PRIVATE WEALTH ADVISORY

INVESTMENT RESEARCH THAT CONVERTS

You Cannot Normalize an Everything Bubble

RECENTLY CLOSED POSITIONS

Position	Symbol	Buy Date	Buy Price	Sell Date	Sell Price	Gain
UltraShort China	FXP	10/31/18	$75.07	1/3/19	$80.86	**8%**
7-10 Year Treasury ETF	IEF	10/25/18	$100.69	1/15/19	$104.07	**4%**
Freeport McMoRan	FCX	1/24/19	$10.97	1/29/19	$10.44	**5%**

You Cannot Normalize an Everything Bubble

During the last few months the markets made a MAJOR realization.

That realization?

That Central Banks will **NEVER** be able to normalize policy.

The first clue to this concerned Fed Chair Jerome Powell's sudden reversal in tone from super-hawk to dove.

From January 2018, when he was appointed Fed Chair until December 2018, Powell had maintained that nothing, save for a major, prolonged crisis, would deter the Fed from maintaining the pace of its intended rate hikes (3-4 per year) or the pace of its Quantitative Tightening, or QT, program ($50 billion per month).

It is critical to note that throughout this time period, the Emerging Market complex was flashing signs of major duress. The Powell Fed routinely expressed that it was "not concerned" about this and that the Fed would "stay the course."

Then, suddenly and without warning, Powell began to change tone…

- On December 19 2018, Powell, when asked about the pace of the Fed's balance sheet reduction, answered, "***I don't see us changing that."***

- Then, a mere three weeks later, on January 4, 2019, Powell stated, ***"We wouldn't***

January 31 2018

SHORT-TERM ISSUES

- The Fed buckles, ending all credibility.
- Stocks to crash within four weeks.
- Dead cat bounce now ending.

INTERMEDIATE-TERM ISSUES

- Credit crisis in corporate bonds.
- The EU to break apart.
- China to enter a deflationary collapse.

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

hesitate to change balance sheet policy if needed."

- Then, a mere three weeks after that, on January 25, 2019, the Fed floated that it might end QT "earlier than expected" at the ***Wall Street Journal*.**

Then came yesterday's Fed FOMC meeting… **which will go down in history as the day Jerome Powell came out as stock market promoter.**

For those of you who missed it, yesterday the Fed failed to raise interest rates.

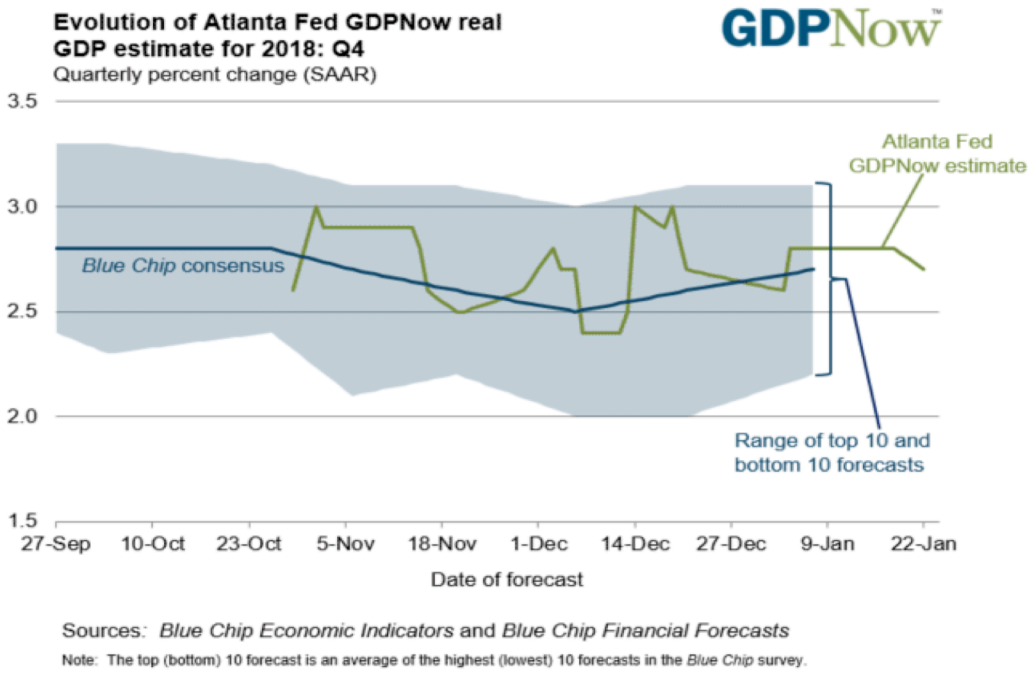
This means the Fed believes that with unemployment supposedly at 3.9% and GDP growth at 3.7%... **the US economy could not handle a 0.25% interest rate hike to 2.75%**

