PRIVATE WEALTH ADVISORY

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# An Economic Catastrophe

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The U.S. is lurching towards an economic catastrophe.

If you've been paying attention, over the last few weeks there have been several LARGE "tells."

Those tells were two of the BIGGEST cheerleaders for stocks in history, Warren Buffett and the Fed, making EXTREMELY bearish statements or actions.

First and foremost, Warren Buffett, the man who famously stated that he likes to own companies for a long-time, ideally "forever," has begun **dumping huge quantities of stocks.**

**All told, Buffett sold 21 stocks over the last four months.** He's unloaded large portions of his holdings in Goldman Sachs, JP Morgan, and other large banks, as well as multiple airline stocks, pharmaceuticals, and energy stocks.

The media claims Buffett is doing this because he wants to make sure he owns less than 10% of these companies, **but when do you remember Buffett ever unloading so many stocks worth billions of dollars in such a short period?**

Indeed, this decision to *sell* marks a major difference between Buffett's actions today and those he made in the wake of the Great Financial Crisis.

During the 2008 Crisis, Warren Buffett famously wrote his *"Buy American. I am."* Op-ed in the *NY Times*. And Buffett wasn't just saying this. He was buying stocks hand over fist,

May 28th, 2020

## SHORT-TERM ISSUES

- Stocks break out.
- Momentum is strong.
- The next leg up beckons.

## INTERMEDIATE-TERM ISSUES

- The economy in danger of collapse in July.
- A crisis in commercial real estate.

putting billions of dollars' worth of capital to work in Goldman Sachs, Bank of America, Dow Chemicals, and others.

This time around Buffett, isn't buying, **he's selling.** Most notably he is selling his BANK holdings.

The reason this is notable is that when the economy collapses, banks are left sitting on billions of dollars' worth of non-performing loans/ distressed assets. I've assessed some of these issues before, but they're worth repeating.

The U.S. commercial real estate market was between $14 trillion and $17 trillion as of end of 2018.[1] The largest sectors are industrial, multi-family (apartments), office, and retail. Apartments might hold up well in this economy, but industrial, office and retail are all in serious trouble.

**Table 1**
**Estimates of Commercial Property Value: 2018Q4**

| Sector | Square Footage (Millions) | Price per Square Foot ($) | Value ($ Trillions) |
|---|---|---|---|
| Multifamily | 17,541 | $165 | $2.9 |
| Office | 11,266 | $218 | $2.5 |
| Retail | 13,646 | $179 | $2.4 |
| Health Care | 2,705 | $864 | $2.3 |
| Specialty, Sports and Other | N/A | N/A | $2.2 |
| Hospitality | 2,625 | $617 | $1.6 |
| Industrial | 20,749 | $73 | $1.5 |
| Flex | 2,402 | $145 | $0.3 |
| Self-Storage | N/A | N/A | $0.2 |
| Towers | N/A | N/A | $0.1 |
| **Total** | **70,933** | | **$16.0** |
| **High Estimate** | | | **$17.0** |
| **Low Estimate** | | | **$14.4** |

Source: Nareit calculations using the CoStar All Properties database 2018:Q4 and CoStar's Commercial Real Estate Market Size Estimates 2018Q4.

As *Geophy* has noted the industry has been "outright depressed for the past decade." The culprit is Amazon and online shopping. As early as 2016, HCR Advisory found online retail resulting in a 25% drop in in-store operating earnings.

That was BEFORE COVID-19 scared the heck out of people and the economy was shutdown. Those two issues have now resulted in a large portion of the commercial real estate market either are either skipping rent (Staples[1] Cheesecake Factory, Subway, H&M and Mattress Firm[1] to name a few), or companies actually going bankrupt (Pier 1, JC Penny, Neiman

Marcus and J Crew to name a few).

So how bad is it?

Retail commercial real estate experienced NEGATIVE net absorption in 1Q20, as the total amount of leased space declined for the first time since 2009. [1] This means more space was vacated that leased that month. Again, this is the first time this has happened since 2009.

The Fed can't fix this either. Many are these companies are too big to qualify for the Main Street lending program or their debt is too distressed to qualify for the Primary Market Corporate Credit Facility[1]

I believe the above issues are one of the biggest reasons why Warren Buffett is currently unloading his banking holdings. With retail imploding, and many businesses moving to have large percentages of their workforce work from home permanently, the commercial real estate market is a ticking time bomb.

Banks will be the ones left holding these leases/ bonds.

There's another component to Buffett's recent moves… that being the U.S.'s hard move towards socialism.

