives/warnings-that-a-massive-stock-market-crash-is-imminent