On top of this, the Fed also indicated that it might NOT hike rates again in 2019 AND that it is prepared to adjust its balance sheet normalization or Quantitative Tightening (QT) program if necessary.

This is the single biggest reversal in Fed history.

The Fed went from promising four rates hikes in 2019 and leaving its QT program on autopilot to pushing for NO rate hikes and suggesting that it would "adjust" its QT program if needed. **All in the space of a SINGLE QUARTER (3 months).**

It's critical to note that the economic data (Powell routinely claims the Fed is "data dependent") didn't warrant this change. Throughout this time period, the Atlanta Fed's GDP Now estimate hovered between 2.5% and 3%. Put another way, there was no sudden sharp deterioration in GDP growth to warrant the Fed changing course.



Bear in mind, this is based on the data that HAS been published. For the last 4 weeks or so, the US Federal government was shutdown and so **wasn't publishing economic data!**

So the Fed made this sudden change in policy at a time when it didn't have access to most economic metrics… and when the data it DID HAVE access to DIDN'T show an economic collapse taking place.

So what DID cause the Fed to freak out?

The markets were melting down, plain and simple. Which is why, contrary to Chairman Powell's assertion that there is no "Powell put" propping up the stock market, **it is clear that the Fed in the business of stock promotion and nothing else.**

The specific item that caught the Fed's attention (aside from stocks) was the fact that credit markets had begun to break down. Between October 2018 and late December 2018, the Junk Bond ETF collapsed nearly 7%.

That doesn't seem like a huge amount except that we're not talking about stocks… we're talking about bonds… meaning this collapse resulted in higher yields, which in turn made it more difficult for companies to issue debt.

Indeed, for 40 days from early November to early-January, NOT ONE SINGLE company with junk credit ratings was able to issue a bond.

> ***<u>In a worrying sign that credit markets are slowing down, December is shaping up to be the first month without a junk bond sale since the Lehman Brothers crash in 2008.</u>*** *Through the first half of the month no company has yet borrowed money on the high-yield corporate debt market. Credit crises always begin on the margins, with markets for junk bonds and other high-yield (i.e. high risk) debt freezing first. Once the crisis becomes full-blown it begins to spread to other bond markets as investors panic about the future. Eventually all borrowing and lending comes to a halt as investors decide to sit on their hands and wait for more certainty and improved market conditions.*
>
> https://redtea.com/money/junk-bond-purchases-slow-to-a-halt-what-that-means-for-the-economy/

That is what got the Fed's attention. Because as much as the Fed would like to claim that it is focused on the economy, its single biggest concern is maintaining the debt markets (without

access to debt, most corporations and countries would go bust in a matter of weeks).

Consider that the US corporate bond market is now over $9 trillion in size (nearly 50% of US GDP). Of this $9 trillion, ~$3 trillion rated the lowest category of investment grade above junk (meaning it's actually very likely junk). Add this to the over $1.25 trillion in corporate debt that IS rated junk and **roughly 50% of the corporate bond market is likely to default during the next credit downturn.**

THAT is why the below caught the Fed's attention and forced it to panic.

This is what lead the Fed from guaranteeing four rates hikes in 2019 and a continuation of its $50 billion per month QT program to "no more rate hikes" and stating, ***"we wouldn't hesitate to change balance sheet policy if needed."***

Mark your calendars… January 30 2019, marks the day that Jerome Powell threw in the towel and became a stock market promoter just like Janet Yellen and Ben Bernanke before him.

