PRIVATE WEALTH ADVISORY

INVESTMENT RESEARCH THAT CONVERTS

Economic State of the Union

TRACK RECORD: RECENTLY CLOSED POSITIONS

POSITION	SYMBOL	BUY DATE	BUY PRICE	SELL DATE	SELL PRICE	GAIN/ LOSS
Freeport McMoRan	FCX	10/4/17	$14.53	12/13/17	$16.32	**12%**
Russell 2000 ETF (SHORT)	IWM	12/14/16	$135.37	12/21/17	$153.75	**-14%**
Homebuilder ETF	XHB	8/10/17	$37.94	12/21/17	$44.26	**-17%**
Oil Services	OIH	11/30/17	$24.12	12/22/17	$25.86	**7%**
Metals and Mining ETF	XME	12/6/17	$31.83	12/22/17	$35.25	**11%**
Pioneer Natural Resources	PXD	6/15/17	$158.02	12/27/17	$171.12	**8%**
Halliburton	HAL	10/11/17	$45.37	12/27/17	$48.01	**6%**
Biotech ETF	IBB	11/15/17	$102.08	1/2/18	$108.87	**7%**
Wheaton Precious Metals	WPM	10/5/16	$20.83	1/2/18	$22.42	**8%**
Helix Energy Solutions	HLX	10/11/17	$7.75	1/9/18	$8.29	**7%**
Exxon Mobil	XOM	12/13/17	$83.12	1/9/18	$87.08	**5%**
Enterprise Products Partners	EPD	8/10/17	$26.08	1/9/18	$28.16	**8%**
DB Commodity ETF	DBC	9/13/17	$15.26	1/12/18	$16.97	**11%**
Gold Miner ETF	GDX	9/20/17	$23.50	1/17/18	$24.44	**4%**
Gold Mining Juniors ETF	GDXJ	9/20/17	$34.11	1/17/18	$35.67	**5%**
Euro Trust	FXE	8/23/17	$114.05	1/29/18	$118.95	**5%**

To view the full track record of all closed positions running back to early-2015, visit:

http://phoenixcapitalresearch.com/privatewealthadvisory/track-record/

To view our current open positions, scroll to the bottom of this issue of *Private Wealth Advisory.*

Economic State of the Union

Let's take a moment to address where the financial world is right this moment.

1) The global economy is finally moving into growth. All signs are indicating that it is a *global* move, involving most major economies, not simply China.

   However, this growth is also involving inflation/reflation rising, which brings us to our second point.

2) The financial markets are in an absolute frenzy as a result of Central Banks having maintained emergency levels of monetary policy for far too long.

To fully understand why #1 is occurring now as opposed to eight years ago, we first need to discuss the period from 2008-2016.

First and foremost, the United States is the largest most dynamic economy in history. I realize that's an obvious point but most analysts seem to forget it. If you compare the world as it was 400 years ago to today, the single biggest change would be the arrival of the capitalist-centric economy of the US.

As the largest, most dynamic economy, the US drives the world to a degree that few understand. What happens in the US from an economic perspective has tremendous impact on everything else, not just in terms of a ripple effect of supply/demand, but also in that the regimes/governments leading most other countries/ economies are always reacting to policy changes taking place in the US.

January 31 2018

SHORT-TERM ISSUES

- Record bullishness in commodities and the Euro.
- Record bearishness in the $USD.
- Long-bonds prepared to sell-off.

INTERMEDIATE-TERM ISSUES

- Inflation trades to outperform stocks for the next 12 months.
- $USD to drop into the '80s.
- 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.

Phoenix
CAPITAL RESEARCH

The single biggest driver of economic growth in the US is small businesses. Companies with less than 20 employees account for over 80% of US businesses, for 63% of new net jobs, and for nearly 50% of private nonfarm GDP.

Put simply, it is the massive number of small businesses that drive growth in the US, which in turns drives growth for the world. As such, what happens to this sector of the economy will have a ripple effect everywhere else.

With that in mind, the period from 2008-2016 in the US was the closest thing the country had experienced to Central Planning since the Great Depression. From 2008-2016, the US Government became increasingly involved in every sector of the economy from housing to automobiles, healthcare, finance, etc.

