

The Fundamentals of FX Trading (Episode 019)

0:00:20 Andy: Hello everyone, welcome to The Cash Flow Academy Show. I'm your host Andy Tanner, it's wonderful to have you here and I congratulate you for taking time to invest in yourself and learn a little bit more about cash flow. I've got very special guest for this particular podcast, his name is Jeff Crystal and so we're thankful to have you with us Jeff, thanks for joining us.

0:00:44 Jeff: Thanks Andy, it's always a pleasure to talk to you.

0:00:47 Andy: So I'll give you guys a little background upon who Jeff is and why I wanted to have him on the show. I have many, many mentors as you know, many mentors that I use and Jeff is certainly one of them but what's interesting is also many of the mentors I have were also mentored by Jeff. You're not old enough to be a grandfather Jeff but in the world of education especially in paper assets, a lot of people look to you that way, you're a young guy, you're no different in age than I am, you've just been doing this a lot longer than I have. And so a lot of the listeners know a lot of names, they know Noah Davidson for example, they've heard of Gino Ford for example and on and on and on and most of those guys credit Jeff Crystals the person that has taught them how to trade. So I thought it would be wonderful to bring in the Jedi master, the Yoda of trading and we'll talk about a lot of fun things, we'll talk about the Forex today, we'll talk a little bit about the economy today, different styles of trading and just have a great conversation, I think it will be interesting for you guys to hear Jeff's perspective on stuff. So Jeff, why don't we start off, just give them a little bit of your background, where you come from, what got you interested in trading?

0:02:08 Jeff: Well, I grew up in Idaho. My dad was agricultural loan officer so he grew up on a farm and he would make all of us work for, my brothers, I have 3 brothers and a sister, we have to work on 4 of the local farmers so I learned hard work at really young age. Even though he's a banker, he'd move sprinkler pipe with to teach us lessons in life about work ethics so he get up at 6 in the morning, go move sprinkler pipe with us, go home and shower and then go to the bank. And he taught me to really early age something really funny, he never wanna move sprinkler pipe for a living, he wanna find something else.

0:02:48 Andy: A little less rigorous.

0:02:49 Jeff: Yeah, a little less rigorous and something that pays a little bit more. And I had a mentor who, he taught me how to trade, he spend a lot of time with me and showed me his portfolio one day and not that time in college and showed me here in Salt Lake, I moved to Salt Lake with my grandparents and go to school and they had said, hey, if you get an associates and you've got to remember this is '92 about, this is long time ago, '88 – '92. And they said if you get an associate either you get 24,000 dollars a year, if you get bachelors you might make 40 and if you get a master's you might make 60 and you make 120 if you have PhD but it's 12 years of school. Well I got lucky, I had found a job in the paper down here just going to school and they did something with stock market and they need somebody with basic construction to

put up satellite dishes and then talked to them about stocks and have basic computer background. And I had everything but the financial market background and I remember the first customer I got asking how much he made, it was phenomenal amount, it wasn't even on my chart, it wasn't even on the chart that they taught me in school and I said, wow, how did you make that much money, that's more an NBA players make? And I got real interested and started listening to this guy and he taught me how to trade, too me under his wing but he taught me not to quit my job but to trade and build wealth as quick as possible and first couple of times I talk to him Andy I got in with some arguments with him about the way the market works and I was wrong, I have to be humbled a few times but I was really young kid back then but that's kinda how you got my start in to the market was this moving to Salt Lake instead of moving sprinkler pipe, moved to Salt Lake.

0:04:40 Andy: It's interesting Jeff, so many people, I'm good friends with Phil Town and in his book Rule Number One he talks about don't lose money and he tells a story where he was a river raft guide and it wasn't the Wolf of Wall Street but it was the guy he calls the wolf and he's this river guy and the wolf hops on to take this river trip and during the river trip, he explains to him what he does and takes, he took Phil under his wing and same thing. And I look at guys like Noah Davidson, you took him under your wing and guys take me under their wing and it just seems that in, just seem when people learn this particular skill, it's almost never, I've never heard anyone say I went to college, I took a class on this and bam, voila, I knew how to trade. It's almost like a martial art where it's taught by master, journeyman to apprentice, it just seems every story is like that.

0:05:44 Jeff: No, I really believe that, I believe that. I keep track of, there was 5 core people who taught me how to trade over the years and when I think about trading, I could trace my lineage back to some very famous people on Wall Street and Trades of Truth so I think of them like my son says very much like that and just so you know, one of the guys who taught me how to trade, his name is Mike Quamback and Quamback work for Stoudemire and Stoudemire helps design that big trade that Soros made that got him kicked out of Malaysia.

0:06:18 Andy: Wow.

0:06:19 Jeff: And so also Quamback, he worked for numerous securities for a while and he spent a lot of time with me, I'm really grateful for him. There's another guy, Tom Joseph, exceedingly grateful for that guy.

0:06:32 Andy: Tom's a master programmer as well. His software, I love, I use his options analytics even today and Tom is, he's just a good a person as you could meet, I love Tom.