It will also likely mark the day that the Fed began to lose any credibility in terms of monetary policy.

The reality is that barring the announcement of a NEW Quantitative Easing (QE) program, the

Fed will fail to stop the coming market carnage. Stopping rate hikes and expressing flexibility in terms of QT is VERY different from actually CUTTING rates and HALTING QT.

Remember, the Fed is STILL draining $50 billion in liquidity from the system every month regardless of its verbal interventions. That problem has NOT been fixed.

Also, and this is the REALLY big issue… **The reason the Fed is so openly switching to dovish is because something REALLY BAD is unfolding in the financial system.**

It's not as though the Fed simply went from hawkish to dovish on a whim. Fed officials have clearly realized what I was talking about as far back as June 2018… **namely that its rate hikes and QT were going to trigger a crisis.**

The fact is that the Fed began both policies (rate hikes and QT) late in the credit cycle. Well, let's be blunt here, the Fed did this at the end of a 10 year credit binge courtesy of it (the Fed) maintaining rates at ZERO for seven years and pumping over $4 trillion in new money into the financial system.

Having created a bubble in everything, permitting US corporations to become more leveraged than EVER IN HISTORY with a greater percentage of corporate bonds being JUNK then ever before in history… **the Fed then embarked on its most aggressive hawkish policy in history**.

Put simply, the Fed was at its most aggressive at a time when the financial system was its most frothy. There is simply no way that wasn't going to blow up badly.

The fact is the financial system would have entered a crisis no matter what (you cannot have leverage at these levels without something blowing up). But the Powell Fed took an already extraordinary and unprecedented situation and decided to deal with it by engaging in the most aggressive policy action imaginable.

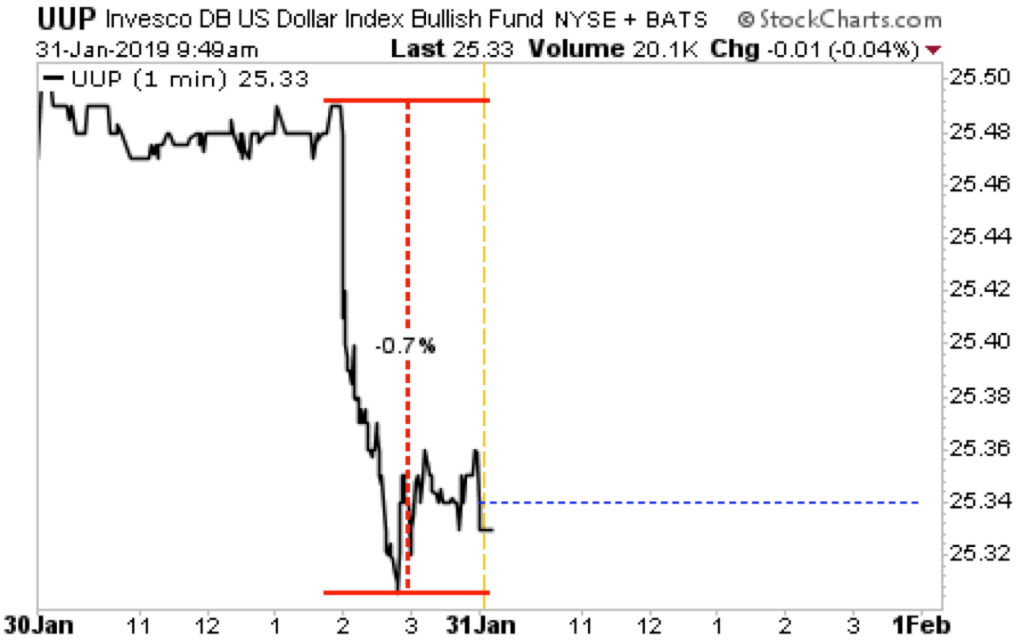
Which is why unlike everyone on CNBC, when I see the Fed panicking as it did yesterday, (and it was a panic) I know that the next crisis is now just around the corner.

