PRIVATE WEALTH ADVISORY
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Weekly Market Update 1-6-16

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WEEKLY MARKET UPDATE 1-6-16

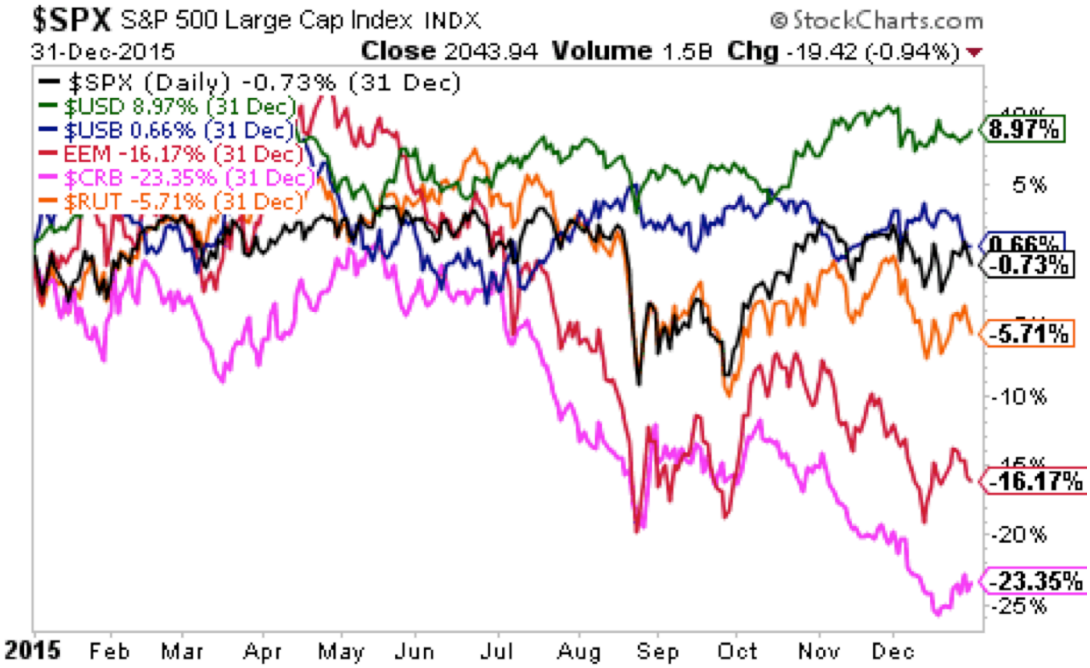
The Santa rally that occurred over the holidays has proven to be precisely what I thought: performance gaming by fund managers desperate to salvage their 2015 returns.

Unfortunately for them, they failed, as the market finished 2015 DOWN.