0:06:47 Jeff: Oh me too. He spent the most time with me and I'm exceedingly appreciative of that guy. He changed my life really to be honest, I was to a point in my life to go to college and to finish, well, learning to work for somebody else, that's kinda what college teaches you, to go. And I remember I needed some cash and he had told me, he goes, don't quit your job, always keep something until you can build up a big enough offer and I went to try to work for Fidelity

Investments and it wasn't a good fit for me or them but those guys just answer phone calls all day long and where a trader trades all day long. And so I'm exceedingly grateful for him, he's made it so that I could spend more freedom, more personal time with all my family members with just my whole life, it changed it, I'm exceedingly grateful.

0:07:43 Andy: When you say Tom and so these other mentors taught you to trade, there seems to be out there and I disagree with this but there seems to be out there, they make this huge line about those who invest and those who trade and to me, it's just all about timeframe. If I put money out there and I want to get more money back whether it's from a capital gain or cash flow whatever, why do people make that huge? They'll say, oh, he's a trader and when someone says oh, Jeff's a trader, it denotes oh, she's risky, he's not patient, he's flippant perhaps, he's aggressive and yet I don't know, I think people who consider themselves one of the long term investor as if they're a higher quality of investor. Aren't you really just having your money work for you? And look, you can work for money at a job or you can have money work for you. What's your thought on that?

0:08:39 Jeff: Oh, I got a great ought for this. ROT, you guys know it, ROT is return on time and so there's a saying that Quamback I think taught me, that I think it was him because he had a background in philosophy and he'd always whip these nippy things on me. But one of the things he would always say is, I wanna think how it goes, it is a rich man gets rich coz he doesn't have to sell and I go, what does that mean Mike? And he goes, well, if you have a fundamental trade on and you give oil long enough, oil is a perfect example right now, you give oil long enough, it's gonna run up. But the normal person needs ROT, they need return on time because you need money, you have to spend your money and a trader, a trader over an investor, a trader sometimes is someone who has the cash flow of their lifestyle, they have to go in there and hit that coz that's the only thing that matters to them, they've got to get that money because it's just like in sales, just like anything else, you've got to have that money come in, they have to consume it. An investor, all that means is he has maybe alternative, this is where I'm really grateful for reading some of Robert's books and meeting some things about Robert Kiyosaki is that when you look at it, he's got this cash flow things that you're trying to get multiple streams of income and an investor or a part time investor or I call it a part time job, that person is just trying to build wealth or pay down some debt or something like that. A trader has to trade every single day in my opinion to, he's got to pay his house. Sometimes it's less stressful to be someone who has multiple streams of cash flow or you're retired and you're trading for fun because then you don't have to stress over what's occurring, you don't have to stress over getting that money in and it relaxes you as a trader to have some other source of income, it brings you right down to a comfort level. And I actually saw a drawing once Andy that makes a lot of sense, what they did is they drew a 45 degree angle and then they put wiggly lines up and down on the 45 degree and said a trader will make money up and down, he'll make more than the 45 degree angle less than the 45 more but in general, he'll come out on top and make more money than the guy that works 9 – 5. True but you have a bill that comes up and I've faced this actually in my life, this is a personal thing that will help you understand it. On September 11th, I was long calls, there's good setup and it really hurt me, I

mean hurt me, and I remember that I have been laid off, I've gotten divorce and I was long calls so I have 3 bad life changing events hit me right at the same time. And when that happened, I remember the house payment came then I go you need to pay this today Mr. Crystal, that's what I'm thinking, and I'm like, ooh, how am I gonna do that? So because I just taken a loss where a nice thing that Robert taught me is that 45 degree angle can come in from other sources of income, retirement funds, it could come in from rentals, it could come in from all kinds or a spouse working part time or anything that levels out the wiggly lines that go up and down, does that make sense?

0:12:05 Andy: Yeah, it does. I look at it this way, I think a lot of people that are in the 401k consider themselves investors and they're not, they're employees that have an investment program they participate in but...

0:12:19 Jeff: I totally agree with that.

0:12:20 Andy: It's be, do, have. A lot of people wanna have it, lot of people wanna do it but they don't wanna be it. And I think the difference is really a person's education, do you understand how this works? The time period to me is less important whether, like I wouldn't be a day trader, I wouldn't wanna sit and buy sell, buy sell, buy sell, I didn't wanna automate that process and, you know me, I love to swing trade and I really love to sell options doesn't mean I don't check on them every day but I like to sell monthly options. So there's a whole range of choices and that leads me to my next question I had for you is: you know how to trade stock, you know how to trade options, you know how to trade futures but primarily the teaching that you do nowadays that I've seen is on the Forex and when I speak to you, I don't know if, I don't wanna put words in your mouth saying that's your favorite market but it seems to be the one that you've fallen in to most. Why is it that the Forex market, if you had your choice to trade options or trade the Forex, do you lean towards the Forex and if so, why or why not?

