PRIVATE WEALTH ADVISORY

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A Pause

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A Pause

Yesterday the Fed released its FOMC minutes for June 2017.

The key changes in the Fed's statement were that it changed the wording regarding the shrinking of its balance sheet from *"this year"* to *"relatively soon."* The Fed also noted that inflation remains "weaker," but is expected to eventually rise to 2%.

The market took this as a confirmation of the Fed shifting from hawkish to dovish. As I noted in recent Weekly Market Updates, Fed Chair Janet Yellen's testimony to Congress in early July showed her starting this shift. The June FOMC now confirms it.

Put simply, the Fed is walking back its hawkishness.

Rate hikes are on hold. Indeed, the market doesn't expect another rate hike until 2018. On top of this, based on the change in language, the Fed might not even begin shrinking its balance sheet this year after all.

This is dovish. Period. Which means the reflation trade is indeed the next major trend for the markets. However, right this moment, we're due for "a pause."

In investing, nothing ever goes straight up or straight down. In the short-term, markets are driven by liquidity and sentiment. Both of these are non-linear items that fluctuate based on macro-economic developments and Central Bank policy.

Indeed, the market "knew" the Fed was shifting to dovish-ness back in late June. There were several

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SHORT-TERM ISSUES

- Fed June FOMC confirms new dovish direction.
- Reflation trade due for a pullback.
- Bonds bottoming?

INTERMEDIATE-TERM ISSUES

- Reflation trade begins next move higher.
- The Euro primed for a move to 121 as ECB ends QE later this year.
- Emerging Markets ready for new bull market.

LONG-TERM ISSUES

- A Crisis worse than 2008.
- Eventual market collapse of 50%+ in real terms.
- A scramble for high-end collateral to bring about derivatives collapse/ implosion of big banks.

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key tells that signaled this well before Yellen even appeared before Congress…just as there are several key tells letting us know that the reflation trade is due for "a pause."

One of the key means of measuring the movement of capital into deflation vs. inflation plays is the TIPS/long-Treasury ratio.

TIPS, or Treasury Inflation Protected Securities, are US Treasury bonds that track the pace of inflation. If this security rallies, it signals inflation is picking up.

In contrast, long Treasury bonds (Treasury bonds with durations of 20 years or more), track deflation. When they rally, it signals deflation is picking up.

Thus, by running a TIPS/Long-Treasury ratio, you can spot whether the financial system is predicting a shift towards inflation or deflation. When this ratio rallies, we're moving towards inflation, when it falls, we're moving towards deflation.

Below is a chart of this ratio since the 2009 bottom. As you can see, we had a sharp move towards reflation that started in early 2009, peaking in early 2011. Since that time, the overall trend has been towards *deflation* with this ratio moving in a MASSIVE downward channel (red lines).

This ratio appears to have bottomed in mid-2016, breaking out upwards in an aggressive move from a sharp declining downtrend (blue line).

Here's a close-up of that breakout along with a line representing former resistance, which is now support (the purple line). As you can see, that "bounce" off the purple line marked the beginning of the "reflation" trade I told you about in late June/ early July.

So why do I believe the reflation trade is going to pause?