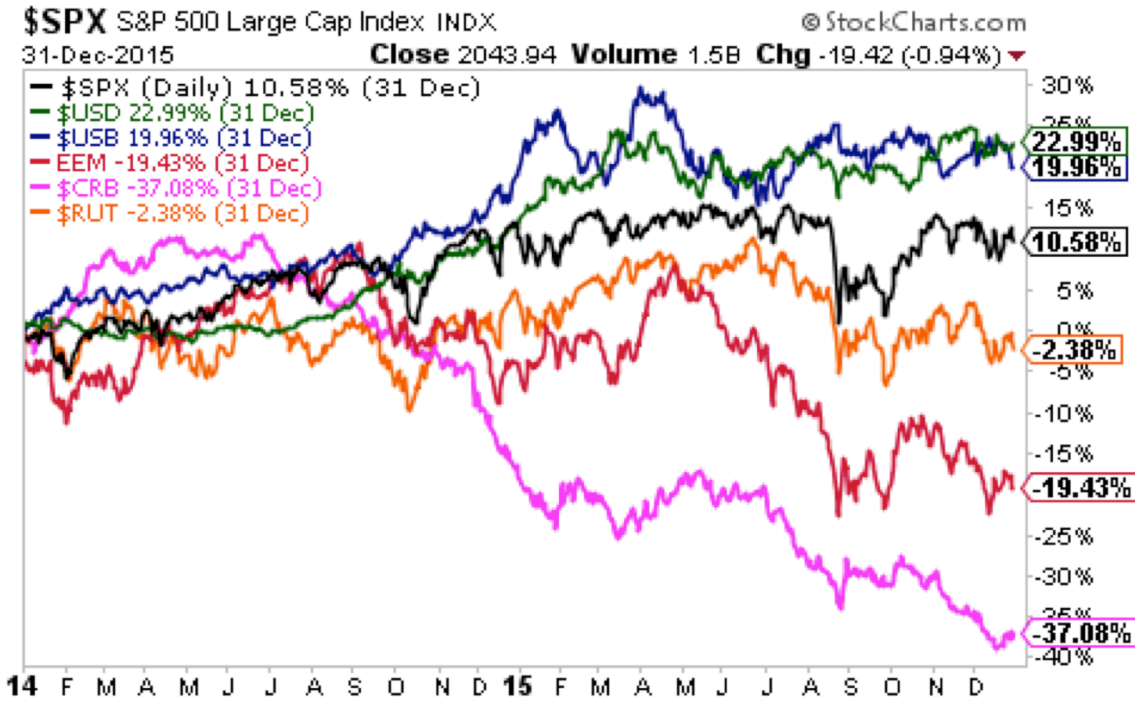
This represents the first *down* year for stocks since 2008. Indeed, 2015 was something of a roller coaster for stocks: a year of serious volatility that ultimately ended up right where it began. This is common during market tops.

The more interesting story took place away from stocks in the currency markets, particularly the US Dollar. Indeed, those who claim the US Dollar is dying or about to collapse obviously haven't been paying attention. The US Dollar DEMOLISHED stocks in terms of 2015 performance.

Indeed, the US Dollar was the top performing standalone asset class in 2015, followed by long-term US Treasuries (0.66%), the S&P 500 (-0.73%), the Russell 2000 (-5.71%), Emerging Market Stocks (-16%), and Commodities (-23%).



This trend has been in place since 2014. As I keep saying, the US Dollar is in a multi-year bull market. And when the US Dollar is in a bull market, risk assets perform poorly.



I want to emphasize that this is not because the US's finances have necessarily improved since mid-2014, nor am I implying that the US Dollar is not a flawed currency.

Rather, it's simply that:

1) All other major world economies are in far worse structural shape than the US.

2) The massive flow of US-Dollar based debt that poured into the global economy, particularly Emerging Markets and Risk Assets, since 2008 has reversed. This is resulting in deleveraging (debt defaults/ restructurings), which means fewer Dollars in the system (again this is US Dollar positive).

3) The US Federal Reserve has been threatening to raise rates (it finally did in December 2015) for a year. Between this and the Bank of Japan and European Central Banks' loose money policies, capital is flowing into the US Dollar.

4) Deflation is being exported into the US from Asia, particularly China and Japan.

For a big picture perspective, think of it this way…

In the aftermath of 2008, Central Banks flooded the financial system with liquidity. This money entered the system via debt (banks can lend, but they cannot simply just give money away).

That wave of debt came to a peak for many markets in mid-2014. It is now rolling over and crashing as the wave reverses. And this reversal is driving capital into the perceived safety of the US Dollar.

At the end of the day, we are operating in a very flawed financial system. And in that flawed financial system, the US Dollar remains the reserve currency of the world. As such it is the most liquid asset backed by the largest, most dynamic economy.

In terms of recent price action in the markets, #4 from the above list (China exporting deflation) has been the most significant issue in the last week as that country is once again in collapse, having lost control of its markets.

Indeed, the Chinese stock market was halted on Monday after opening limit down 7% erasing $590 billion in wealth in a single day.

> ***China moved to support its sinking stock market as state-controlled funds bought equities and the securities regulator signaled a selling ban on major investors will remain beyond this week's expiration date, according to people familiar with the matter.***
>
> *Government funds purchased local stocks on Tuesday after a 7 percent tumble in the CSI 300 Index on Monday triggered a market-wide trading halt, said the people, who asked not to be identified because the buying wasn't publicly disclosed.* ***The China Securities Regulatory Commission asked bourses verbally to tell listed companies that the six-month sales ban on major stockholders will remain valid beyond Jan. 8, the people said.***
>
> *http://www.bloomberg.com/news/articles/2016-01-05/china-said-to-intervene-in-stock-market-after-590-billion-rout*

The culprit?