0:13:38 Jeff: Well, Forex for a beginning trader, I think it's the very best place to start. One, you can keep you job like Mike and Tom taught me and keep your job until you learn your skill coz you can trade in the evening, so there's one point, you trade at the evening. The other point I was just talking to a friend that you and I both know, Shawn Lucas, a great trader, we're chatting tonight, we chat almost nightly and Shawn, what he said, I said Shawn, do you believe the statement and he goes, oh, most certainly but let me tell you the statement is to get really institutional level money management things requires lot of money. That means that maybe your stock drops and you average in or you use some kind of technique that builds your exposure to the market. Well Forex, the biggest benefit in Forex is the most misunderstood, you can size to the exact risk. And what drew me in to this, you'll find really fascinating, I wanna teach my children to trade. Now, you always wanna teach your kids what the value of a dime is coz kids nowadays, they don't think a dime is worth anything. But if I took and I put them on something where they made, they risk a dime every time it went up or down, just a dime, every time it went up or down a tick or a penny, we could get them as low as a penny, they risk one penny. If they constantly put in effort like you would in your karate, like your

boys, I love seeing them on Facebook doing little karate stuff but if you put in all that effort, you're gonna become good at that. Well a child or a beginning trader only has to risk a penny and then he could say, oh, it broke out and it's going up more. I can buy another penny or I could risk another penny so the risk exposure to your count size can become in line and that's the biggest advantage to it and that makes Forex awesome, that's what makes it awesome. If I try to do that in stocks, it could cost affect me, I'd have to buy 100 shares, 100 shares, 100 shares, 100 shares, it costs a lot more apple. So for beginning people, I think that it helps, it helps that such low risk exposure to the market and you can do it after work, both of those, those are my 2 biggest pros that I like.

0:15:55 Andy: So in the Forex meaning foreign exchange, it is the largest market in the world and I imagine it's the most liquid market in the world. If I was a beginning trader, when I'm coming to you and say I wanna learn this, what would you say the first thing to learn is? Or give me a list of things, so many people, it's funny Jeff how my mind works because so many people say Jeff, give me a trade, which pair do you like, do you like the euro and the dollar, give me a trade. Do you like the yen versus the dollar? Do you wanna go over to Switzerland and do francs? What do you wanna do? They're always asking what to buy...

0:16:39 Jeff: That's right, I call that the dinner party question, it's the dinner party question.

0:16:43 Andy: Yeah, what do you, I get that all the time too and if you had 10,000 dollars and that's all you had, what would you do? I'll tell you what, Robert Kiyosaki says is don't tell anyone you only have 10,000 dollars, that's what people say though, Andy, if I only had 10 grand, what would you do? And I like this question better, what would you learn first? If a person wanted to get in to Forex trading, what are some of the things you recommend that they learn?

0:17:12 Jeff: Oh, the very first thing, this has helped me a lot, it was actually from someone I mentored, I learned as much mentoring people from them as they do for me I think. And so this gentleman, we were talking about stocks and options, he didn't trade Forex that time so this was quite a few years ago. I started trading Forex around 2001, I've traded stocks and options since '92, long time and I still love the stocks and options, I still help people with it but this investor or trader we can call him, just someone who's dabbling in the market was really, really good at organization and the first thing I would learn is how to construct a playbook, just how to make a playbook. Like your 4 pillars is a great example of the basis for a living document, you could build a living document around that, that's awesome, that's what you need at first. Build a playbook so that you can keep your thoughts organized and then the next thing focus always, I have a little thing I call it, like your 4 pillars, I call it Jeff's 12 step program, it's 12 points triggers, targets, trade management, there's topics that deal with the market and I take those topics and they build up a play, a place what you execute but one of the topics, the most important topic to learn above all else is it's called trade management or money management and you wanna focus as much time in learning money management techniques and that's where a real big advantage in Forex comes in because you can get to so

small size, you can run really nice simple money management systems that are just eloquent and they're easy to get to and they're easy to execute, that makes it really sweet, that's one of the things I like about it.

0:19:00 Andy: That's really cool. On the 12 steps, give me 3 or 4 of those topics specifically coz I think it's great to give people a specific things, you know what? We got 2016 coming up here, what's a good goal to learn about, just give me 2 or 3 of those 12.

0:19:19 Jeff: Okay. So when you get in to a trade, you have to trigger, that calls you to action. And so one of the other guys who taught me how to trade Andy ???[0:19:29], he's Ukrainian, he had this thing we called it trade identification. He goes, does that look good? And he would always compare it to a lady but we'll compare it to Beckham, does Beckham look good or does Ronaldo look good? Just because they look good Jeff doesn't mean that you buy them a drink, that's called the trigger. So you have trade identification that's whoa, that looks nice and you got your trigger, it calls you to action, you have trade management and trade sizing, those are the 4 most basic ones.

0:19:58 Andy: Yeah. Position sizing I think is one of the best risk management approach a guy can have to get that position the right way especially with Forex with the leverage that you have, I mean, guys can, you can go big, you can go small, I think when guys get big is when they go a little bit too big...

0:20:16 Jeff: That probably takes a little tiny shavings at it, a little, I went a little bit, I went a little bit, I lose a little bit but I win a little bit and we can actually, I should sit down with you someday outside the scope right now coz we definitely need to look a spreadsheet but I can actually take your goal, a model and we can predict how much money you need to make your goal and we can predict how many trades you have to make and there's some mathematics in that that we can go through that you do enjoy but...