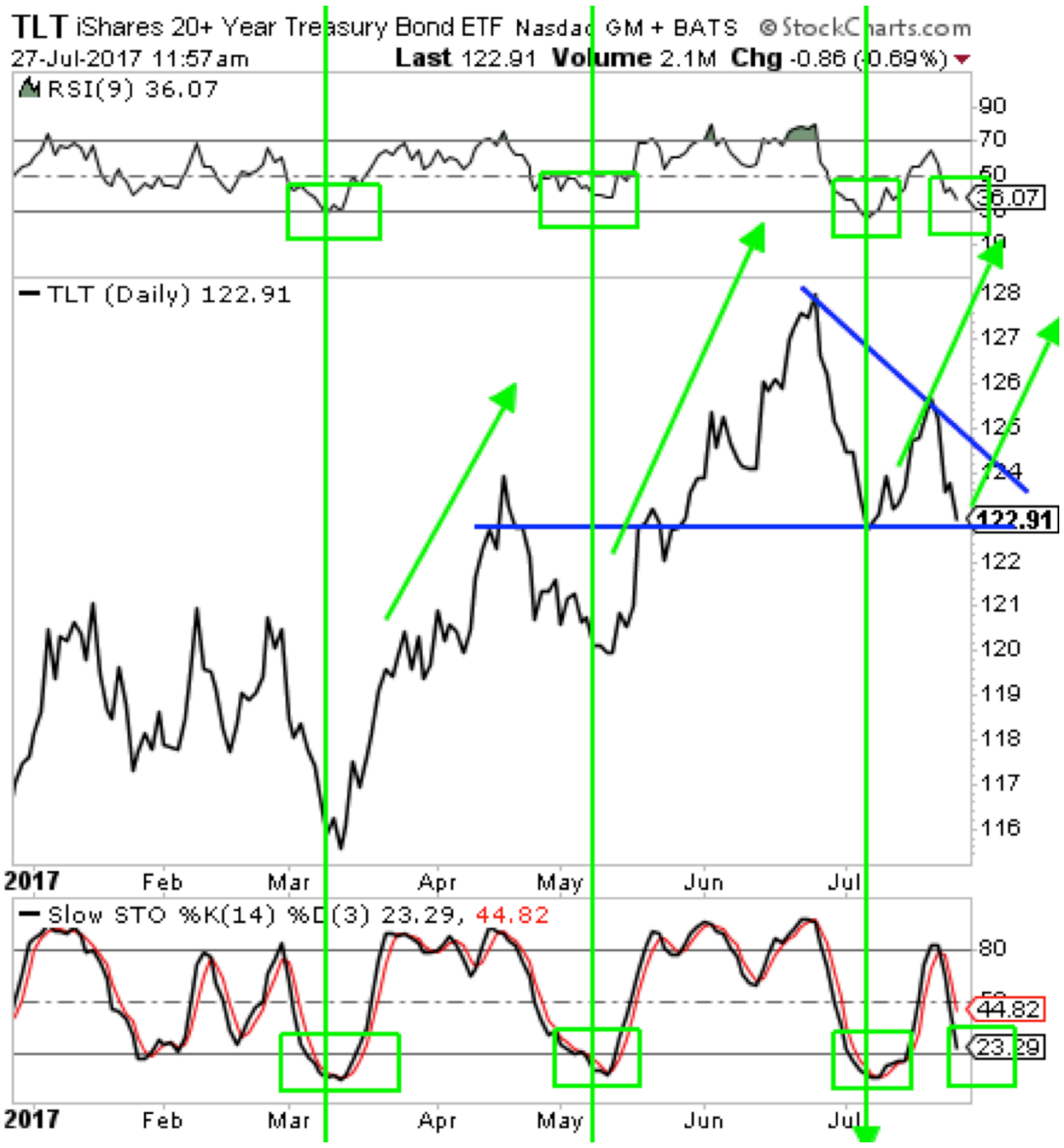
Because in the near-term, this ratio has a LOT of overhead resistance right above these levels. As the below chart shows, I might be a week early here, but between those bands of resistance (blue lines) as well as that long-term downtrending channel running back to 2011 (red line) the odds HIGHLY favor a pull-back/consolidation here.

What would this mean?

In the near-term, reflation plays would roll over and bonds, particularly long-term Treasuries would rally. This is why we sold many of our reflationary positions this week (don't worry, we'll be revisiting them down the road in a few weeks).

The market appears to already be "smelling" this with the Long-Term Treasury ETF (TLT) becoming oversold right as it hits major support.

I've highlighted previous periods in which TLT became oversold like this on its RSI and Slo Stochastics (both are momentum indicators) with green boxes. As you can see, we're a *little* early here, but both measures are rapidly approaching levels of oversold that have preceded sharp rallies in the past.



Again, we might be a bit early here and TLT might continue to fall into Monday, but the odds favor a sharp bounce SOON.

With that in mind, we're buying.

Action to Take: Buy the Long Treasury ETF (TLT).

Another play we are moving into is the Emerging Market Bond ETF (EMB), which leads TLT. We might get a pullback to that blue line before this rockets higher, but given that this is just a 1%-2% move, I'm willing to have us move in now.

Action to Take: Buy the Emerging Market Bond ETF (EMB)

As the reflation trade "pauses," those plays that are most overbought will be correcting. I am not formally making any new short plays based on this, because I expect this move to only last a few weeks. But I thought the following worth watching.

Copper should pull back to around $2.74.

The Industrial Metals index will probably pull back to 330 (by the way, this will result in sell offs in Freeport McMoRan, US Steel, and the other reflation plays we recently sold for tidy profits).

Put simply, the reflation trade is going to hit "pause" for 1-2 weeks. Once this correction is over, the next leg up will begin.

Elsewhere, in the markets, the Tech Top might finally be here.