Politically speaking, Central Planning by its very nature tends to favor larger firms that can "gain access" to decision makers via lobbying/ networks. Financially speaking, Central Planning also favors large firms as they A) have larger budgets to deal with increased regulatory burdens and B) can acquire market share either via acquisitions or due to smaller competitors being forced out of business due to the increased costs of business courtesy of the afore-mentioned regulations.

Put simply, the defining policies implemented during the period from 2008-2016 were increased regulation of the private sector combined with aggressive monetary policy by the US Federal Reserve (more on this shortly). All told, the US Government introduced over 20,000 regulations during this time period, of which 665 were deemed "Major Rules" by the Office of Information and Regulatory Affairs.

A Major Rule is one that:

A) Would have an annual effect on the economy of $100 MILLION or more;

B) Involve a major increase in costs or prices for consumers, industries, or government.

C) Have a significant adverse effect on competition, employment, investment, productivity, innovation or on the ability of US firms to compete internationally.

The US passed 665 of these things from 2008-2016, roughly 83 per year or more than one per week.

Again, from a Government policy perspective, 2008-2016 was a period of Central Planning for the US. It was also a period of Central Planning from a monetary perspective as the US Federal Reserve cut interest rates to zero and funneled some $3.5 trillion in liquidity into the economy.

Here again, these policies favored larger firms that could "leverage up" and use these policies to A) gain market share via acquisitions and B) issue buybacks to boost Earnings Per Share.

In simple terms, ZIRP and QE were of little use to the small business owner, who is more directly linked to his or her company's debts and who cannot boost earnings by buying back shares (most small firms are not publicly traded).

Put simply, the period from 2008-2016, was one in which governmental/ monetary policy were either of little benefit to or outright inhibitive of the single largest driver of the US economy (small business), which in turn is the single biggest driver of the global economy.

THIS is why there was no real recovery from 2008-2016. It is why the US economy never once experienced a year of 3% growth, why the bulk of jobs being created took place in Government spreadsheets, not in the real economy, and why the US opted to elect an outsider with extraordinarily low favorability rating (Trump) as opposed to an established career politician who represented a continuation of the same (Clinton).

None of the above is meant to be political in nature. Everything I am writing is strictly based on economics from a real-world perspective (a big reason most establishment economists, including those at the Fed, failed to grasp this is because their models do not account for regulations).

So what happened in 2016?

The largest economy in the world elected a man who decided to cut regulations aggressively. Who that man is doesn't matter. What mattered was that regulations were cut, allowing smaller firms to become competitive again (by the way, every President has the opportunity to employ this strategy, why most chose not to is up for debate).

With that in mind, consider the below excerpt from Wells Fargo's Small Business survey for 1Q18. Please note the references to "regulations" as well as the use of the term "impact" as it relates to business growth for the sector.

> *Small business owners began 2018 feeling very positive about the overall economy and outlook for their businesses. …* ***The future expectations series, which reflects how optimistic business owners are about the economy and their business for the coming year, rose 5 points in the first quarter to 65, which is the highest it has been since December 2006…***
>
> ***A growing proportion of business owners note that the onslaught of regulations seen earlier in the business cycle has either let up or been reversed, and report that***

sales and finances improved over the past year. *One of the more notable gains during the first quarter was in the proportion of firms reporting their revenues increased in the first quarter, which rose 6 points to 52.* ***The increase brought the series back to its all-time high, last reached in the second quarter of 2007.***

A whopping 72 percent of business owners stated they believe the actions of the current Administration have 'some impact' or a 'great deal of impact' on their business, and 58 percent stated they believe the Administration 'cares about the issues that are important to them as a business owner'.

https://www.fxstreet.com/analysis/wells-fargo-small-business-survey-q1-2018-201801251447

Again, the 2016 Presidential election marked a deciding turn in US Government policy towards favoring the single most important segment of the US economy (small businesses), which in turn is the single most important economy in the world.

This is what triggered the recent shift towards economic growth. That it occurred at a time when the US Central Bank was not only raising rates but was actually beginning to drain liquidity from the system only further refutes the idea that monetary policy is what drives growth.

