If you thought the 2008 financial crisis was bad, just wait until the next financial collapse. It will resemble nothing in history.

The “too big to fail” banks that helped cause that crisis are even bigger today. The four biggest banks, for example, are 30% larger than they were five years ago. And the five largest banks now hold more than half of the total banking assets in the U.S.

That’s why The Washington Post recently wrote that regulators “worry that banks are generally larger, more complicated and more interconnected than they were before the meltdown.”

To make things worse, derivatives, the same instruments Warren Buffett once called “weapons of mass destruction,” are now worth more than $700 trillion.

That’s $200 trillion MORE than the total value of derivatives in 2007, when they brought down the global financial system.

Today, the size of the derivatives trading is more than 10 times bigger than the entire world economy.

In other words, there’s literally not enough money on the planet to backstop the banks trading these things if they blow up again.

And most of those ticking time bombs are sitting right here, inside U.S. banks. According to a recent report from the Office of the Comptroller of the Currency, the top five U.S. banks hold a staggering $290 trillion in derivatives.

JPMorgan alone has $70 trillion. That’s almost five times the size of the U.S. economy, or about the size of the entire world economy.

While most people are ignoring the warnings signs, a few mainstream financial media outlets have started to report on the risk of a catastrophe.

Forbes, for example, recently wrote: “Another global financial crisis is on the way... Banks today are bigger and more opaque than ever. They continue to trade in derivatives in many of the same ways they did before the crash, but on a larger scale and with precisely the same unknown risks.”

And according to Janet Tavakoli of Tavakoli Structured Finance, as quoted by the Financial Times, “We have more leverage and more derivatives risk than we’ve ever had.”

Here’s the bottom line... the same kinds of complex, confusing financial instruments that brought down the global financial system in 2008 are back in spades.

And now we’re on the brink of a collapse of unprecedented magnitude.

Many people think the Fed will save us from this coming financial catastrophe. But that’s not possible.

You see, when the big banks collapsed in 2008, the Fed was able to bail them out by printing trillions of dollars.

But they used all their capacity on that occasion. Now the Fed is secretly broke.

They’re leveraged 80-to-1. That means for each $1 of assets, they hold $80 in debt.

So in the next financial collapse, the Fed won’t be able to print money to save the system, as they did in 2008.

In case you think I’m exaggerating, a member of the Federal Reserve has told me during a private conversation that the Fed is secretly broke.

They won’t admit it in public, because it would cause a market panic. So they have to lie and say everything is under control.

The truth is the Fed is using an accounting gimmick to mask the true value of the assets sitting on its balance sheet.
Three Investments That Will Jump 100%

sheet. This isn’t much different than what Enron did.

If they disclosed the true value of their assets, everyone would know they’re already insolvent.

So imagine a financial collapse bigger than 2008, but with nobody to bail us out. The stock market could easily drop 70% or 80%. Most investors would get wiped out.

But there are a few investment opportunities that would actually go up during the meltdown. Let me give you details about three of these investments.

An Easy Way to Make 80% in the Next Crash

During the next market meltdown, pretty much the entire stock market will head lower. But there’s one sector that will get crushed: small-cap stocks.

Many of the smaller companies don’t have strong balance sheets. They don’t have the capital necessary to withstand a big financial crisis. That’s why smaller companies tend to be much more volatile than the overall market.

During the last crisis, for example, the Dow Jones industrial average, which tracks the performance of big companies, dropped 48%. The Russell 2000, which tracks the performance of small-cap stocks, dropped even more, plunging 58%.

So betting against smaller companies is a good way to hedge against a market collapse. And there’s an easy way to do that.

The fund ProShares Short Russell 2000 (RWM: NYSE) returns the inverse of the Russell 2000 index. This means that if small-cap stocks drop 1%, this fund goes up 1%.

Figure 1 below shows how the fund performed during the last crisis. While the S&P 500 index dropped about 50%, RWM went up 75%. It’s a great way to hedge against a market collapse.

