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The Fed Wants Inflation

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The Fed Wants Inflation

Dear Investor,

I'm publishing this month's issue of ***Private Wealth Advisory*** a day early because I will be traveling Thursday and Friday.

I will be watching the markets during this time and will issue updates as needed. But I won't have the time to write as I usually do, hence this early issue.

Having said that...

It's official: the Fed is going to unleash higher inflation.

In the mid-to-late 1970s and early 1980s the U.S. experienced the worst inflation since the Civil War. Prices of everyday goods and services exploded higher by double digits. The amount of money that previously paid two months' rent soon would only cover two weeks.

It wasn't until Fed Chair Paul Volcker raised interest rates to an astonishing 19% that the nightmare ended.

The episode was so horrific that Congress actually changed the Fed's mandate for the first time since 1933. Prior to this, the Fed's primary purpose was to maintain financial stability. This had previously meant stopping banking crises from happening. But following the inflationary nightmare of the '70s/'80s, the Federal Reserve Act was amended to:

*"promote effectively the goals of maximum employment, **stable prices**, and moderate long-term interest rates."*

August 26th, 2020

SHORT-TERM ISSUES

- The Fed pivots towards higher inflation.
- Growth stocks ignite again.
- Fertilizer stocks ready for a bull market.

INTERMEDIATE-TERM ISSUES

- More stimulus money coming from Uncle Sam.
- Inflation to spike.



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Stable prices= controlled inflation.

From this point onwards, the Fed began to target a low, but steady rate of inflation. As this policy developed, the Fed eventually settled on a target rate of 2%.

Thus, starting in the early 1980s, modern financial theory began to incorporate this idea of targeted inflation of 2%. Every major trading model, portfolio allocation model, and money management strategy involved this.

Now of course, the real rate of inflation most Americans experience is much higher. In particular, the cost of items like energy, food, education, and healthcare have skyrocketed in the last 40-50 years.

The Fed obfuscates this fact by claiming that the real rate of inflation needs to incorporate the costs of ALL items, not just essential items. And because the cost of things like TVs, cell phones, furniture, and the like have generally become *cheaper* the Fed claims that this evens out the rise in price of other items like food and healthcare.

I'm not saying I agree with any of this. I'm simply telling you how the Fed "thinks" about inflation. And the reason I'm doing this is because the Fed is preparing to *DRASTICALLY* change its thinking on inflation in the next 48 hours.

On Thursday and Friday of this week, the Fed hosts a "virtual" version of its annual economic summit in Jackson Hole Wyoming. If you're unfamiliar with these annual meetings, the Fed typically uses them to present major shifts in its monetary policies.

Indeed, in recent history, the Fed used its Jackson Hole conference to:

- 1) Announce that QE 3 is coming (Bernanke in 2012).
- 2) Change the Fed's methodology for tracking the labor market (Yellen 2014)

More recently, current Fed Chair Jerome Powell used his first Jackson Hole symposium (2018) to glorify former Fed Chair Alan Greenspan's economic insights and "considerable fortitude" in not raising interest rates back in the late '90s.

The below quote is quite revealing. And looking back, this speech was a hint of things to come.

*The FOMC thus avoided the Great-Inflation-era mistake of overemphasizing imprecise estimates of the stars. **Under Chairman Greenspan's leadership, the Committee converged on a risk-management strategy that can be distilled into a simple request: Let's wait one more meeting; if there are clearer signs of inflation, we will commence tightening.***¹³ Meeting after



meeting, the Committee **held off on rate increases** while believing that signs of rising inflation would soon appear. And meeting after meeting, inflation gradually declined.

<https://www.federalreserve.gov/newsevents/speech/powell20180824a.htm>

In the 12-18 months following this speech, Jerome Powell became one of the biggest monetary easers in history, cutting interest rates while also launching multiple repo programs through which the Fed funneled hundreds of billions of dollars into the financial system despite any indications of a recession.

Bear in mind, this was *before* the COVID-19 pandemic. Once COVID-19 hit, Powell would unleash a tsunami of liquidity that would make even Alan Greenspan blush.

We've reviewed the Fed's recent monetary easing multiple times in recent weeks. However, given the magnitude of what the Fed is about to announce, it's worth repeating.

To combat the economic fallout from the COVID-19 pandemic, the Fed:

- Made its quantitative easing (QE) program “unlimited.” Meaning it would simply print money and buy assets ad infinitum.
- Increased the scope of its QE program from simply buying U.S. Treasuries and mortgage backed securities to include:
 - Corporate debt (debt issued by corporations).
 - Corporate debt-related ETFs (stock funds linked to corporate debt).
 - Municipal debt (debt issued by states, counties, and cities).
- Expanded its money market QE to also include a “wider range of securities” including certificates of deposits (CDs).
- Expanded its commercial paper QE program.
- Introduced a new QE program to buy any asset-backed security (ABS) including student debt.
- Began a bailout program for small- and medium-sized business.
- Lowered the interest rate on its repo programs from 0.15% to LITERAL ZERO (meaning NO interest charged).