I outlined this issue in the May 5th 2020 issue of ***Private Wealth Advisory***, but it too is worth reviewing again.

The reason the U.S. suffered a Great Depression that lasted a full decade was because of then-President Franklin Delano Roosevelt's socialist meddling with the economy via regulations, taxes, stimulus programs and other items.

In this environment, real job creators (large business owners/ industrialists) went into hibernation, **choosing not to invest in expanding operations/ hiring people.**

After all, why put capital to work if the government is going to keep changing the rules/ policies that control the economy on a year to year basis?

So, what does this have to do with Warren Buffett?

Buffett was born in 1930. As such the first 10 years of his life were during the Great Depression. **And even during his teenage years and young adult life, the long-lasting effects of the Great Depression would have been felt.**

Put simply, Buffett experienced first-hand the effects that the U.S.'s first flirtation with socialism had on the economy. He knows this kind of environment is horrific for business.

I mention this because the economic shutdown has resulted in the U.S. becoming more socialist than at any other time in history… including during FDR's Presidency.

Never before have so many people, jobs, and companies relied on government and Federal Reserve stimulus. Literally entire industries are on life support courtesy of the Fed. And some 40 million Americans are on unemployment.

History has shown us that once a government seizes power, it rarely gives it back. For this reason, it is highly probable that the U.S. will remain far more socialist even after the economy reopens than it was prior to the shutdown. We are already seeing elements of this in the fact that many Americans are earnings *more* from being unemployed than they were from their former jobs.

Indeed, a recent study from the University of Chicago has revealed **that 68% of unemployed Americans are receiving MORE money from unemployment than they were receiving from their former jobs.**

In fact, the median replacement rate is 134%, meaning they are making 34% MORE money from being unemployed than they were from working!

This is how socialism gets dug in deep in the U.S.: unemployment is more lucrative than actual work. As a child of the depression, Warren Buffett must know that history is rhyming once again… which is why he is choosing NOT to put capital to work.

We've covered a lot of ground already, so it's worth reviewing.

1) Warren Buffett is arguably the greatest investor of the last 50 years. As such he has an understanding of the real economy and its impact of investments better than all but a handful of individuals.

2) Buffett is a child of the Great Depression. He has seen firsthand how socialism destroyed the economy for the better part of a decade.

3) During the 2008 Crisis, Buffett put billions of dollars' worth of capital to work, buying up shares in banks, chemical companies and more.

4) During the recent economic shutdown, Buffett not only DIDN'T put capital to work but actually began liquidating many of his holdings.

5) I suspect Buffett is seeing both the U.S.'s hard turn towards socialism as well as the ticking time bomb that is the commercial real estate market.

So that's Warren Buffett down… now let's talk about the Fed.

For decades now, the Fed has been a cheerleader for the economy and stocks.

Indeed, it is extremely rare to find the Fed ever issue a gloomy view of the economy or markets. Which is why it's astonishing to see the Fed making statements that you would expect from a raging bear.

During the last few weeks, Fed Chair Jerome Powell has publicly stated:

1) The US is facing its biggest economic shock in living memory (this would include the Great Financial Crisis), an economic downturn which Powell says is "without precedent."
2) The depression/recession could stretch through the end of NEXT year (2021).
3) Asset prices (stocks) remain vulnerable o significant price declines (crashes).

When do you ever remember hearing a Fed chair say anything like this?

Typically, the head of the Fed issues statements that *understate* the severity of a risk (remember Bernanke saying the subprime crisis was "contained"?). Heck, on February 24, a few weeks before the economy imploded due to COVID-19, Fed Vice Chair Richard Clarida was telling CNBC:

> *"The disruption there could spill over to the rest of the global economy. But it is still too soon to even speculate about either the size or the persistence of these effects, or whether they will lead to a material change in the outlook."*

Fast forward to today, and the Fed is now saying that the economy is in its WORST collapse ever, that it could least through the end of 2021, and that the stock market could crash.

And this is AFTER the Fed has spent over $2.8 TRILLION propping up the markets in the last two months!

Just how horrific is the economy that Powell is saying this stuff after the Fed has already begun buying assets in:

1) The Treasury markets (U.S. sovereign debt).
2) The municipal bond markets (debt issued by states and cities).
3) The corporate bond markets (debt issued by corporations).
4) The commercial paper markets (short-term corporate debt market).
5) The asset-backed security markets (everything from student loans to certificates of deposit and more).

So… between Warren Buffett and Fed Chair Powell, we've got two of the biggest stock cheerleaders in history, issuing some truly horrific stuff.

Again… just how bad are things that these two individuals are acting this way?