And for those who believe the Fed's decision to change policy will ignite a new bull market, I note the following…

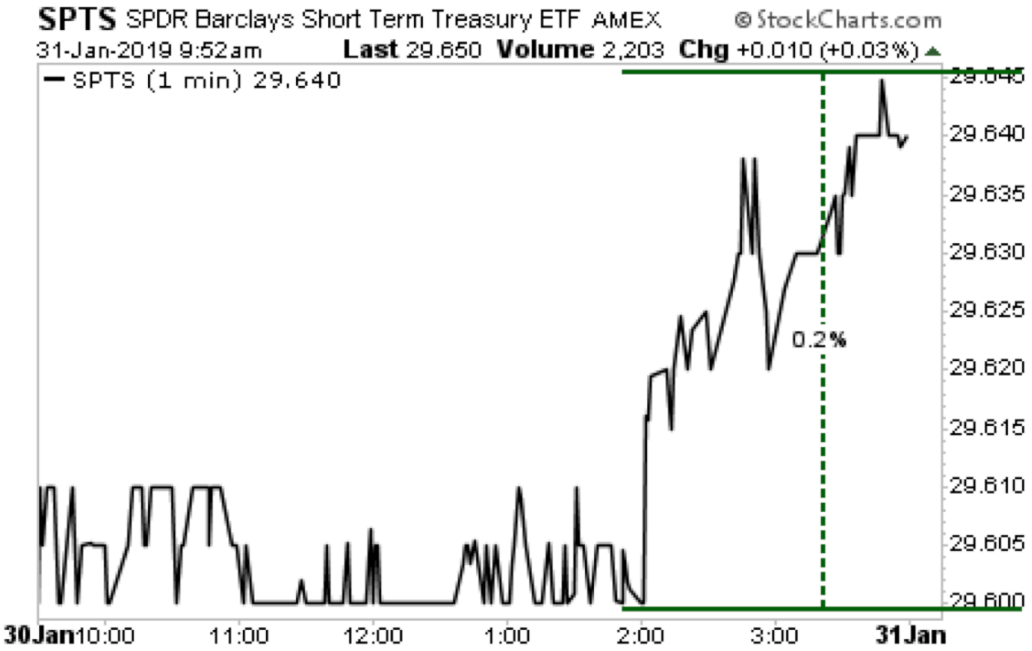
Trough to peak, the stocks only rallied 1.2% on the Fed's announcement before giving up a sizable chunk of those gains. Considering that the Fed was implicitly admitting it was focusing on stocks, this was a PATHETIC rally (I might also note that the markets basically opened flat this morning and then failed to rally even 1% despite ABJECT manipulation).

I would also add that despite the insanely bullish sentiment being put out by the financial media and on social media, the stock market is up just 1% from its former high.

I would also note that peak to trough, the $USD fell less than 0.8% on the Fed's announcement. Given the magnitude of what the Fed did, the $USD should have collapsed well over 1.5%.



Short-term Treasuries actually RALLIED on the news. They should have fallen based on the fact the Fed was attempting to ignite a "risk on" move in the markets.



Long-term Treasuries BARELY dipped for a few moments before reclaiming their loss to finish the day flat. They have since jumped over night and rallied hard today. Given that the Fed was attempting to ignite a "risk on" move in the markets, this should NOT have happened. If anything this tells us that the markets have realized the Fed screwed up and growth is GONE.

There was, however, one asset class that understood exactly what the Fed did:

GOLD.

Gold rallied almost as much as stocks. Given that 99% of investors focus on stocks and less than 1% focus on Gold (meaning stocks have WAY more fire power than Gold based on Fed activity), the fact Gold moved almost as much as stocks is a MASSIVE deal.

In $USD terms, Gold has broken to the upside of a massive SEVEN years triangle formation.

The above chart is telling us, that Gold has figured out the following…

You CANNOT normalize an Everything Bubble. The Fed is trapped. And there is no alternative but to engage in more monetary easing at some point down the road (sooner rather than later).

Which means, the next bull market in Gold is here.