After all, if simply throwing massive amounts of money at an economy or aggressively devaluing one's currency triggered economic growth, Japan's economy would have been roaring over the last 20 years and South American basket cases like Argentina and Venezuela would be economic powerhouses.

Which brings us to today. The world has shifted into growth once again.

Let's take the latest 4Q18 GDP numbers from the US for example. Mainstream economists like to point out that the growth number was revised from 3.2% down to 2.6%.

However, those same economists failed to note that:

1) Personal consumption (which accounts for 70% of real GDP) **rose 3.8%.**

2) Final sales, not profits or other metrics that can be gimmicked **rose 3.2%.**

3) Final sales to domestic purchasers (again a metric that cannot be gimmicked) **rose 4.3%.**

Put another way, the topline growth numbers for consumption and corporate growth were all clocking in above 3%.

Indeed, the only reason the official GDP growth number was under 3% was due to the US running a trade deficit and due to inventories falling. **Without those issues, US GDP would have clocked in at 4.4%.**

This comes on the heels of GDP growth of 3.1% in 2Q18 and 3.2% in 3Q18. And it doesn't include the impact of the tax reform bill, which will go into effect in next month.

Is this the beginning of a sustained economic boom for the US?

I have no idea. All I do know is that the Trump administration's move to cut back regulations targeted the single most important component of the US economy (small businesses). Whether this recent uptick in economic activity is the start of something larger or simply a kind of knee-jerk reaction to the US implementing more "business friendly" policies after eight years of Central Planning, remains to be seen.

In the near-term, with most major economies (China, Japan, and the EU) already posting modest relative growth prior to late 2016, the fact that the US is now chugging along has unleashed a wave of economic acceleration.

Every One of the World's Big Economies Is Now Growing

A decade after the world descended into a devastating economic crisis, a key marker of revival has finally been achieved. ***Every major economy on earth is expanding at once, a synchronous wave of growth that is creating jobs, lifting fortunes and tempering fears of popular discontent.***

https://www.nytimes.com/2018/01/27/business/its-not-a-roar-but-the-global-economy-is-finally-making-noise.html

Trump tax cuts will bring short-term global growth surge, says IMF

The global economy will grow faster than expected this year and next as Donald Trump's corporate tax cuts provide a short-term shot in the arm*, despite fears over rising inequality and overheating financial markets, the International Monetary Fund has said.*

Launching its latest World Economic Outlook (WEO) report at the annual Davos gathering of the global political and business elite in Switzerland this week, ***the IMF upgraded its***

growth forecast for the world economy by 0.2 percentage points to 3.9% for both 2018 and 2019.

https://www.theguardian.com/business/2018/jan/22/trump-tax-cuts-will-bring-short-term-global-growth-surge-says-imf

That's the "good news." The bad news is that this growth, combined with the ongoing spike in inflation, is posing a MAJOR threat to the bond market.

As I mentioned before, the era of 2008-2016 represented an era of Central Planning. From a monetary perspective this was a global phenomenon with Central Banks becoming increasingly active throughout this period.

Below is a brief outline of the major policies employed.

- **2008**: The US Federal Reserve (the Fed) launches QE 1.
- **2009**: The Bank of England (BoE) launches its own QE 1 program. The Fed's QE 1 continues. The European Central Bank (ECB) announces its first Long-Term Refinancing Operation (LTRO), a program through which the ECB provides low interest rate bonds to troubled EU members.
- **2010**: The Fed launches QE 2. The BoE stops QE 1.
- **2011**: The Fed launches Operation Twist a kind of QE program through which it sells some of its bonds to buy others. The (ECB) announces more LTROs.
- **2012**: The Fed launches QE 3. The ECB launches more LTROs and promises to implement an Outright Monetary Transactions (OMT) program, a kind of QE derivative.
- **2013**: The Bank of Japan (BoJ) launches the single largest QE program in history. The Fed's QE 3 continues.
- **2014**: The BoJ expands its massive QE program. The Fed stops QE 3.
- **2015**: The ECB launches its first QE program.
- **2016**: The BoE announces QE 2. The BoJ announces a new program of targeting 0% on its 10-Year Government Bond, a program that opens the door to endless monetary interventions. The ECB continues its QE program.

- **2017**: The BoJ and ECB continue their QE programs.