0:20:44 Andy: Well that's, when people ask me about you and that approach, this is probably a poor analogy but I talk about the casino where look, the gambler gambles but the house is just going with odds and probabilities. And a person can, especially with automated trading, a person can go to a point where they can really develop their own system I suppose you'd call it to where they remove a little bit the emotion out of it and they're just trading their system almost like a pit box, they setup their percentages, they setup their numbers, they setup their table limit which is a position size and off they go so it's an interesting thing.

Let's shift gears just a little bit, let's go a little bit bigger picture, as a person that wants to trade the Forex, there are no, you look at the 4 pillars of fundamentals, technical, cash flow, your position with cash flow and then your risk management. Fundamentals when people think about that, they think of earnings per share, they almost always think equities immediately, earning for shared growth, return on assets, management effectiveness types of ratios. When you go on the Forex, there's no company there and so really broadens the scope of fundamental to where we're dealing with a really global and sovereign fundamental pictures.

You look at Greece, you look at the European Union as a whole, you look at the United States, Japan, give me your outlook on the fundamental picture for some of the different countries and currencies that you trade, talk a little bit about sovereign fundamentals, I mean, how do you feel about...

0:22:32 Jeff: After Japan? Okay, first off, I refuse to read US news and so there's, yeah, I'll send you a wonderful link to, it's, somebody database, every paper all over the world, every local paper and you can get them electronically and so I'll read a lot of local papers. So after the tsunami hit Japan maybe a year later, I started reading local papers and I can't go long Japan, I mean, their government has come out and said, listen, we're gonna print as much money as required so that people will devalue our currency and people will buy our cars. One of the shipments of cars after Fukushima that they ship to Russia, the guy walked down with a Geiger counter and you could see it on YouTube it will go bing, bing, bing, bing, bing, bing, bing. And so Japan has a lot of really, really sad social problems that are there and so the more I read about that, it actually took me in a slightly different way off the, this is a slight side topic, I think that everybody when you're dealing with currencies, coz we're talking about sovereign fundamentals where your currency devalues essentially or gets more valuable, one of the things that everybody should do is find someone who's lived through a currency devaluation especially if you're an American and you've never lived through one.

0:23:59 Andy: That's great comment.

0:24:01 Jeff: Yeah. Because after reading what some of these Japanese people did and so I go for some of the stories about how are people living on a day to day basis, what are they doing because then it motivates, like Greece, here's a great example, let's switch over to Greece. They can't get money out so they built like their own little, not currency exchange but swapping place in the middle of the city, you come and swap services because that's what you do when you have no money. You can't get to the money in your bank so you're gonna swap services, you're gonna shovel the guys driveway, he's a dentist, he's gonna fix your teeth. So literally, you can take it from the sovereign picture all the way down to the individual and that helps you understand how it's gonna affect you and that's been a point of interest for me is how is this gonna affect my children and you when some of this currency printing and some inflation starts to happen in the United States. How will we live and how is that money distributed? By that, I mean this, there are 2 parts like stocks with sovereign debts that I'm finding out you have to really look at and it's hard to get some of these numbers. There's your pre-trading stock, this is all the stock that's out there to be traded that Andy can buy, I could buy. There's what's called 144 stock, this is the stock that insiders are holding. The 2 sum together Andy make total stock that's outstanding, total of shares outstanding. Well with currencies, we have a really interesting thing that just happened in the United States so we're switching over to another country now. We printed all much money but inflation really didn't go up that much, how come? The reason it didn't go up very much is it did not go in to the economy. The bank were forced, they were forced to create what's called stress test hold the money in check, there's some reasons coz there's some county rules that they did that but they

held all this big pool of money, they set it aside and they didn't let it go in to the economy. So one of the things that I found that's helped me the most in Forex understand some things is that just like stocks, there is free trading currency, currency that's out there flowing in the economy, moving around but there's a much bigger portion that is not free trading, it's held inside banks, maybe because of depository requirements, lots of other reasons but cash on hand on companies that isn't out there moving through the economy, lots of stuff like that. So the study of that has helped me understand why we haven't got an inflation here in the United States, does that make sense?

0:26:50 Andy: Yeah. Let's talk about the United States. To me, it's very difficult for person to separate fiscal policy and monetary policy because I think they very much have a relationship. When I look at our fiscal, let's talk about our fiscal situation and for those that listen, when I speak about fiscal things, you really start with just the general financial statement of the US or the company or the person. So, and of course numbers get tweaked and you have to be careful of who you trust with what. But if you look at for example the US debt clock, that's a popular one and most of those numbers come from the US treasury or the Federal Reserve, that's where most, and some come from the congressional budget office. But if you just look at the basic 4 numbers, income, expenses, asset, liabilities and maybe the first 6 numbers, income, expenses and cash flow, asset, liabilities and equity. You've got an income of about 3.2 trillion and you've got a spending of about 3.7 trillion so that's about a 400 – 500 billion dollar deficit. And now that we jumped off the fiscal cliff, when we jumped off the fiscal cliff and all of those, we slowed the rate of growth slightly temporarily but our deficit is not climbing again, we had it up to a trillion dollars, now it dropped down to about 400 billion, it's on its way back so there's no question in my mind that someday that's gonna hit a trillion dollars again. On the asset column side, we don't really have any assets and on our liability side, we've got, we're closing in 19 trillion in debt, almost 19 trillion but the big thing is is the unfunded liabilities, the promises we've made Jeff. And when you look at the future, I always say this, policy plus demographics equals the future so our policy has been to promise these baby boomers tremendous services, social security, Medicare, whatever you wanna call it and we've got about, depending on who you talk to, about a hundred trillion dollars in unfunded liabilities, you got an 18 trillion dollar GDP so it's dire, it's Greece on a larger scale. We can't pay these liabilities, we just can't, we don't have the income from our taxes. So as that deficit grows and the government is forced to create bonds, I think that's where the fed comes in coz the fed is the one that's gonna buy those bonds. So talk a little bit about the relationship between the fiscal crisis, it's so easy to see coming and they don't talk about in the news because it's still way out, it's not gonna happen tomorrow, it's not gonna happen the next day but it is gonna happen. And you mentioned your children, you want them to trade, I hope my children pay attention because it is dire. So what is the relationship from where you sit of this tremendous fiscal challenge, a hole we cannot get out of, how does monetary policy, how does that affect the value of our currency if it's backed by the full faith in credit of the United States where we have no credit, all we can do is print?