I want to be clear here, this does NOT mean Gold will go straight up from now on. There will be dips and corrections (indeed given the magnitude of the rally Gold has experienced in the last few months we're due for one soon).

However, the fact remains that the markets have figured out that the Fed is trapped. And this means that long-term Gold will perform extremely well.

With that in mind, we're adding to the following precious metals positions to "average in" a better buy price.

Action to Take: Buy Silver (SLV). Ideally buy actual bullion, but if you cannot the Silver ETF (SLV) will do.

Action to Take: Add to your First Majestic Silver (AG) position.

Action to Take: Add to your IamGold (IAG) position

Action to Take: Add to your Silver Mining ETF (SIL) position

Action to Take: Add to your Silver Mining Juniors ETF (SILJ) position

Action to Take: Add to your Gold Mining ETF (GDX) position

Action to Take: Add to your Gold Mining Juniors ETF (GDXJ) position

Action to Take: Add to your Hecla Mining (HL) position

I will be using the average of today's buy price and our previous buy price in our official portfolio.

Back to the Central Bank insanity…

I am singling out the Fed here because it was the one Central Bank proclaiming that it would normalize policy come hell or high water. However, it is worth noting that both the European

Central Bank (ECB) and the Bank of Japan (BoJ) have recently made it clear that they too will not be able to normalize policy.

Regarding the ECB, that Central Bank finally completed its Quantitative Easing (QE) program in December. It took less than one month for ECB President Mario Draghi to panic and state that *"significant stimulus is still needed,"* that the ECB has not run out of *"instruments"* but rather has *"a full toolbox" available* to deal with any market problems.

Mind you, this was **less than one month AFTER** the ECB had completed a QE program that resulted in its balance sheet growing to 46% of the EU's total GDP: the final culmination of over a DECADE of ECB monetary easing/largesse.

It was also only 2-3 months after Germany began posting contracting economic data.

Put another way, whereas the Fed was able to maintain the illusion that it could normalize policy for nearly a year… the ECB didn't even last a month, let alone a quarter before it folded!

As for the BoJ, *that* Central Bank just lowered its inflation forecast for… two more years, indicating that it will stand pat on policy (not raise rates or reduce QE).

> *Japan's central bank again revised down its inflation forecasts on Wednesday (Jan 23),* ***a further sign that authorities are losing the battle to boost prices in the world's third-largest economy.***
>
> *After a two-day meeting, the Bank of Japan's policy* ***board left its mammoth monetary easing programme in place****, as expected, and lowered the inflation forecast for the fiscal year ending March next year to 0.9 per cent from 1.4 per cent.*
>
> *BoJ Governor Haruhiko Kuroda said the decision to revise down the forecast was "****due primarily to the decline in crude oil prices",*** *but added it would only be temporary.*
>
> *"It is true that it will take some time for us to achieve the two-percent target," he told reporters, referring to the bank's long-held goal.*
>
> ***"It is our belief that the most appropriate way is to patiently continue the existing monetary easing."***
>
> *https://www.channelnewsasia.com/news/business/bank-of-japan-lowers-inflation-forecasts-again-11156574*

So whereas the ECB was at least able to end its QE program, the BoJ appears to not even be able

to taper its QE program let alone end it (the current QE program started back in April 2013, and has been going ever since albeit with the occasional tweak).

Mind you, this is happening at a time when it is now clear to everyone that QE doesn't work, even in Japan. As the below story reveals, nearly HALF of the economic data used to justify the BoJ's policies was fiction!

> ***A Scandal Unfolds: Japan's Impressive Growth Rates Were a Lie; 40% of Economic Data Faked***
>
> *Years of growth, trillions in government bonds, and substantial capital sought from outside investors* ***may see a U-Turn in the coming days as Japan's prized economic policies were found to be reliant on fraudulent data.***
>
> ***As per estimates, over 40 percent of Japan's 56 economic policies contain errors****, casting a shadow on all of the country's analysis and reports generated over the years.*
>
> *https://www.ccn.com/a-scandal-unfolds-japans-impressive-growth-rates-were-a-lie-40-of-economic-data-faked/*

To summate: the Fed, the ECB and the BoJ are all at different stages in terms of monetary insanity. What's critical to note however is that the markets have finally realized what I forecast in my book ***The Everything Bubble: the Endgame For Central Bank Policy…*** that once a Central Bank embarks on an agenda of MAJOR, long-term easing, it can NEVER normalize policy; at best, it can flirt with the idea (the Fed was only able to drain $450 billion off of its $4.5 trillion balance sheet before it was forced to "take a knee" by the credit markets).