As you know, we've been tracking the FANG bubble for some time in ***Private Wealth Advisory***. The key items we've tracked are that:

1) The majority of Tech stock buying is coming from risk-parity funds that are buying Facebook, Apple, Alphabet, and Microsoft based on manipulation of the Volatility index of VIX.

2) These large Tech plays, particularly Alphabet and Facebook are all facing significant issues related to the fact that 60% of web ad traffic is coming from bots, not real humans and therefore the cost per click for advertising is artificially inflated (more on this shortly).

Regarding #1, see our update from 5/3/17 for a detailed outline of this market rig. In its simplest form, "someone" is routinely slamming the Volatility Index or VIX in order to force the $500 billion in risk-parity funds to automatically buy stocks, particularly large Tech Stocks.

This gimmick has become some routine that it is now happening at the same time. Every single day, no matter what is happening in the markets, the VIX is slammed at 9:50AM or so.

Regarding #2, as I noted in the last longer monthly issue of ***Private Wealth Advisory*** titled *Rotation to Reflation,* there is a massive scandal lurking in the large tech plays, specifically Facebook (FB) and Alphabet (GOOGL).

That scandal concerns the fact that 60% of the ad traffic that results in these companies being able to charge high rates for ad space is in fact driven by bots or algorithms, NOT real people.

Facebook (FB) was implicated in this in the second half of 2016. Based on Alphabet's (GOOGL) horrible results in this most recent quarter, I believe it has a similar problem.

The media is praising Alphabet (GOOGL) for the fact its ad revenues jumped as did overall ad traffic and other metrics.

However, few care to notice that GOOGL reported a 23% decline in its "cost per click" metric. If you're unfamiliar with this metric, it means the price that Google can charge advertisers for every time someone "clicks" on a GOOGL ad.

With 90% of GOOGL's revenues coming from online advertising in some form, this is effectively a measure for the price GOOGL can charge for its most important product. As such a 23% collapse is MASSIVE.

Digging deeper into GOOGL's financial statements, I noted that the company changed is methodology for tracking "cost per click" at the beginning of this year (2017). The fact that it did this right after Facebook was implicated in overstating its ad numbers is NOT coincidence.

Interestingly, this new methodology, when applied to GOOGL's past results, meant that it had to revise ALL of its previous "cost per click" metrics DOWN.

	Three Months Ended			
	Mar 31, 2016	Jun 30, 2016	Sep 30, 2016	Dec 31, 2016
Year-over-year change				
Aggregate paid clicks	29 %	28 %	32 %	39 %
Paid clicks on Google properties	38 %	36 %	41 %	47 %
Paid clicks on Google Network Members' properties	2 %	0 %	1 %	7 %
Aggregate cost-per-click	(8)%	(6)%	(10)%	(17)%
Cost-per-click on Google properties	(11)%	(8)%	(12)%	(18)%
Cost-per-click on Google Network Members' properties	(8)%	(8)%	(14)%	(19)%

So let's connect the dots.

- Facebook is caught overstating traffic to its ads (which is what raises its own cost per click metrics)

- For some reason GOOGL suddenly changes its "methodology" for tracking its own cost per click measures three months later.

- For some reason this change results in ALL of GOOGL's previous cost per click measures falling by 6%-17%.

Coincidence?

As I keep stating the Big Tech players are in serious trouble concerning their ad traffic numbers. **A massive scandal is brewing here.**

Put simply, Big Tech is in a massive bubble and it is ready to burst. Having said that, I want to stress something: bubbles burst on *good* news, not bad news.

Why is this?

Because bubbles burst when the market runs out of buyers, NOT when things worsen for business. And on that note, I believe Facebook's (FB) blowout results from last night might in fact be THE top for Big Tech.

The NASDAQ has lost momentum: both RSI and its Slo Stochastics are rolling over. The downside target is where the blue line and red line meet, around 5,900.

This isn't just about Big Tech either, numerous tech plays are downright UGLY.

Check out Seagate Technology (STX)

So what are we looking for in terms of what's next? What plays should we be considering when this "pause" in reflation ends?

I've highlight the areas I'd have us move into various new trades in the charts below.

Emerging Markets (EEM)

Poland (EPOL)

Turkey (TUR)

Nigeria (NGE)

China (FXI)

India (INP)

Freeport McMoRan (FCX)

BHP Billiton (BHP)

Rio Tinto (RIO)

US Steel (X)

This completes this month's issue of ***Private Wealth Advisory***. We caught the first leg of the reflation trade beautifully locking in numerous winners. It's now time to for "a pause" to let the overheated sectors correct.