0:30:36 Jeff: Yeah. So there's another part of that that I just like to bring up and this builds along the conversation that I was bringing up earlier. So if you're familiar with Ron Paul, he was on the banking committee and Bernie Sanders is on the banking committee and I think Warren is too now. And all those guys, they're pretty different in their political views but they all have one thing in common, they hate the Federal Reserve because of something, I don't remember if you remember the toxic asset relief fund but Bernie audited, he got it audited to 220 page document that I, in about page 221, they start talking about these things called dollar swap lines and they quote the law that allows the Federal Reserve to print money and Sander quotes this number that came out. When you're auditing something, you might discover another problem on the side but that's not really built in to your report and so they discovered that we had loans up to, this is a Sanders number, 16 trillion dollars to Europe so not only do we have the problems here in the United States, how is Europe gonna pay us back 16 trillion dollars?

0:31:50 Andy: You're not, I mean, they have, Europe is a whole different ball of wax because they have a combined monetary policy with 17 – 19 individual fiscals so they're a mess as well.

Jeff: That's right. So that comes back to where is that money, has that money left the Central Bank, is it used to, how was that money used? Well, they're private, we don't know that part of it, we don't know how it was used, that makes some of our fiscal decisions harder for us to discern because they've hidden some of that money that they put out in to the economy so we can't see it because they haven't been audited. I think since it's election year, I wanted to point that out, that's kind of an alternative agenda. You should really consider that as you go in to this election cycle to make sure that we get candidates in there who understand monetary policy because this is gonna affect what you just started to talk about. I was gonna comment real quick, just real quick, you said, you've made something that made me laugh, you sounded just like Harry Dents just exactly like you. And for those who don't know, that's an economist that talks about growth rates and the pending problems that are coming with unfunded liabilities. He's written a couple of books and I think he's probably read a couple coz he sounded just like you and it's made me chuckle. But go ahead, I cut you off.

0:33:18 Andy: I was gonna say if you, again, how does this affect the US currency if we have fiscal irresponsibility, how does that make, I mean, right now, the dollars gaining strength despite the amount of QE, you say the money hasn't made it in, a lot of people just turned around and keeping in the Central Bank but how does this affect the dollar and do you see a dollar crash long term?

0:33:50 Jeff: Oh, I definitely see a dollar crash, it's inevitable. It's absolutely inevitable that long term it will crash. Right now, there's a lot of accountant games that are going on. Who's the, Tom Wheelwright, I actually took a flight with him and Wheelwright and I had a long, long discussion sitting by each other about accounting rules or about price movement. I said, I can tell you when things are gonna change based on price movement. He goes, well, I can always tell you based on accounting rules and what I think is propping up the dollar right now and how it's affecting us is where you're gonna put your money if you're Russian? I have Russian clients,

where are you gonna put your money if you're Cambodian? Really, where are you gonna put it if you're Greece or if you're Japanese, where you're gonna put your money? So they have no choice but to start to buy dollars coz that's called safe haven, that helps support the dollar. The petrol dollar agreements, those help support the dollars, those are coming undone right now and the Putin-s tearing some of those apart but we've done enough damage ourselves to the petrol dollar agreements that they're starting to fall apart. Some people won't know what that is but that means that we're the reserve currency and that, is that a reserve currency status erodes and erodes and erodes, you better take my little piece of advice and talk to people that have lived through currency devaluations maybe approve in, maybe a Polish person, maybe a Greek and decide how you're gonna deal with not having the services that are guaranteed to you. So Dent, Harry Dent the economist, he says, well, what really shrinks our money supply? Well there's austerity, austerity will shrink the money supply in this way, they cut services so that the money doesn't go out in there...

0:35:40 Andy: I mean, you cut services because you're cutting taxes. If you're gonna cut taxes then you don't have the money to pay for services so...

0:35:48 Jeff: Yeah so, or you're taking the taxes and paying down debt and paying down debt will paying off the debt shrinks the money supply in that respect because it crosses it off there coz money is debt. So what you have is you have austerity will shrink that, raising taxes will shrink that and a collapse of the major firm because that money, where did it go? They don't get it back, it's bankruptcy, it's written off the books or the new American peso like the new Mexican peso, they come in and they devalue that so...