At its peak, **the Fed was pumping \$125 billion into the market every day.**

That pace has now slowed to \$125 billion per month. However, even at this slower pace, you're talking about some \$1.5 trillion in liquidity hitting the system every 12 months.

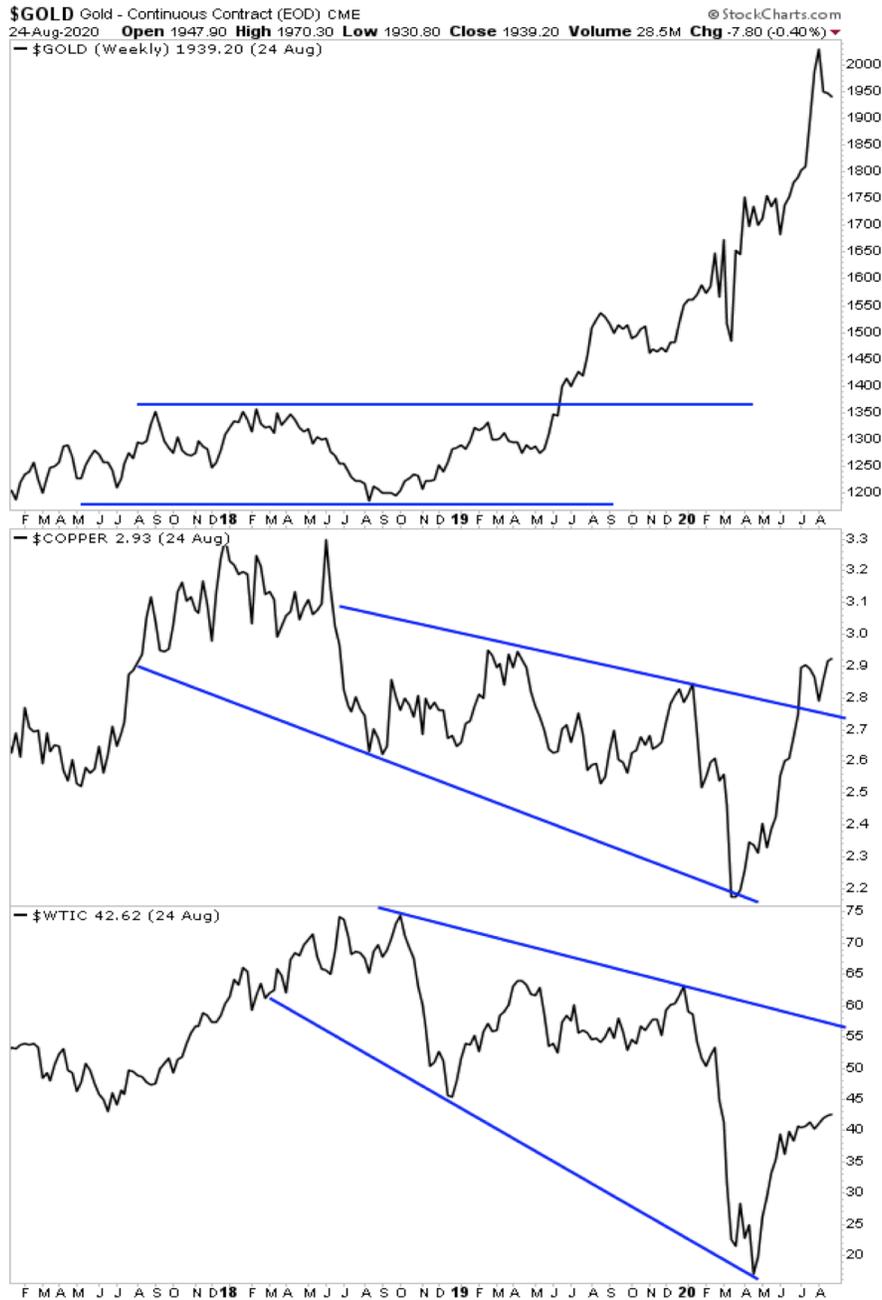
As I've noted previously, this incredible monetary easing has already begun to unleash inflation in the financial system.



The \$USD has plunged 11% peak to trough...



...while inflation hedges such as Gold, Copper, and Oil have all either erupted higher out of consolidations/downtrends (Gold and Copper) or are building towards a breakout (Oil).



I bring all of this up, because it is clear inflation is already on the move in the financial system. And against this backdrop, earlier this week the Fed leaked that it will be unveiling a “profoundly consequential” shift in its views on inflation.



Powell set to deliver ‘profoundly consequential’ speech, changing how the Fed views inflation

*That’s why Powell, who will speak Thursday during a virtual version of the Fed’s annual Jackson Hole, Wyoming, conference, **will outline what could be the central bank’s most active efforts ever to spur inflation back to a healthy level.** The speech is titled “Monetary Policy Framework Review”...*

One phrase Powell is likely to use is “average inflation” targeting.

*Simply, it means that the Fed, **which has pegged 2% as a healthy level, will let inflation run higher than that for a while if it has spent a considerable time beneath that level.** The Fed’s preferred inflation gauge has stayed below that level for all but two years since the Great Recession ended in mid-2009.*

Source: CNBC.