It’s important to note that because of daily compounding effects, this inverse fund may not perfectly reflect their intended strategies over the long term. So you should not use RWM as a “buy and hold” vehicle.

This is a trade you should hold only during a market collapse as a short-term hedge. I will keep you up to date on how this crisis is unfolding in future Strategic Intelligence issues.

An “Insurance” Investment That Could Jump 500% During the Crisis

As I said before, the Fed won’t be able to print money to save the system, as they did in 2008. The money will have to come from somewhere else.

And there is only one clean balance sheet left in the world. And that’s the International Monetary Fund (IMF).

In the next crisis, the IMF will have to bail out the world by printing something called special drawing rights, or SDRs.

Boiled down to their essence, SDRs are a kind of world money printed by the IMF that circulates among central banks and governments.

The IMF has already issued SDRs three times since their creation more than 40 years ago. Each time was linked to a crisis of confidence in the U.S. dollar. For example, during the crisis in 2009, the IMF issued $182.7 billion in SDRs.

And now the IMF is actually already preparing for the day the dollar will collapse. It has published a 42-page report describing a “plan to position the SDR as the leading global reserve asset.”

CNN even picked up the story, reporting: “The IMF issued a report Thursday on a possible replacement for the dollar as the world’s reserve currency. The IMF said special drawing rights, or SDRs, could help stabilize the global financial system.”

So make no mistake about it… in the next financial avalanche, the IMF will come to the rescue by printing SDRs. When that
happens, the SDR will emerge as the new global currency. And that's going to be the end of the dollar as the global reserve currency.

It doesn't mean that you'll have to carry SDRs in your wallet. We'll still use dollars to buy food, gas and everything else. But the dollar will no longer be used for the important things in the international monetary system.

As a result, the dollar will be worth much, much less. It could lose 80% or 90% of its value. For that reason, having a hedge against a dollar collapse is another great way to prepare for the crisis.

And Franco-Nevada Corp. (FNV: NYSE) is the perfect vehicle to provide that kind of insurance.

As a royalty company, Franco-Nevada doesn't have any exposure to mining operation risks. They simply acquire royalties on specific gold mines.

Then they receive a predetermined percentage of the mine revenue over its entire future operating life. This is a great business model that generates tons of cash flow.

And Franco-Nevada is arguably the best royalty company out there. They’ve delivered exceptional results for shareholders by carefully building a portfolio of gold royalties.

In the past, FNV has proven to be a good hedge against market turmoil. The company went public in December 2007, right before all hell broke loose. While the S&P 500 index was losing half of its value, shares of Franco-Nevada were actually going higher.

While investors lost half of their money in the stock market, Franco-Nevada investors doubled their money during that tumultuous period.

Since going public, shares of Franco-Nevada have returned 10 times MORE than the S&P 500 index. That's an incredible performance. And I expect shares of FNV to continue to beat the market, especially in an event of a dollar collapse.

That's why FNV deserves a place in your portfolio. It trades in the New York Stock Exchange under the ticker FNV. For more details about the company, please read the first issue of Strategic Intelligence due out soon.

**This Income Strategy Could Pay You $1,000s a Month During a Collapse**

As you know, I believe buying the right gold and silver stocks could be a great way to make money during the coming dollar collapse.

But what if you could not only buy these stocks at a deep discount… but also get paid for that opportunity?

Too good to be true? It's not.

It turns out you there's an income strategy that lets you...
do exactly that.

Selling put options allows you to buy stocks at a discount while collecting some amazing income in the process. This strategy allows you to collect a yield of 1–5%… every single month.

Let me explain how it works…

When you sell options, you don’t have to be exactly right about the direction or timing of a stock movement. Many factors work in your favor. If shares go nowhere, for example, you still profit.

When you sell a put option, you’re agreeing to buy someone else’s shares of a particular stock for a set price for a limited period of time.

In return for agreeing to buy the stock, you receive a cash premium from the other party. The buyer of the put option will exercise his right to sell us his stock if the price of his shares falls below the strike price.

You’ll be asked to fulfill that obligation only if the stock closes below the strike price at expiration.