I want to be clear here… I'm not suggesting that the market will Crash next week or even the week after. But I *am* warning you that two of the most connected, powerful investment figures in the world are issuing truly horrific warnings about the economy.

As I stated at the beginning of this issue, the U.S. is lurching towards an economic catastrophe. By the look of things, if things don't change dramatically, this catastrophe will hit sometime in July.

Why then?

Commercial real estate owners and banks gave their tenants/ borrowers 90 days of debt forbearance back in April. Those 90 days will end in July. That's when the stuff will really start hitting the fan.

That is the big picture for the economy and stock market right now. However, all of that is weeks away. And right now, there are little if any signs of major breakdown hitting.

Indeed, the S&P 500 broke above 3,000 over the weekend. The market looks to have definitively broken out of the channel of the last month and is now starting its next leg up.


In the larger picture, stocks have now staged several closes above the 61.8% retracement level of the March meltdown. Historically, **a move such as this has indicated that the**

**<u>rally is no longer a bear market bounce but is start of a new bull market</u>**.


So, we've got stocks telling us that they are entering a new bull market… right as we are ALSO getting signs of an economic catastrophe coming in the next 60 days.

Obviously in the near-term the market's bias is up so we want to be long here. But this raises the question: how do we know when to get out of stocks?

Of course, we don't want to let our emotions get in the way of this process. Which is why it's important to have an actual metric you use to decide when to get in or out of the market.

One of the better ones I've come across is the 50-week moving average. This the sum of the market's weekly closing prices over the prior 50 weeks, divided by 50. Looking at the below chart, you can see that if you got out of stocks whenever the S&P 500 broke below this line, you'd have avoided some of the worst collapses including the March Meltdown of 2020 (red circles in the chart below).


More recently, the S&P 500 just broke above this line for the first time since the march lows (red circle on the right). The issue for us, is whether this is a real break and stocks are going to enter a prologue bull market, or if stocks are going to roll over again and collapse as they did in late 2018 (red circle on the left).

This is one of the key metrics I'm favoring for when to prepare for the next leg down. As I continue to assert, the primary trend is up, but given how horrific the economy is, we need to keep one eye on the exits to insure we avoid another collapse. And thanks to the 50-week moving average, we can take the guesswork out of when to make a move to the sidelines.

In the meantime, while we're waiting for a signal of when to get out of the markets, there are a number of good setups today.

Adobe has maintained its bull channel and reclaimed support. We're going to new highs.


**Action to Take: Buy Adobe (ADBE)**

Shopify (SHOP) has held support (red line). We're forming another consolidation phase similar to the one of mid to late April. I believe it will end with another leg higher.


**Action to Take: Buy Shopify (SHOP)**

Wayfair (W) is forming a bull flag. We could see another run to new highs based on short covering alone.

**Action to Take: Buy Wayfair (W)**

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 Thursday in our usual weekly market update

In the meantime, two new slots have opened up for our options trading service ***The Crisis Trader***.

We recently closed the doors on this service to new subscribers. However, two of our older members have decided option trading is no longer for them (I'm unsure why this is as we've locked in SIX straight double digit winners in the last four weeks including a 15% gain today on a trade we held for three hours).

One of these two available slots has already been taken. If you'd like to lock in the last one you can do so at the discounted price of $499 (normally this service costs $999).

Once this final slot is full, the doors are closed on this service again.

To lock in the last available slot for ***The Crisis Trader*** use the link below.

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

Until next Thursday…

Best Regards,

Graham Summers
Chief Market Strategist
Phoenix Capital Research

# OPEN POSITIONS: STOCKS

| Position | Symbol | Buy Date | Buy Price | Current Price | Total Return* |
|---|---|---|---|---|---|
| Enterprise Partners | EPD | 4/9/20 | $16.78 | $19.41 | 16% |
| Coca Cola | KO | 4/9/20 | $49.46 | $47.28 | -4% |
| NexGen Energy | NXE | 4/23/20 | $1.33 | $1.40 | 5% |
| Carnival Cruise Lines | CCL | 4/29/20 | $16.61 | $16.07 | -3% |
| Dave And Busters | PLAY | 4/29/20 | $16.36 | $14.01 | -14% |
| Simon Property Group | SPG | 4/30/20 | $66.69 | $60.05 | -10% |
| Freeport McMoRan | FCX | 4/30/20 | $8.81 | $9.20 | 4% |
| Alpha Pro Tech | APT | 5/14/20 | $15.39 | $12.82 | -17% |
| Uber | UBER | 5/14/20 | $32.49 | $34.56 | 6% |
| Adobe | ADBE | 5/28/20 | $382.80 | NEW | BUY! |
| Shopify | SHOP | 5/28/20 | $751.02 | NEW | BUY! |
| Wayfair | W | 5/28/20 | $163.54 | NEW | BUY! |