It is worth noting that while the actual number of QE/ liquidity programs fell, the size of the programs rose dramatically. Indeed, by the time we hit 2015, collectively Central Banks were printing over $140 BILLION per month: an amount equal to over $1.6 TRILLION per year.

Put simply, globally the amount of money printing taking place from 2015 onward was in fact far higher than it was in 2008 at the time of the Great Financial Crisis! Bear in mind, both the UK and the EU exited economic contractions in 2013, while Japan exited its last recession in 2016. **So Central Banks were effectively running "crisis levels" of QE at a time when their economies were not even in recession!**

The end result of this is an inflationary spike. And that spike, combined with the sharp move higher in global economic growth represents a major threat to the bond bubble.

Bonds trade based on economic activity and inflation expectations. Generally speaking, yields on sovereign bonds should match the pace of economic expansion/ inflation.

Which is why the sudden uptick in both inflation/GDP growth is a MAJOR problem.

On that note, the yield on the 10-Year US Treasury has broken above its long-term trendline for the first time in nearly 30 years. This is a MAJOR problem and it's one that the Fed better move to fix soon.

The US is not alone here. The yield on the 10-Year German Bund (Germany's sovereign bond) has also broken above its long-term downtrend. And mind you, this is happening at a time when the ECB is still running a €30 billion per month QE program.

Yields are also breaking out to the upside on the UK's 10 Year Treasury, though they still remain below their long-term trendline.

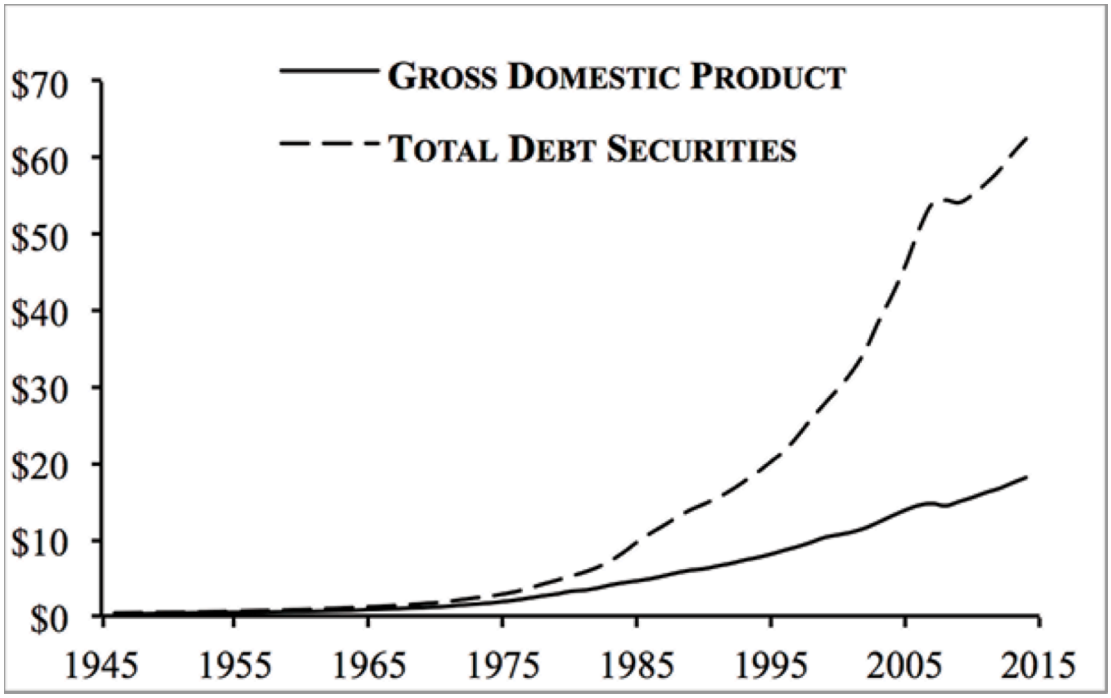
Finally, yields are even breaking out to the upside on the 10-Year Japanese Government Bond… and this is happening *despite* the Bank of Japan actively targeting a 0% yield on this bond!