China is devaluing the Yuan again.

Few investors grasp the significance of what is happening in China today. Over the last 30 years, and particularly since 2009, China has been engaged in a credit bubble that would make

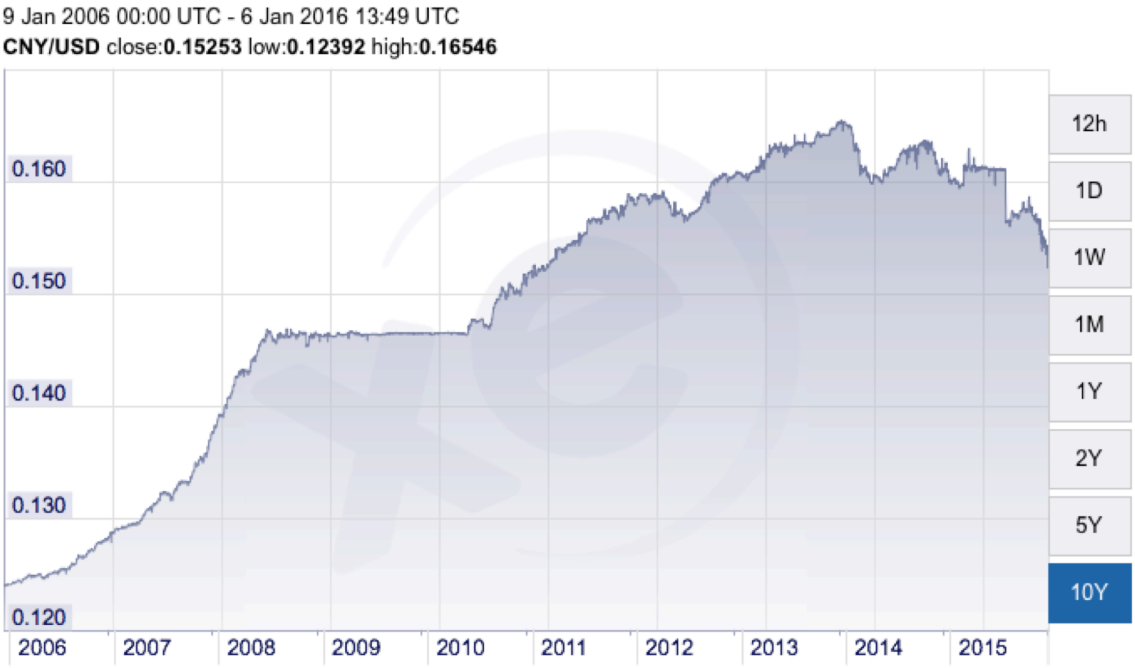
Alan Greenspan blush.

Now that its credit bubble is imploding, China is being forced to break the US Dollar peg and devalue the Yuan. You can see the start of the devaluation in mid-2015 in the chart below.

However, the problem with devaluation is that once you start using it as a monetary policy to "stimulate growth" there is usually no turning back (at least until the market forces deleveraging).

As a result, the Yuan has continued to plunge against the US Dollar.

As you can see in the below chart, China still has a LONG ways to go on the "devalue to stimulate" road. This is the big picture for the Yuan and by extension the global financial system. The Yuan will be getting weaker and weaker in the coming months… which will mean wave after wave of deflation hitting the US.