# OPEN POSITIONS: PRECIOUS METALS

| Position | Symbol | Buy Date | Buy Price | Current Price | Total Return* |
|---|---|---|---|---|---|
| Gold | GLD | 8/23/19 | $148.28 | $161.42 | 9% |
| Silver | SLV | 8/23/19 | $14.87 | $16.18 | 9% |
| Kirkland Lake | KL | 2/23/20 | $41.79 | $37.72 | -10% |
| Nemont Mining | NEM | 3/26/20 | $64.50 | $58.30 | -10% |
| Barrick Gold | GOLD | 3/26/20 | $28.15 | $24.00 | -15% |

**Prices as of 5/28/20 at the 3:20 PM EST.**
***Average of today's price and original buy price.**

# RECENTLY CLOSED TRADES

| Position | Symbol | Buy Date | Buy Price | Sell Date | Sell Price | Gain |
|---|---|---|---|---|---|---|
| Microsoft | MSFT | 4/8/20 | $165.09 | 4/20/20 | $176.00 | **7%** |
| Apple | AAPL | 4/8/20 | $264.96 | 4/20/20 | $278.00 | **5%** |
| Gold Miners ETF | GDX | 12/12/19 | $26.57 | 4/20/20 | $30.37 | **14%** |
| Gold Mining Juniors ETF | GDXJ | 12/12/19 | $35.70 | 4/20/20 | $37.34 | **5%** |
| Nemont Mining | NEM | 3/26/20 | $47.13 | 4/20/20 | $58.98 | **25%** |
| Barrick Gold | GOLD | 3/26/20 | $19.31 | 4/20/20 | $24.64 | **28%** |
| UltraShort S&P 500 | SDS | 4/20/20 | $24.35 | 4/21/20 | $25.35 | **4%** |
| VIX ETF | VXX | 4/20/20 | $42.29 | 4/21/20 | $46.29 | **9%** |
| Wayfair | W | 4/23/20 | $104.63 | 4/28/20 | $127.07 | **21%** |
| Alcoa | AA | 4/8/20 | $7.38 | 4/29/20 | $8.67 | **17%** |
| US Steel | X | 4/8/20 | $6.86 | 4/29/20 | $8.00 | **17%** |
| Marathon Petroleum | MPC | 4/23/20 | $25.94 | 4/29/20 | $33.02 | **27%** |
| Parsley Energy | PE | 4/23/20 | $8.30 | 4/29/20 | $9.36 | **13%** |
| Diamondback Energy | FANG | 4/23/20 | $37.10 | 4/30/20 | $43.38 | **17%** |
| TradeDesk | TTD | 4/27/20 | $263.90 | 4/30/20 | $297.24 | **13%** |
| Wayfair (HALF) | W | 4/30/20 | $124.35 | 5/5/20 | $179.06 | **44%** |
| JP Morgan | JPM | 4/9/20 | $103.67 | 5/7/20 | $91.09 | **-12%** |
| Square | SQ | 4/27/20 | $63.60 | 5/13/20 | $72.13 | **13%** |
| Wayfair (other HALF) | W | 4/30/20 | $124.35 | 5/13/20 | $178.26 | **43%** |
| Nvidia | NVDA | 5/14/20 | $314.14 | 5/20/20 | $358.80 | **14%** |
| Silver Miners | SIL | 8/23/19 | $27.74 | 5/20/20 | $37.19 | **34%** |
| Silver Mining Juniors | SILJ | 8/23/19 | $9.13 | 5/20/20 | $11.86 | **30%** |
| K92 Mining | KNT.V | 2/20/20 | $3.61 | 5/20/20 | $4.22 | **17%** |
| American Gold and Silver Corp | USA.TO | 2/20/20 | $3.19 | 5/20/20 | $3.98 | **25%** |
| Gold Miners ETF | GDX | 12/12/19 | $34.75 | 5/20/20 | $37.35 | **7%** |
| Gold Mining Juniors ETF | GDXJ | 12/12/19 | $42.60 | 5/20/20 | $48.01 | **13%** |
| First Majestic Silver | AG | 2/20/20 | $8.44 | 5/21/20 | $9.40 | **11%** |
| Goldman Sachs | GS | 4/9/20 | $185.02 | 5/28/20 | $205.79 | **11%** |
| Steel Dynamics | STLD | 4/9/20 | $24.44 | 5/28/20 | $27.14 | **11%** |