We'll use Bonds to profit from this "pause" as the market enters a brief period of deflation. Then, we'll be ready to load up on our reflation plays again.

And finally, Tech looks absolutely awful. Amazon (AMZN) just reported a TERRIBLE quarter. This might indeed be the TOP we've been waiting for.

I'm watching the markets closely and will issue updates as needed. Barring any new developments, you'll next hear from me next Wednesday in our usual weekly market update.

Until then…

Best Regards,

Graham Summers
Chief Market Strategist
Phoenix Capital Research

OPEN POSITIONS

STOCKS PORTFOLIO

POSITION	SYMBOL	BUY DATE	BUY PRICE	CURRENT PRICE	GAIN/ LOSS
RPX Corp	RPXC	8/5/15	$15.48	$13.74	-11%
Agricultural Commodities ETF	RJA	1/12/17	$6.46	$6.40	-1%
Public Storage	PSA	3/23/17	$225.92	$198.28	-11%
Verizon	VZ	4/26/17	$47.17	$47.81	3%
Vietnam ETF	VNM	6/7/17	$14.64	$14.68	0%
Transocean	RIG	6/15/17	$8.56	$8.67	1%
Pioneer Natural Resources	PXD	6/15/17	$158.02	$163.90	4%
Chevron	CVX	6/22/17	$104.45	$106.11	2%
Helix Energy Solutions	HLX	7/19/17	$6.16	$6.37	3%
Southwestern Energy	SWN	7/19/17	$6.17	$6.05	-2%
EOG Resources	EOG	7/19/17	$95.00	$95.98	1%

BONDS PORTFOLIO

POSITION	SYMBOL	BUY DATE	BUY PRICE	CURRENT PRICE	GAIN/ LOSS
Long Treasury ETF	TLT	7/27/17	$123.16	NEW	BUY!
Emerging Market Bonds ETF	EMB	7/27/17	$115.17	NEW	BUY!

Prices as of market's close 7/27/17
Returns include dividends

PRECIOUS METALS/ MINERS PORTFOLIO

POSITION	SYMBOL	BUY DATE	BUY PRICE	CURRENT PRICE	GAIN/ LOSS
Gold		3/17/10	$1,120	$1,258.00	12%
Silver*		3/17/10	$16.23	$16.56	2%
Gold Miners ETF**	GDX	10/5/16	$22.45	$22.57	1%
Gold Mining Juniors ETF***	GDXJ	10/5/16	$34.72	$32.93	-1%
Wheaton Precious Metals Corp	WPM	10/5/16	$22.59	$20.17	-10%
New Gold	NGD	10/5/16	$3.88	$3.09	-18%
Barrick Gold	ABX	4/26/17	$16.92	$16.53	-2%
Silver Mining ETF	SIL	4/26/17	$34.44	$34.05	-1%
Silver Standard	SSRI	4/26/17	$9.94	$9.63	-3%
First Majestic Silver	AG	5/12/17	$8.70	$7.98	-8%
Randgold Resources	GOLD	5/12/17	$93.25	$91.92	-1%

Prices as of market's close 7/27/17
Returns include dividends
***Average price of $17.50 and $14.97**
**** Average price of $22.83 and $22.07**
***** Average price of $37.52 and $31.92**

SPECIAL SITUATIONS/HEDGES/SHORTS PORTFOLIO

POSITION	SYMBOL	BUY DATE	BUY PRICE	CURRENT PRICE	GAIN/ LOSS
France ETF (SHORT)	EWQ	9/16/16	$23.38	$29.53	-26%
Italy ETF (SHORT)	EWI	9/16/16	$21.56	$29.56	-37%
Russell 2000 ETF (SHORT)	IWM	12/14/16	$135.37	$142.34	-5%
Apple (SHORT)	AAPL	3/23/17	$140.92	$150.56	-7%
Facebook	FB	5/31/17	$151.63	$170.44	-12%
Alphabet	GOOGL	5/31/17	$987.72	$952.51	4%