0:36:21 Andy: Shave a zero off.

0:36:22 Jeff: Yeah, shave a zero off your savings, can you even imagine that? Coz you imagine how that feels?

0:36:27 Andy: Well, but think about how nice it'd be to shave a zero off your debt.

0:36:32 Jeff: Yes, if you have hedged that properly, that would be awesome so that's a 2 edged sword, isn't it?

0:36:40 Andy: So that's where interesting thing where we say people are savers are losers, why would you save something that you believe is gonna be reduced in value, if you're going to debt as fast as they can if that's the truth. I mean, think about it, if that's really the truth, the smartest thing a guy could do is borrow as much as he could as fast he could, trade that money now for something of value that would hold its value like real estate or even stock, anything that's gonna hold its value, a company like Apple or gold and then when the currency is devalued, I mean, if the dollar went to zero and it's worthless and you owe the bank a million dollars but that's worthless, you don't really owe the bank anything anymore.

0:37:31 Jeff: That's right. There are 2 interesting clients I had and I hope that Peter and Chris ???[0:37:35] from Poland, their dad work in Germany and he got paid with German marks and when the Polish zloty devalued, he paid off 30 years' worth of debt in one day with his marks.

0:37:47 Andy: There's people right now that, they're in Poland and they earn zlotys and so a guy makes a few zlotys in a paycheck. Well, because they were concerned about the volatility of the zloty, they said let's get our mortgage in Swiss francs and so they bought their mortgage, they borrowed Swiss francs to buy their house. So now they have to pay it back in Swiss francs. Well, when the Swiss started messing with their rules, they went to a negative interest rate, in other words, they're gonna charge you. It made this scares and the fact of the matter is when the Swiss gained a lot of value, in essence, it doubled their mortgage. Not that the amount of Swiss francs doubled, that's fixed, you borrow 100,000 Swiss francs for mortgage, still 100,000 Swiss francs. But if those francs become more valuable, you got to earn twice as many zloty now to buy a Swiss franc to pay off your mortgage so since it took twice the zlotys to trade and exchange for franc, these peoples' mortgage doubled, it's a fascinating study.

0:39:02 Jeff: I've got a great story for you, this one will make you laugh. So my wife, she went through 3 currency devaluation. Now, you've been to Peru...

0:39:09 Andy: Peru? Yeah, and the 2 of them in the 1980s.

0:39:12 Jeff: Yep, yep. Yeah, so she lived through 3 of these and when she get scared about money, she'll go and open the fridge and she'll count, she'll count this piece of chicken is for you Jeff, this piece is for your son, this is for so and so and she gets that nervous about money. Well, the other day, this will make you laugh, I said you know what? I would really like to do, I wanna sell my house. She was, why do you wanna sell the house? I said I wanna take all the proceeds, all the equity and I wanna buy as much silver at these prices, bought silver at these prices that I can and hold it. Oh man, that did not set good with the spouse that she'd have to move, the second thing that didn't set good with it, it caused her to go in to the counting mode. But was that being smart for me? If I'm holding an asset and I don't mind renting and I have a lot of equity in that house, essentially, I'm moving out of the home and in to an asset where if the dollar does begin to inflate, what does that do to my position in silver? That totally helps me out, totally helps me. And I would come out of that and I could maybe pay off all of any debt that you have, that's the only debt I have but if you could pay that debt off in maybe 1 or 2 weeks if it moves right. Honestly, you could be debt free in one or two weeks off a move like that. No, I'm not purporting that people are as radical as me, I've traded for 20 plus years but that's the thought when you start to get educated, you see what is happening in the world and you see that if this is devalued, why am I holding dollars, that's what you just said, why do I have dollars in the bank? Why don't I have dollars in some other assets?

0:40:55 Andy: Why haven't I borrowed dollars? Now let's talk about Forex, the US dollar was supposed to go down. We printed 4 trillion dollars, we raised or we dropped our interest rate to nothing, it was supposed to inflate silver spikes for a while, gold spikes for a while, we don't see

the inflation, the precious metals now have crashed, the exact opposite of what the Ron Paul investor warned about.

0:41:24 Jeff: That's right.

0:41:25 Andy: And you're saying on, and I've heard this before, well, the money didn't make it in the economy and the other guy says, well I printed if it's not gonna make it in the economy. The Federal Reserve, how does that help them to print all these money if it never makes it through and gets convoluted...

0:41:38 Jeff: I have a wonderful call with you about that offline and I can show you some really interesting things but it would take me an hour but I think you'll love it.

0:41:46 Andy: It gets convoluted, it gets convoluted. But here's the bottom line, the dollars increase in value, okay?

0:41:52 Jeff: Correct.

0:41:53 Andy: Russian currencies then terrible, euro has been hurt quite a bit, the yen has been disastrous, Soros made a lot of money in the yen. I can understand how to make money on a currency that's losing value by borrowing it, by shorting it basically, that's all real estate investors do, short the dollar, they buy it, trade it for house, get the money back and pay the mortgage off with cheaper dollars, that's it, that's very simple, they short the dollar. How does a person make money in the Forex market off a devaluing currency and if the, because if you think about it, it's based on not the value of the currency but the value relative to another currency, so if the euro and the dollar both are devalued at the same rate, how does that affect that pairing, how does a person find opportunity trading the Forex market in devaluing currencies?