The implications of this are vast, but the biggest one is that Central Banks will be forced to ease again at some point down the road. **This means more money printing, which means more currency debasement, which will mean more political unrest.**

It is not coincidence that politically the world is shifting towards populism and socialism. While those two political ideologies are very distinct in most regards, one theme they share is a focus on appeasing the general population. In political terms, this almost ALWAYS means more social programs/ spending.

Which means bigger deficits.

Consider that in the US, the current populist President Trump is running $1 trillion deficits… at a time when the US economy is growing at 3+% or so. This is not an attack not a defense of the President, it is a financial fact.

One can only imagine the deficits that would appear if the US were to slip into the recession, as I believe it will later this year.

In Europe we increasingly see populist movements gaining political traction, particularly in France, Austria, and Italy. While all of these movements are distinct in terms of approaches, one thing **they all share is a complete opposition to any form of austerity imposed on them by the EU.**

The fact that this is happening at a time when the EU has not yet slipped into recession suggests that these movements will only become even MORE powerful when the economy rolls over (as it appears to be the case in Germany and France today).

Put another way, if the political tide is moving away from austerity and towards social spending BEFORE things get bad in Europe, it will only shift further the moment things worsen dramatically.

Then there's China, which has just launched a kind of Quantitative Easing (QE) program through which the Central Bank will allow Chinese institutions to use perpetual bonds (bonds that never come due) they are holding as collateral in exchange for access to liquidity.

Sounds complicated, but it's basically the same thing as QE: swapping out assets for access to cash.

Which leaves Japan… which as I noted before continues to engage in its gargantuan monetary easing program to the tune of $732 billion in QE per year. This program is so out of control that some Japanese Government Bonds are simply no longer trading on a day-to-day basis because the BoJ owns so many of them.

And the BoJ intends to maintain this program for another two years.

So we have the US, Europe, Japan and China all engaged in large scale deficit spending/ social spending/ monetary easing. And all of them are only going to get worse in the coming months.

All of this is Gold positive. As I have already noted, the precious metal has staged a breakout in $USD terms. However it is also worth noting that it has just broken out to the upside of consolidation periods or downtrends in every major currency ($USD, Euro, and Yen).


GLD SPDR Gold Shares NYSE + BATS
© StockCharts.com
30-Jan-2019 12:08pm
Last 123.91 Volume 2.6M Chg -0.07 (-0.06%)
GLD (Daily) 123.91
129 128 127 126 125 124 123 122 121 120 119 118 117 116 115 114 113 112 111
F M A M J J A S O N D 18 F M A M J J A S O N D 19 F
$GOLD:FXE 11.99 (29 Jan)
12.4 12.2 12.0 11.8 11.6 11.4 11.2 11.0 10.8 10.6
$GOLD:FXY 14.99 (29 Jan)
15.6 15.4 15.2 15.0 14.8 14.6 14.4 14.2 14.0 13.8
F M A M J J A S O N D 18 F M A M J J A S O N D 19 F

To conclude this issue, it is now clear that NO Central Bank will be normalizing policy. This in turn means that it's Gold's time to shine.

As for stocks, I believe the run higher is now ending. The Fed used up ALL of its verbal intervention clout in this week's meeting. And now that the usual "end of the month" performance gaming is over, stocks are ripe for a correction if not a revisit of the lows.

At the end of the day, the Fed panicked. Central Banks don't panic when something good is coming. And this time is no different. The markets will crash soon in a matter of weeks.

This concludes this week's update for ***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 Thursday in our usual weekly market update.