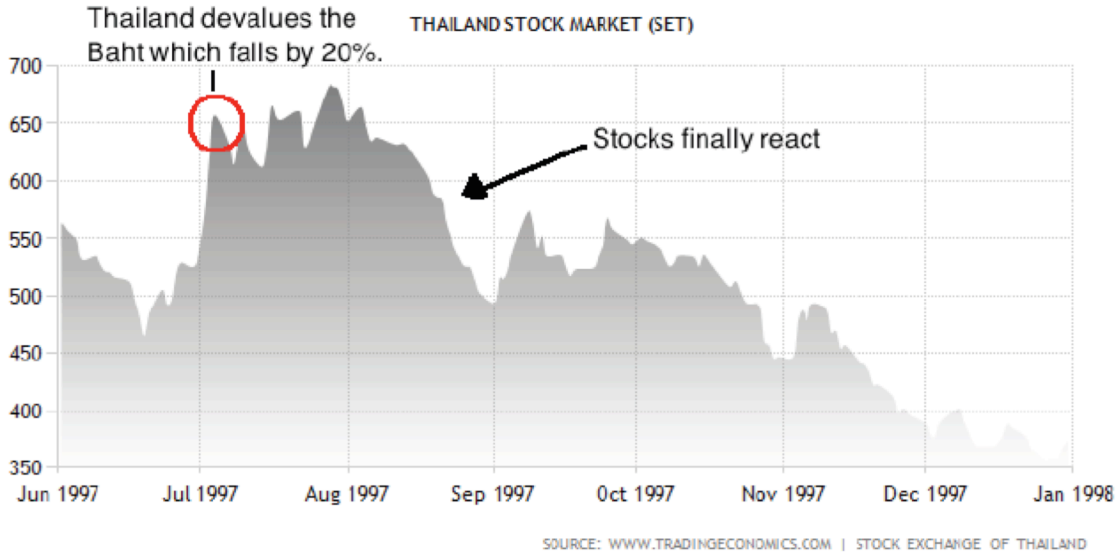


I have no idea when China will stop devaluing the Yuan. All I know is that devaluation is extremely addictive to Central Bankers. And with the US Dollar in a bull market at the same time that China's credit bubble is bursting, there's going to be a lot more Yuan devaluation coming.

This in turn will mean many ***BAD*** surprises for stocks.

Remember, the currency markets are the "smartest" money in the global financial system. They are **always** the first to react to major changes. And stocks take a while to "get it."

I've shown the below chart before. It maps the lag between Thailand's 1997 devaluation of the Baht and Thai stocks' reactions to it. This should serve as a template for what's to come with China's devaluation of the Yuan today: anytime a major devaluation takes place, stocks will "get it"… albeit after a period of time.



As far as US stocks go, the S&P 500 is now in a downward trending channel.

This is looking more and more like THE top for stocks. The S&P 500 appears to be in a kind of dome topping pattern:

The window for a strong rally is closing. Unless stocks can rally hard and clear 2,200 on a monthly basis, the bull market started 2009 is OVER.

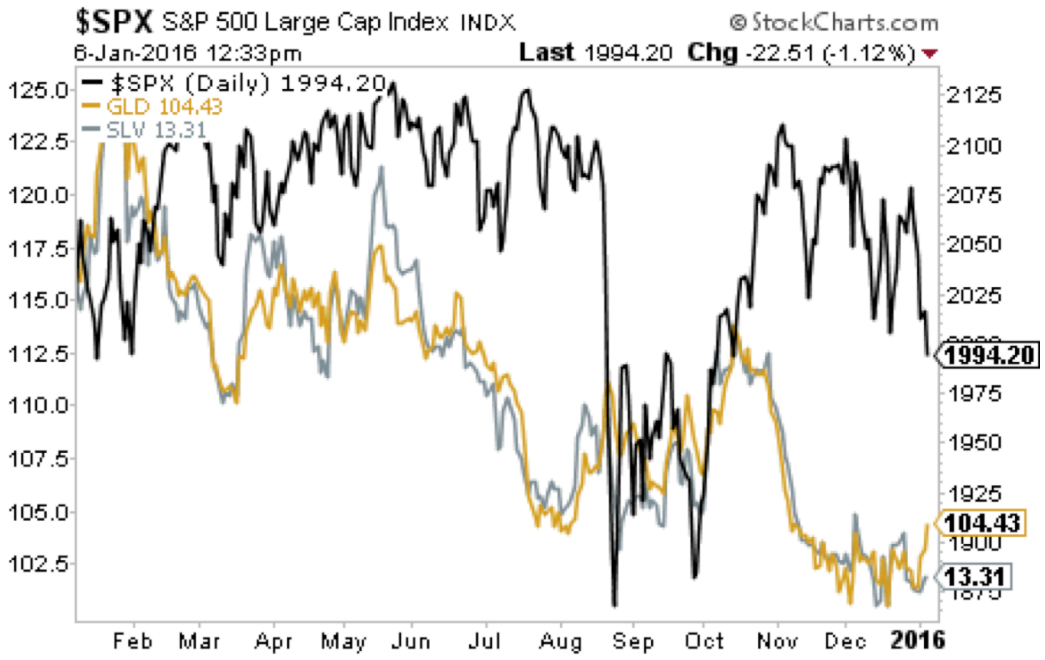
Elsewhere in the world, Europe is back in trouble. European Financials have taken out critical support:

Action to Take: Short the European Financials ETF (EUFN)

Troubled Spanish Bank Santander (SAN) is going to the 2009 lows.

Action to Take: Short Santander (SAN)

Finally, I want to point out that in the last few days, Gold and Silver have actually been *rallying* at a time when stocks and other risk assets have dropped.



As you know, one of our big themes for 2016 is that Gold and Silver will finally begin their next leg up as Central Banks are forced to engage in ever more aggressive money printing programs.

The action of the last few days suggests that Gold and Silver are already beginning to sense this. And while it's too early to load up on either just yet, this is a situation we need to keep an eye on.

This concludes this week's market update. I'm watching the markets closely and will issue updates as needed. But barring any new developments, you'll next hear from me next Wednesday in our regular weekly market update of *Private Wealth Advisory.*

Until then…

Best Regards,

Chief Market Strategist
Phoenix Capital Research

OPEN POSITIONS

US DOLLAR CARRY TRADE IMPLOSION PORTFOLIO

POSITION	SYMBOL	BUY DATE	BUY PRICE	CURRENT PRICE	GAIN/ LOSS
Ultra Bullish Dollar ETF	UUP	5/23/11	$21.79	$25.83	19%
UltraShort Euro	EUO	4/10/15	$27.68	$26.06	-6%
UltraShort Yen ETF	YCS	5/27/15	$94.48	$85.48	-10%
Singapore ETF (SHORT)	EWS	9/22/15	$10.31	$9.89	4%
Malaysia ETF (SHORT)	EWM	9/22/15	$9.90	$7.44	1%
Mexico ETF (SHORT)	EWW	12/23/15	$51.15	$48.46	5%

Prices as of noon on 1/6/15
Prices include dividends

RELATIVE US STRENGTH PORTFOLIO

POSITION	SYMBOL	BUY DATE	BUY PRICE	CURRENT PRICE	GAIN/ LOSS
Nuveen Muni. Fund	NIO	1/2/14	$13.12	$14.53	24%
Wal-Mart	WMT	7/30/14	$74.78	$63.73	-11%
Exxon	XOM	9/24/14	$95.82	$77.31	-16%
7-10 Yr Treasury ETF	UST	11/26/14	$55.54	$57.03	4%
20+ Yr Treasury ETF	TLT	7/15/15	$116.89	$122.48	6%
Nvidia	NVDA	6/26/13	$14.14	$32.04	133%
Coke	KO	8/28/13	$36.80	$42.43	23%
Auto-Zone	AZO	9/25/13	$422.73	$734.86	74%
Intel	INTC	12/20/13	$25.14	$33.28	40%
General Electric	GE	2/5/14	$24.57	$30.51	31%
Target	TGT	5/28/14	$55.34	$73.98	40%
Pfizer	PFE	7/30/14	$29.26	$31.76	13%
Kraft	KHC	9/24/14	$56.81	$73.31	35%
McDonalds	MCD	10/30/14	$92.87	$118.43	32%
Eli Lilly	LLY	12/3/14	$71.13	$84.27	21%
Microsoft	MSFT	12/3/14	$48.08	$54.21	15%
Universal Corp.	UVV	3/5/15	$48.05	$55.00	18%
RPX Corp	RPXC	8/5/15	$15.48	$10.86	-30%
Apple	AAPL	9/11/15	$114.21	$100.87	-11%