0:42:53 Jeff: I have maybe, I picture a lot of your clients is knowing real estate so I have a simple way to explain this in real estate then I'm gonna move it in to a more in to the currency itself. So I have 2 comments here, the first comment is I had a client, he's a wingman for Manchester United, Richard Rufus. And Rufus came to United States when the GDP was 2.06. Well, what that meant is for every one dollar with the queen's face on it, he could get 2 dollars American. He bought 4 homes, were those homes overvalued or undervalued? They were half priced to him, they were literally half priced for him. So he buys some and he buys some down towards Atlanta where it's warm coz it was cold in London at the time which cracked me up coz I was kinda thinking, well, that's smart, he just don't wanna live in London all year long but he bought these 4 homes but they work for him, they were for rentals because they were half priced. Now, as the British pound came down in value, it's come down considerably in value so the British pound over the long term went from, I'm gonna get a current quote on it right here, it's down to 1.48. So now what happens, we can actually do the math, let's say the house, 4 houses cost him 400,000 American so he puts up 200,000 British. Well, as this comes down, we can look at, we're gonna literally what happens? It's about 60 cents, he's got about 60 cents of

profit in there so for every one of those homes in there, he's gonna have about 60k in profit on those if I've done my math right in my head because he will now, because the British pound has come back down, he will take his dollars and he'll be able to buy more British pounds with those dollars, he'll be able to get more British pounds when he closes the trade. So there's, in Forex there's an opening of the trade where you take the money, just think about it, you flew from London and you land in Chicago and you're going on vacation coz there's 2 dollar 6 is super cheap, everything's half priced, your hotel rooms are half priced, all of those good restaurants in Chicago are half priced and you go in vacation there. Where do you make money? If you had that money sitting, you took your 2.06 and you bought a bunch of dollars and you bought those dollars, you just put them in a box, put them in a safety deposit box and then you waited x amount of time, well, when it comes down to 1.48, have you made money? Sure because when you go back in to your British pound, you are going to have, you're gonna be able to buy more British pounds, that's how Forex works, that's essentially how it works and you're just swapping from 1 currency to another.

0:45:43 Andy: Let's talk a little bit about, do we got about 10 – 15 minutes left, again, this is my great mentor Jeff Crystal, interesting to talk to some high level stuff. I've been really interested in oil Jeff and I wanna get your thoughts a little bit on oil, I think it's on sale. Last December, I've been interested in it for a year now so last December, I started selling puts to acquire it and he would climb and I would just keep the premium, it would fall I will get the oil put to me and then I'd sell in the money calls instead of a stop if that makes sense and so I'd get paid for selling, in fact, you're the guy that really showed Noah how to show me years ago, I mean, you buy a stock and you sell them in the money call instead of a stop loss, right? Does that make sense?

0:46:36 Jeff: That's right, yep, I use that technique a lot.

0:46:39 Andy: So it's interesting, I've been playing with this and I went up a bunch, I've gone down a little bit, I'm still up on the year on all the oil if you count the premiums I've collected by selling puts, I'm still up but I haven't hit the homerun yet. The homerun I'm looking for is I wanna buy oil and I've just been selling puts to buy oil, once I acquire the oil, if it looks like it's going down too much, I go ahead and sell calls to get paid to sell it. What's your thought on oil? Are we gonna, I mean, it does cost something to take it out off the ground and it is perishable, I mean, you can't just store it forever, give me your thought on oil.

0:47:21 Jeff: Well, first off, I agree to you, it looks good, right? It looks like Beckham, it's beautiful, it's pretty, it's down here at the bottom and, but do we have a trigger yet to get in to it to go long? We can acquire it down here coz it looks good but what's a good trigger? So every Wednesday and I believe it's every Wednesday, it's every Wednesday or Tuesday, I just pull an old guy problem here, I can't remember which day it is but the oil inventory report comes out, it's, I believe it's 10 o'clock eastern and so about 8 o'clock in the United States and that's plotted, you can look at it and so the oil inventory, it kinda looks like a histogram, it's just little bars like you'd see in Excel. What if the oil inventory start to decrease? Well, if those oil

inventory start to decrease then you got a good trigger, that's one trigger. Another good trigger is the people that are printing the oil have no choice and you'll agree with this, Saudi Arabia has to finance Dubai so they have to print oil. Qatar has to, they just put 200 billion in to soccer stadiums, they've got to pump oil. Venezuela it's really sad what's happened after Chavez has been gone, they have no choice but to pump, they have to pump and sell. Russia below I believe it's 50 bucks coz I was talking to some Russians yesterday, below 50 bucks they're in trouble so they need to sell because they can't, they're going in to the hole and so they've got to sell. So you've got this glut that's come on there so the other thing I watch for, it's kinda morbid, I watch for oil refineries that have been blown up or conflicts in the Middle East and that's the trigger...

0:49:10 Andy: Well if ISIS takes oil over an oil well for income, we're gonna blow that up.