In the mean-time, if you are looking for a way to play short-term market moves or to get into day trading for larger, more rapid gains, I also run a weekly options trading service that typically holds positions for just 2-3 weeks at the most, and usually just a few days.

It's called ***The Crisis Trader*** and it uses options to trade highly predictable moves in stocks and ETFs for double-digit gains. **Since inception, this newsletter has returned average annual gains of 41%.**

Typically a subscription to this service costs $799. But I'd like to invite any of you to join at a discounted rate of $499 (35% off the usual market price).

You can try it for 60 days. If you find it's not what you're looking for, you can email us at support@phoenixcapitalresearch.com and we'll issue a full refund no questions asked.

To take out a 60 day $499 trial subscription to ***The Crisis Trader*** use the link below.

https://www.phoenixcapitalmarketing.com/tctrenewal499.html

Best Regards,

Graham Summers
Chief Market Strategist
Phoenix Capital Research

OPEN POSITIONS

BONDS PORTFOLIO

Position	Symbol	Buy Date	Buy Price	Current Price	Change From Last Week	Total Return *
Long Treasury ETF	TLT	6/27/18	$122.11	$121.97	**1%**	**3%**

PRECIOUS METALS/ MINERS PORTFOLIO

Position	Symbol	Buy Date	Buy Price	Current Price	ACTION TO TAKE	Total Return*
Gold		3/17/10	$1,120	$1,325.00	N/A	**18%**
Silver		3/17/10	$16.15	$16.07	**BUY**	**0%**
First Majestic Silver	AG	5/12/17	$6.78	$6.12	**BUY**	**-10%**
Iamgold	IAG	9/28/17	$5.08	$3.75	**BUY**	**-26%**
Silver Mining ETF	SIL	10/4/17	$29.81	$27.10	**BUY**	**-9%**
Silver Mining Juniors ETF	SILJ	10/4/17	$10.45	$9.07	**BUY**	**-13%**
Gold Mining ETF	GDX	6/6/18	$22.64	$22.69	**BUY**	**0%**
Gold Mining Juniors ETF	GDXJ	6/6/18	$32.98	$32.97	**BUY**	**0%**
Hecla Mining	HCLA	7/23/18	$3.05	$2.70	**BUY**	**-11%**

Prices as of 1/31/19 at market's close.
***Gains include dividends**

Bear Market Portfolio

Position	Symbol	Buy Date	Buy Price	Current Price	Change From Last Week	Total Return*
Emerging Markets ETF	EEM	12/6/18	$40.64	$43.07	-4%	-6%
Rio Tinto	RIO	12/6/18	$46.38	$56.27	-13%	-21%
Amazon (SHORT)	AMZN	1/3/19	$1,530.00	$1,718.73	-4%	-12%
Alphabet (SHORT)	GOOG	1/3/19	$1,042.56	$1,116.37	-4%	-7%
UltraShort Oil ETF	SCO	1/3/19	$27.40	$20.72	-2%	-24%
Japan ETF (SHORT)	EWJ	1/3/19	$51.08	$54.29	-2%	-6%
UltraShort Russell 2000 ETF	TWM	1/3/19	$20.65	$16.54	-4%	-20%
Retail ETF	XRT	1/10/19	$43.51	$44.18	-1%	-2%
JP Morgan	JPM	1/10/19	$99.89	$103.14	0%	-3%
UltraShort China ETF	FXP	1/24/19	$65.99	$62.40	-5%	-5%
Arcelor Mittal	MT	1/24/19	$22.59	$23.50	-4%	-4%

CASH/ CURRENCIES PORTFOLIO

Position	Symbol	Buy Date	Buy Price	Current Price	Change From Last Week	Total Return*
US Dollar ETF	UUP	11/8/18	$25.75	$25.40	-1%	-1%

Macro Trend Portfolio

Position	Symbol	Buy Date	Buy Price	Current Price	Change From Last Week	Total Return*
Corsa Coal	CRSXF	12/21/17	$1.20	$0.51	-4%	-58%
Uranium ETF	URA	1/17/18	$14.93	$12.70	3%	-13%

Prices as of 1/31/19 at market's close.
***Gains include dividends**