SYSTEMIC RISK/ BLACK SWAN PORTFOLIO

POSITION	SYMBOL	BUY DATE	BUY PRICE	CURRENT PRICE	GAIN/ LOSS
Gold		3/17/10	$1,120	$1,089.00	-3%
Silver		3/17/10	$17.50	$13.96	-20%
Gold Miners ETF	GDX	5/13/15	$20.78	$14.28	-31%

Prices as of noon on 1/6/15
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ASIA SLOWDOWN PORTFOLIO

POSITION	SYMBOL	BUY DATE	BUY PRICE	CURRENT PRICE	GAIN/ LOSS
UltraShort Nikkei ETF	EWV	1/6/15	$67.46	$50.78	**-25%**

TECH BUBBLE 2.0 PORTFOLIO

POSITION	SYMBOL	BUY DATE	BUY PRICE	CURRENT PRICE	GAIN/ LOSS
Tesla (SHORT)	TSLA	2/25/15	$203.76	$217.03	**-7%**
Amazon (SHORT)	AMZN	2/25/15	$385.37	$633.64	**-64%**

MARKET HEDGE PORTFOLIO

POSITION	SYMBOL	BUY DATE	BUY PRICE	CURRENT PRICE	GAIN/ LOSS
UltraShort S&P 500	SDS	9/18/15	$22.33	$20.87	**-7%**
UltraShort Financials	SKF	9/18/15	$52.39	$48.35	**-8%**
France ETF (SHORT)	EWQ	9/30/15	$24.07	$23.19	**4%**
European Financials ETF (SHORT)	EUFN	1/6/16	$19.36	NEW	**SHORT!**
Santander (SHORT)	SAN	1/6/16	$4.52	NEW	**SHORT!**

Prices as of noon on 1/6/15
Prices include dividends

RECENTLY CLOSED POSITIONS

POSITION	SYMBOL	BUY DATE	BUY PRICE	SELL DATE	SELL PRICE	GAIN/ LOSS
Apple	AAPL	4/2/14	$77.51	9/29/14	$98.84	28%
European Financials (SHORT)	EUFN	4/15/14	$24.89	10/10/14	$22.47	11%
UltraShort Russell 2000	TWM	4/15/14	$49.46	10/10/14	$52.28	6%
UltraShort Brazil	BZQ	10/15/14	$62.00	10/21/14	$71.92	16%
UltraShort Gold	GLL	10/24/14	$94.15	11/14/14	$104.21	11%
UltraShort Silver	ZSL	10/24/14	$104.89	11/14/14	$122.00	17%
Enduro Royalty Trust	NDRO	5/22/13	12.05	11/28/14	$7.06	-26%
UltraShort Euro	EOU	1/20/15	$23.49	3/5/15	$26.51	13%
UltraShort Brazil	BZQ	1/6/15	$91.07	3/6/15	$100.74	11%
Target	TGT	5/28/14	$55.34	4/1/15	$82.13	52%
Pfizer	PFE	7/30/14	$29.26	4/1/15	$34.56	20%
General Electric	GE	2/5/14	$24.57	4/13/15	$27.89	18%
BP Prudhoe Bay Royalty Trust	BPT	1/2/14	$76.77	5/20/15	$66.70	5%
Conoco Phillips	COP	3/5/14	$66.30	5/20/15	$65.27	4%
Russia ETF	TRF	4/9/15	$10.62	5/20/15	$11.36	7%