CASH/ CURRENCIES PORTFOLIO

POSITION	SYMBOL	BUY DATE	BUY PRICE	CURRENT PRICE	GAIN/ LOSS
Euro Trust	FXE	10/5/16	$108.80	$112.98	4%

Prices as of market's close 7/27/17
Returns include dividends

RECENTLY CLOSED POSITIONS

POSITION	SYMBOL	BUY DATE	BUY PRICE	SELL DATE	SELL PRICE	GAIN/ LOSS
American Eagle Outfitters (SHORT)	AEO	5/26/16	$15.36	1/31/17	$14.59	5%
Cliffs Nat Resources (FIRST HALF)	CLF	2/8/17	$10.15	2/13/17	$12.10	19%
Ambev	ABEV	11/25/16	$4.96	2/23/17	$5.93	21%
Cemex	CX	11/25/16	$8.07	2/23/17	$8.69	8%
Cliffs Nat Resources (SECOND HALF)	CLF	2/8/17	$10.15	2/23/17	$11.13	10%
Exxon	XOM	9/24/14	$95.82	3/8/17	$81.28	-8%
Enterprise Products Partners	EPD	11/31/16	$25.93	3/8/17	$27.83	9%
Natural Gas ETF	UNG	2/22/17	$6.57	3/8/17	$7.11	8%
Emerging markets ETF	EEM	1/12/17	$36.60	4/10/17	$39.20	7%
Barrick Gold	ABX	10/5/16	$15.54	4/10/17	$19.04	23%
Uranium ETF	URA	6/8/16	$15.49	4/12/17	$15.90	9%
Cameco	CCJ	1/4/17	$10.69	4/12/17	$11.48	7%
Coal ETF	KOL	1/4/17	$12.59	4/12/17	$14.51	15%
Silver Standard Resources	SSRI	10/5/16	$10.30	4/12/17	$11.32	10%
Royal Gold	RGLD	2/8/17	$71.50	4/12/17	$74.14	4%
Silver Miners	SIL	3/15/17	$35.81	4/12/17	$37.60	5%
US Steel (SHORT)	X	2/1/17	$31.97	4/13/17	$29.42	8%
Copper Miners ETF (SHORT)	COPX	3/23/17	$22.64	4/18/17	$21.02	7%

RECENTLY CLOSED POSITIONS CONTINUED

POSITION	SYMBOL	BUY DATE	BUY PRICE	SELL DATE	SELL PRICE	GAIN/ LOSS
Peru ETF	EPU	12/7/16	$33.23	5/17/17	$34.77	5%
Brazil ETF	EWZ	2/8/17	$37.53	5/17/17	$39.90	6%
Utilities ETF	XLU	2/8/17	$49.35	5/17/17	$51.58	5%
Solar Energy ETF	TAN	4/19/17	$17.20	5/17/17	$18.00	5%
Royal Gold	RGLD	4/26/17	$69.92	5/17/17	$79.90	14%
Southwestern Energy	SWN	3/30/17	$8.15	5/24/17	$6.76	-17%
Gulfport Energy	GPOR	3/30/17	$17.17	5/24/17	$15.47	-10%
US Oil Fund	USO	4/26/17	$10.37	5/24/17	$10.60	2%
Exxon Mobil	XOM	5/3/17	$82.70	5/24/17	$82.29	0%
Energy ETF (SHORT)	XLE	5/24/17	$67.56	6/5/17	$65.05	4%
Emerging Mkts Bond ETF	EMB	11/21/16	$109.82	6/7/17	$115.95	8%
Long US Treasuries	TLT	11/21/16	$121.05	6/15/17	$126.10	5%
Nuveen Enhanced Free Muni Credit Fund	NVG	1/2/14	$13.12	6/22/17	$15.22	40%
Rio Tinto	RIO	6/19/17	$39.48	7/10/17	$43.48	10%
Clear Energy ETF	PBW	4/19/17	$4.06	7/10/17	$4.25	10%
Enterprise Products Partners	EPD	6/22/17	$26.00	7/17/17	$27.70	7%
US oil Fund	USO	6/28/17	$9.20	7/17/17	$9.57	4%
China ETF	ASHR	2/1/17	$24.98	7/24/17	$28.08	12%
Uranium	URA	6/15/17	$12.76	7/24/17	$14.28	12%
Cameco	CCJ	6/15/17	$9.14	7/24/17	$9.95	10%
US Steel	X	6/19/17	$20.83	7/24/17	$23.69	14%
Freeport McMoran	FCX	6/19/17	$11.53	7/25/17	$14.08	22%
Biotech ETF	IBB	4/26/17	$296.15	7/25/17	$324.86	10%
Baidu	BIDU	6/7/17	$187.53	7/27/17	$200.10	7%
Peru ETF	EPU	6/22/17	$33.64	7/27/17	$35.61	6%