All of the above are a MAJOR problem. As I explained in my book *The Everything Bubble: the Endgame For Central Bank Policy*, Central Bankers' worst nightmares is debt deflation or the process by which bond prices fall abruptly, pushing bond yields higher.

Of course, bonds rise and fall in value all the time as any of the above charts can attest. **However, debt deflation is when you have a sustained period in which bond prices fall in value quickly.**

When this happens, it's effectively the bond market becoming worried that the borrower (in this case sovereign governments) will not be able to pay back its debts. And if the things accelerate, you very quickly enter a systemic crisis (think Greece in 2010).

I realize this sounds a big dramatic. But it today's debt-based monetary system, it only takes a little debt deflation to trigger a major "event" in the financial markets. By way of example, consider that the 2008 Great Financial Crisis was in fact just that tiny dip in the dotted line in the below chart.



Bear in mind, the above chart only pertains to the US. Globally the world has added over $60 trillion in debt since 2008**. <u>All of this was predicated on the idea that rates would remain in confirmed downtrends.</u>**

Put another way… if the world is in fact moving into a bear market in bonds (meaning bond

prices will continue to fall pushing yields higher) we are moving into a crisis that will be exponentially worse than 2008.

So how do Central Banks fix this?

The quickest and easiest solution would be to withdraw liquidity more aggressively. This would mean the ECB accelerating the tapering of its QE program and the BoJ introducing some degree of tapering of its own QE program.

Doing this would trigger a drop in stocks, forcing capital into bonds via safe haven buying, thereby driving bond prices up and bond yields down again.

With that in mind, consider the following article pertaining to the ECB that was published just this week:

> *European Central Bank Governing Council member Klaas Knot said he backs the view that quantitative easing probably won't come to a sudden halt.*
>
> *"**It's perfectly reasonable for the asset-purchase program to come to an end after September with a short taper period if needed,"** the governor of the Dutch central bank, who generally sides with more-hawkish policy makers, said in a speech in Amsterdam on Tuesday. "Only after that we will turn to other instruments like our policy rates.''*
>
> *https://www.bloomberg.com/news/articles/2018-01-30/ecb-s-knot-says-qe-could-end-with-short-taper-after-september*

As for the Bank of Japan, while everyone continues to worry about whether or not it plans on increasing or decreasing its monetary programs, the bank has already started tightening in that it has permitted the yield on the 10-Year Japanese Government Bond to stay above its targeted rate of 0% for he last 14 months.

For a bank that claims it's targeting 0%, the BoJ is doing a pretty crummy job with yields at 0.1% and moving higher.

For those of you who believe that Central Banks will never let stocks fail, I can assure you that when it comes to asset class bubbles, **Central Banks will sacrifice stocks to save bonds every single time.**

If stocks drop, people are unhappy, but move on. If bond prices drop, entire countries lurch towards insolvency. One of these is political unsavory, the latter represents a systemic reset.

So I expect we'll see a sharp shift towards hawkishness from Central Banks in the coming weeks. This will include the Fed, which will either raise rates or accelerate its balance sheet shrinking very shortly.

The truth is that the Fed is way behind the curve and needs to take the froth out of the system. It's highly likely that the only reason the Fed didn't raise rates today was because it was current Fed Chair Janet Yellen's final FOMC and she is giving new Fed Chair Jerome Powell the opportunity to do this sometime early in his tenure.

Regarding the afore-mentioned "froth," the positioning of investors in the financial system today is HIGHLY lopsided. According to the Commitment of Traders report, we currently have

commercial traders at RECORD longs the Euro, record long stocks and overly bullish Oil and Commodities.

Put another way**, the entire financial system has become one gigantic trade that is effectively a $USD short.**

This kind of extreme positioning, combined with the $USD finally beginning to find support, has the makings of a truly violent reversal over the next four weeks. We are already short Silver and Oil courtesy of the UltraShort Silver ETF (ZSL) and Ultrashort Oil ETF (SCO), but we're now going long the $USD.

I want to be clear here: I am EXTREMELY bearish the $USD for 2018. But the greenback has fallen much too far much too fast. And this, combined with the extreme positioning I'm seeing in traders, has opened the door to a sharp $USD reversal that will slam the Euro and commodities in February.

My upside target on the US Dollar ETF is $25. With that in mind, we're making the $USD our new cash position. I expect us to hold this for 4-6 weeks.