0:49:15 Jeff: Yeah, yeah. So there's different things I look for in there but mostly what will affect us apply right now...

0:49:23 Andy: So what's the Saudis though because, I mean, look, I agree, I mean, I don't know the numbers like you do but let's say you don't just take Russia who needs 50 dollar oil, there's different ways to get oil out of the ground. You go to Saudi Arabia, you stick a straw in the ground and start spewing oil like Jed Clampet but you wanna go to the Balkan oil field in the Dakotas, you gotta squeeze it out, I mean, you got to frack it, you got to pump it, you got to squeeze that out of that shell, that's a lot more expensive process. So are the Saudis just trying to squeeze out the frackers, squeeze out the Russians, squeeze out these people? At some point when oil goes back up, these people will start right up again.

0:50:07 Jeff: Well I think that there's a thing that, probably the trade of the next 12 months is going on right now and it's a really good setup. Oil is very low but you have some companies that have gone up and what you do is you look at their operating capital, their operating capital's been decreasing, let me explain to you what happens, it's called a commodity default swap and I'm gonna approach it from my dad who was an agricultural loan officer. Farmer comes in, in January needs to get his planting done and my dad looks at the wheat's contracts and says, okay, farmer this is price of wheat, we can loan to you at this. Well a couple of years ago, this was really high, oil was really high so they were given really large lines of credits. Lots of these companies have drawn through these lines of credit as this has gotten down and now, they're in jeopardy because the bank will call the note. The bank will come in and say, you know what? You still have a 300 million dollar line of credit, you've used 150 million of it, we're cutting that 150 million coz we don't see that there's any way you could get it. And so what you do is you take and you look for stocks, you look for a specific pattern, stock has gone up in the oil sector so the producers or the drillers and, you look for any sort of rally in there but decreasing operating capital and there's different websites you can get that decreasing operating capital on. When that happens, you know that they're drawing to their operating capital and the banks aren't gonna loan it to them. To be safe, what you do Andy it's called a synthetic iron condor or it's really easy all it means is you sell some calls on, let's make it

simple, you sell calls on the oil stocks and you buy some calls on possibly the USO. If USO goes up, you make money and it covers any loss you'd have on your stock. If the stock comes down, you make money, it would cover anything you had on USO but if they both go together, you may come in and that's what's happened a lot of times is you find these stocks and you'll see the oil spike up and then those stocks will go down because they're losing their operating capital and so they're really in pickles and there's a lot, bloomers been really good about keeping stories up on this so you would wanna Google commodity default swaps, it's a good place to look for really nice trades over the next quarter that you'd look to short then you would have to use like that software you said you use Tom's options software, you would start to look for, scan for certain patterns on those stocks and by sector coz it let you look by sector and then this is things that people would want to know, we're getting in to kind of deep technical where we probably don't wanna go on this little webinar but it comes down to what we call workflow Andy, I'll give you a little workflow sheet where you say what am I gonna do when I get out of bed in the pre trade? What am I gonna do when I get in to trade? What am I gonna do in the post trade? Well, we're talking about a mining technique, mining for a company, I'm not miners but finding a company to trade and that is really good, it's really good. That setup that I just described to you briefly, it's a really good setup right now, a really good one.

0:53:32 Andy: It's interesting we talked, I wish we had more time Jeff, just a wonderful hour to sit and chat. It depends on a person's level of education on how much they can appreciate what the vocabulary and what has talked about but I think it's great for people to get a taste of monetary policy, fiscal policy, currencies, technical analysis, these are the tools to produce ultimately cash flow in one person's life. Jeff, I was interviewed on the radio show, a guy in Texas, his name is Justin Ford and he has a business down there and which is really interesting listening to him and the way his audience was because they don't know anything, they have no financial education, they're there to buy annuities and it was really interesting how hands off people are. And as we said at the top of program, this stuff is almost learned from the journeyman to the apprentice, from the master to student, from Yoda to Luke Skywalker and so forth because it's just not taught in school. So appreciate you bringing in some of these things...

0:54:55 Jeff: No, mentoring like Noah, I worked with Noah for 10 years helping him learn the market or little bit more now, I started helping him in 2002 I think and when you get in to your education, you wanna attach yourself to someone that you can have a long term relationship with because it does take some time in the world changes. I call, I love what you said and then I'll let you go. You have different mentors in different sectors and I do too, if I want some help with some oil stocks, I have one guy who turns the pipeline, could send the oil over to California, I'll call him to ask him. I have another guy that specializes in stocks that are done in Vegas, all the gaming stocks and if you can build a nice roll index and build a power team like, awesome, awesome, that's what you need to get. And even though you don't know it, you get the expert on there and having him bust it down simply for you, that's where some one on one time help.

0:55:51 Andy: Very, very cool. Thanks again Jeff Crystal for dropping in on The Cash Flow Academy Show, it's a fun podcast, we're gonna bring in more of my mentors for people listen to. And I don't know that everyone, if you're new, you might not understand everything that's spoken about but it's alright, you keep listening and you learn by immersion and you begin to pick things up but just speak the language important part of getting cash flow. Thanks again Jeff, thanks so much for taking the time brother.

END