When you sell a put option, you collect the premium regardless of what happens. But the trade has two possible outcomes:

1) The option expires worthless, and you collect the entire premium without any obligation.

2) The buyer exercises the option, and you end up buying shares at the strike price.

Because of the second possible outcome, you should sell put options only on stocks that you want to buy anyway.

I know this may sound confusing. So let me walk you through an example.

Let’s say you sell puts options on Franco-Nevada.

As of this writing, shares of FNV are trading close to $50. But instead of paying the market price, you could sell the January 2015 put option with a $45 strike price for $1.45.

Translating all this to English, this means you would be agreeing to buy shares of FNV for $45 in case it’s trading below $45 by January.

Remember, shares of FNV are trading for $50. In other words, you’re agreeing to buy shares of FNV for a 10% discount. Isn’t that great?

And it gets better. In exchange for this obligation, you will receive an upfront payment of $145 for each put contract you sell.

You’ll receive $145 because each contract covers 100 shares. So you need to multiply the price of the option by 100 to figure out how much income you will get.

Let’s take a look at the two possible scenarios…

1) The Option Expires Worthless

This particular option will expire on Jan. 17, 2015. If shares of FNV are trading above $45, the option you sold will expire worthless.

You will simply book the entire premium with no obligation to buy shares. You can just move on to the next trade after collecting $145.

And remember, you will collect $145 if you sell one contract. If you sell five, you’ll collect $725 ($145 x 5).

This may not seem like much. But the truth is this is an amazing strategy. Here’s why…

FNV pays a quarterly dividend of 20 cents. In other words, if you had 100 shares of Franco-Nevada, you would receive a payment of $20. By selling puts, you can collect $145 instead.

You are able to collect an “instant dividend” more than seven times higher than the regular dividend without owning the stock.

You’re probably thinking this is too good to be true. What’s the catch?

Well, here’s the main risk of this strategy: If FNV is trading below $45 at the expiration date, the buyer of the option will exercise it.

You will have to buy shares of FNV for $45 (the strike price), regardless of the market price. That’s it. That’s the worst that can happen.

Let me show you how it works.

2) The Buyer Exercises the Option

Let’s say FNV is trading at $43 at expiration date. Buying 100 shares at market price will cost us $4,300. But we’ll have to buy FNV for $45. If we sold one put option contract, we’ll have to buy 100 shares. This will cost us $4,500.

So what’s our loss?

Well, let’s keep in mind that we collected $145 when we sold the option. So this provides a cushion against a sudden
drop in the value of the stock.

In this particular case, you would be down $200 ($4,500–$4,300). But if you account for the income you already collected, the $145, you would be down just $55.

In other words, you would be down just about 1% on this trade, even though the stock tumbled from $50 to $43, a 14% drop.

And that's how the option premium reduces unrealized losses. And you would realize that loss only if you sold the stock. But you wouldn't have to do that.

Remember, we sold puts on FNV in the first place because we wanted to buy it as a hedge against a dollar collapse.

We're simply selling put options to buy FNV for a discount.

Hopefully, now you understand why selling puts is so safe and profitable. Many trading strategies have only one way to win… and lots of ways to lose.

Put selling, on the other hand, offers lots of ways to win. This puts the odds of making money in your favor.

And you can apply this strategy in the precious metals market to buy shares of great stocks at a discount. Here are three stocks you can sell puts on: Franco-Nevada (FNV: NYSE), Royal Gold (RGLD: NASDAQ) and Silver Wheaton (SLW: NYSE).

I believe these are all excellent precious metals stocks. I already covered FNV in this report. Please read my report A Secret Anti-Dollar Investment Strategy from the World’s Greatest Investor for more details about RGLD and SLW.

If you have any questions about how to execute a put selling trade, please contact your broker. I’m sure he will be able to walk you through the process.

Also, please keep in mind you should sell put options only on stocks you’re willing to buy today. And that includes the three stocks I mention above. They will all perform extremely well during the coming dollar collapse.

Best regards,

Jim Rickards
Editor, Strategic Intelligence