Action to Take: Buy the US Dollar ETF (UUP)

Big picture, the trend for 2018 continues to be inflation. However, markets are dynamic and living things. And the $USD down/ inflation hedges & risk assets up trend is **exhausted.**

This, combined with the fact that Central Banks NEED to act now to rein in the bond market opens the door for a correction in risk assets here and a sharp rally in the $USD.

Once this ends, we will have truly extraordinary opportunities to load up on inflation trades in anticipation of their next major leg up. But for now, it makes no sense to be adding capital to a trend that is both exhausted and experiencing record bullishness.

This concludes this month's issue of ***Private Wealth Advisory***. I'm watching the markets closely and will issue updates as needed.

Barring any new developments you'll next hear from me next week in our usual weekly market update.

Until then…

Best Regards,

Graham Summers
Chief Market Strategist
Phoenix Capital Research

OPEN POSITIONS

LONG-TERM INFLATION PORTFOLIO

POSITION	SYMBOL	BUY DATE	BUY PRICE	CURRENT PRICE	GAIN/ LOSS
Copper Miners ETF	COPX	12/21/17	$26.55	$28.07	6%
ArcelorMittal	MT	12/21/17	$32.77	$36.39	11%
Corsa Coal	CRSXF	12/21/17	$1.20	$1.62	35%
Diamond Offshore Drilling	DO	1/3/18	$19.77	$17.68	-11%
Uranium ETF	URA	1/17/18	$14.93	$14.10	-6%

STOCKS PORTFOLIO

POSITION	SYMBOL	BUY DATE	BUY PRICE	CURRENT PRICE	GAIN/ LOSS
RPX Corp	RPXC	8/5/15	$15.48	$14.04	-9%
Agricultural Commodities ETF	RJA	1/12/17	$6.46	$6.15	-5%
Public Storage	PSA	3/23/17	$225.92	$195.76	-11%
Energy Transfer Partners	ETP	8/2/17	$21.00	$20.04	-3%

Prices as of market's close 1/31/18
Returns include dividends

PRECIOUS METALS/ MINERS PORTFOLIO

POSITION	SYMBOL	BUY DATE	BUY PRICE	CURRENT PRICE	GAIN/ LOSS
Gold		3/17/10	$1,120	$1,347.00	20%
Silver*		3/17/10	$16.23	$17.30	7%
First Majestic Silver***	AG	5/12/17	$7.91	$6.12	-23%
Klondex Mines	KLDX	9/20/17	$3.61	$2.20	-39%
Wesdome Gold Mines	WDO.TO	9/20/17	$2.21	$1.94	-12%
Iamgold	IAG	9/28/17	$6.40	$5.88	-8%
Silver Mining ETF	SIL	10/4/17	$33.96	$32.31	-5%
Silver Mining Juniors ETF	SILJ	10/4/17	$12.22	$11.37	-7%

SPECIAL SITUATIONS/HEDGES/SHORTS PORTFOLIO

These are speculative positions and should be kept small

POSITION	SYMBOL	BUY DATE	BUY PRICE	CURRENT PRICE	GAIN/ LOSS
France ETF (SHORT)	EWQ	9/16/16	$23.38	$33.33	-43%
Italy ETF (SHORT)	EWI	9/16/16	$21.56	$33.78	-57%
Apple (SHORT)	AAPL	3/23/17	$140.92	$167.43	-19%
Facebook	FB	5/31/17	$151.63	$186.89	-23%
Alphabet	GOOGL	5/31/17	$987.72	$1,182.2	-20%
UltraShort Silver ETF	ZSL	1/10/18	$31.27	$29.98	-4%
UltraShort Oil ETF	SCO	1/17/18	$21.72	$21.00	-3%

Prices as of market's close 1/31/18
Returns include dividends
***Average price of $17.50 and $14.97**
***** Average price of $7.11 and $8.70**

CASH POSITION

POSITION	SYMBOL	BUY DATE	BUY PRICE	CURRENT PRICE	GAIN/ LOSS
US Dollar ETF	UUP	1/31/18	$23.25	**NEW**	**BUY!**

Prices as of market's close 1/31/18
Returns include dividends