Stock Market Instability? Zero Times Anything Is Still Zero!

By Bill Holter
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I had to chuckle after getting caught up in the ZeroHedge click bait headline A Mystery Investor Just Made A $262 Million Bet That The Stock Market Will Crash By October. First we should look at the article itself and then analyze the stupidity prevailing even among large and supposedly "wise" money managers.

As for the article, it was penned by **Michael Snyder** who has done some very good work in the past as he did with the leg work for this one. The problem(s) I see are that first, the mystery investor did not make a $262 million bet. This is the maximum amount he might be able to make between now and October. The original "investment" is far less than this and would normally be considered the amount of the "bet" if this was the amount they could possibly lose.

But herein lies the problem, the "bet" has literally an unlimited loss potential because in a complete blowout market, this trader is essentially short 262,000 VIX Oct. 25 call contracts. Never mind all the other bells and whistles in this trade, should the market crash and fear run unbridled, the net/net is this uncovered short call position of 262,000 contracts. So, the title is misleading in the first place because the original bet was only a small fraction of $262 million but the potential loss could certainly be in the multiple $billions … not like any lottery ticket I have ever seen or would even touch!

Taking this the extra yard, let's talk about "what" this or any trader will "win" should they be that fortunate. First, you will notice I wrote "should they be that fortunate"… which means someone else (or collective someone elses) will be unfortunate enough to be standing atop an equal sized loss. The obvious question is whether they will have the ability to payout on the "lotto ticket"? From a systemic standpoint, I absolutely 100% guarantee in a free market not backstopped by central banks, another 2008 experience cannot be settled. 2008 could not be settled upon and thus the reason the Fed secretly lent out $16 trillion across the globe, settlement HAD TO OCCUR or the jig was up. The number this time around will have to be far larger and probably many multiples.

Now, carrying the question all the way through, traders, investors, money managers etc. who believe they are "hedged" or have safe strategies in place are sadly mistaken. How can I say this with such a broad brush and what makes me so smart? Don't worry, I have not turned arrogant by any stretch, I can say this by looking at the problem with logic that long ago left our casino markets. You see, the problem is these players for the most part are playing for dollars, euros, yen etc. Even IF they believe they are playing for gold, I assure you they are not because out of the millions of ounces represented to create the current pricing, only a very small fraction and less than one percent of real metal exists and underlies the trades.

Getting to the heart of what I wanted to convey, the bottom line is even if the winners all do get paid (a mathematical certainty they cannot because of defaults), they will be collecting fiat paper chits that will not perform in a credit meltdown. This is not rocket science or voodoo economics, all fiat currencies are "credit based" in the first place so their "value" only functions while credit markets are standing with good faith and confidence. When confidence in central banks and sovereign treasuries does break, so will all fiat currencies. This will appear to be a hyperinflation when in reality it will be the MOTHER OF ALL DEFLATIONS in terms of gold!

To finish, we live in a world where the casinos themselves are broke but still functioning while they can still obtain credit. It will not matter whether you won or lost if you have not left the casino when the lights go out. The only way to truly win is to cash your chips in and fully exit the casino with real money in hand… BEFORE it is widely understood that no matter how many casino chips you have …you still have nothing! The mathematical explanation of this is "zero times anything is still zero"! Please think this article through thoroughly, the games are being played for the wrong winnings…

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Bill Holter writes and is partnered with Jim Sinclair at the newly formed Holter/Sinclair collaboration. Prior, he wrote for Miles Franklin from 2012-15. Bill worked as a retail stockbroker for 23 years, including 12 as a branch manager at A.G. Edwards. He left Wall Street in late 2006 to avoid potential liabilities related to management of paper assets. In retirement he and his family moved to Costa Rica where he lived until 2011 when he moved back to the United States. Bill was a well-known contributor to the Gold Anti-Trust Action Committee (GATA) commentaries from 2007-present.