RECENTLY CLOSED POSITIONS CONTINUED

POSITION	SYMBOL	BUY DATE	BUY PRICE	SELL DATE	SELL PRICE	GAIN/ LOSS
UtraShort Oil ETF	SCO	5/27/15	$61.08	7/6/15	$70.30	**15%**
UltraShort Gold ETF	GLL	2/25/15	$95.49	7/7/15	$101.75	**7%**
Copper (SHORT)	JJC	3/10/15	$31.35	7/7/15	$28.78	**8%**
UltraShort Brazil ETF	BZQ	5/27/15	$85.70	7/7/15	$92.02	**7%**
Industrial Metals ETF	UBM	3/25/15	$15.24	7/7/15	$13.56	**11%**
UltraShort China ETF (half)	FXP	3/10/15	$36.45	7/8/15	$41.93	**15%**
UltraShort Oil ETF (half)	SCO	7/21/15	$76.19	7/23/15	$82.14	**8%**
UltraShort Brazil ETF (half)	BZQ	7/21/15	$91.39	7/23/15	$102.36	**12%**
UltraShort Brazil ETF (second half)	BZQ	7/21/15	$91.39	7/24/15	$109.60	**20%**
UltraShort Oil ETF (second half)	SCO	7/21/15	$76.19	7/27/15	$87.36	**15%**
LinkedIn (SHORT)	LNKD	6/17/15	$215.45	8/4/15	$194.96	**10%**
Australia ETF (SHORT)	EWA	1/6/15	$21.97	8/11/15	$19.85	**11%**
Ultra Short Emerging Mkts ETF	EEV	1/20/15	$19.48	8/11/15	$21.56	**11%**

RECENTLY CLOSED POSITIONS CONTINUED

POSITION	SYMBOL	BUY DATE	BUY PRICE	SELL DATE	SELL PRICE	GAIN/ LOSS
UltraShort China ETF	FXP	3/10/15	$36.45	8/19/15	$41.59	**14%**
China Real Estate ETF (SHORT)	TAO	6/11/13	$20.11	8/24/15	$17.21	**14%**
South Korea ETF (SHORT)	EWY	8/18/15	$48.17	8/24/15	$43.82	**10%**
India ETF (SHORT)	INP	8/18/15	$70.18	8/24/15	$59.38	**18%**
Santander (SHORT)	SAN	8/13/15	$6.63	8/24/15	$5.99	**10%**
Spain ETF (SHORT)	EWP	8/13/15	$34.08	8/24/15	$31.38	**8%**
Australian Dollar ETF (SHORT)	FXA	5/27/15	$77.36	8/26/15	$70.99	**8%**
UltraShort Silver ETF	ZSL	7/29/15	$120.84	8/26/15	$132.02	**9%**
UltraLong S&P 500	SSO	9/2/15	$56.12	9/9/15	$59.37	**6%**
UltraLong Russell 200	UWM	9/2/15	$79.20	9/9/15	$83.75	**6%**
Canada Dollar ETF (SHORT)	FXC	5/27/15	$79.81	9/23/15	$74.47	**7%**
Canon (SHORT)	CAJ	7/31/13	$30.84	9/23/15	$29.12	**6%**
UltraShort Semiconductors ETF	SSG	9/18/15	$54.00	9/24/15	$60.20	**11%**
UltraShort Brazil ETF	BZQ	9/22/15	$172.16	9/24/15	$199.00	**16%**
Deutsche Bank (SHORT)	DB	10/28/15	$30.31	11/12/15	$26.17	**14%**

RECENTLY CLOSED POSITIONS CONTINUED

POSITION	SYMBOL	BUY DATE	BUY PRICE	SELL DATE	SELL PRICE	GAIN/ LOSS
Santander (SHORT)	SAN	10/28/15	$5.70	11/27/15	$5.36	6%
UltraShort Gold ETF	GLL	7/29/15	$112.00	11/27/15	$117.38	5%
UltraShort Oil ETF	SCO	11/12/15	$95.35	12/2/15	$108.18	13%
UltraShort Brazil ETF	BZQ	11/12/15	$66.32	12/2/15	$72.46	9%
Banco De Chile (Short)	BCH	8/18/15	$61.89	12/8/15	$57.68	7%
Russia ETF (SHORT)	RSX	12/2/15	$16.35	12/8/15	$15.32	6%
UltraShort Emerging Markets ETF	EEV	11/12/15	$22.14	12/8/15	$23.76	7%
Spain ETF (SHORT)	EWP	9/30/15	$29.66	1/14/16	$27.64	7%
UltraShort Emerging Markets ETF	EEV	12/17/15	$23.84	1/14/16	$25.31	6%