The Fed has already unleashed inflation... and now it is preparing to unveil a new pro-inflationary framework for its monetary policies?

What is going on here?

What’s going on is the Fed has realized that it has a choice. It can:

- 1) Let inflation run hot while pushing aggressive monetary easing in in an effort to spur economic growth.
- 2) Let the economy wither through a more balanced monetary policy that would seek to keep inflation under control.

The Fed has decidedly opted for options #1.

And the markets know it.

I’ve been struck by how shallow the correction in Gold has been. Given how explosive the move has been (\$1200-\$2000 in 18 months, \$650 of which came since late March), I would have expected Gold to stage a correction to \$1750, if not even \$1450. Instead Gold has held support at \$1930!



The bond market agrees.

The ratio between Treasuries that trade based on inflation (TIPS) and regular Treasuries is one of my favorite tools for determining what the bond market is sensing. When TIPS outperform regular Treasuries, this ratio rises, meaning the bond market believes higher inflation is coming. When regular Treasuries outperform TIPS, this ratio falls meaning the bond market believes deflation is coming.

Take a look at what this ratio has done since the Fed began easing monetary policy in mid-2018. And it has since broken out of a massive consolidation pattern to new-all time highs.



Even Warren Buffett, who has previously mocked gold as a useless investment, has finally loaded up on the precious metal, buying over a half a billion dollars' worth of Barrick Gold (GOLD).

This marks the first time Buffett has bought a gold stock in decades.

Put it all together, and we do indeed have the makings of a MAJOR bubble in the markets. Inflation is already appearing in multiple asset classes... and now the Fed wants to let it run hot!

On to the markets.

High growth names are catching a major bid this morning. We're moving back into the space.

Trade Desk (TTD) has broken out. The uptrend is strong here.



Action to Tale: Buy Trade Desk (TTD).

It's the same story as DocuSign (DOCU).



Action to Tale: Buy DocuSign (DOCU).



Outside of high growth cloud-based business, another area of the market looks extremely promising is fertilizer companies, particularly those with large postash businesses.

Mosaic (MOS) is mines and produces potash and phosphate-based fertilizers. The chart is a screaming buy.



Action to Take: Buy Mosaic (MOS).

It's a similar story for Nutrien (NTR.TO), another fertilizer business with segments in potash, nitrogen, and sulfate. Again, the chart is ready to explode higher.



Action to Take: Buy Nutrien (NTR.TO).

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 of *Private Wealth Advisory*.

In the meantime, we are closing the doors on our options trading service *The Crisis Trader* to new subscribers tonight at midnight.

We reopened this service based on the success of the track record (18 of our last 19 trades were double digit winners). However, I cannot maintain that kind of success with thousands of traders following this system.

So, with that in mind, **we're closing the doors to this service to new subscribers tonight at midnight**

If you'd like to take check out this high impact options trading system, you can take out a 60-day trial subscription for \$499 (discounted down from the usual market rate of \$799).

To do so use this link:

<https://phoenixcapitalmarketing.com/tctrenewal499.html>



Best Regards,

A handwritten signature in black ink, appearing to read 'G. Summers', with a long horizontal flourish extending to the right.

Graham Summers
Chief Market Strategist
Phoenix Capital Research



OPEN POSITIONS: STOCKS

Position	Symbol	Buy Date	Buy Price	Current Price	Total Return*
Schlumberger	SLB	6/4/20	\$20.32	\$18.90	-7%
Kinder Morgan	KMI	6/4/20	\$16.10	\$13.86	-14%
Delta Airlines	DAL	6/4/20	\$31.97	\$30.00	-6%
Slack Technologies	WORK	6/18/20	\$34.13	\$30.55	-10%
Goldman Sachs	GS	7/13/20	\$212.00	\$206.19	-3%
Rockwell Automation	ROK	7/16/20	\$222.75	\$230.76	4%
US Concrete	USCR	7/16/20	\$26.59	\$26.76	1%
Shopify	SHOP	7/20/20	\$1,000.63	\$1,091.81	9%
Zoom Communications	ZM	7/20/20	\$268.72	\$299.36	11%
Roku	Roku	7/22/20	\$151.65	\$161.74	7%
Twilio	TWLO	7/22/20	\$262.62	\$262.48	0%
Alteryx	AYX	7/22/20	\$167.32	\$119.35	-29%
Reliance Steel /Aluminum	RS	8/10/20	\$106.59	\$104.63	-2%
Parsley Energy	PE	8/11/20	\$12.33	\$11.15	-10%
Paypal	PYPL	8/11/20	\$192.82	\$203.91	6%
Short Term Volatility ETN	VXX	8/20/20	\$25.36	\$23.87	-6%
TradeDesk	TTD	8/26/20	\$489.07	NEW	BUY!
DocuSign	DOCU	8/26/20	\$215.15	NEW	BUY!
Mosaic	MOS	8/26/20	\$18.39	NEW	BUY!
Nutrien	NTR.TO	8/26/20	\$49.87	NEW	BUY!

OPEN POSITIONS: PRECIOUS METALS

Position	Symbol	Buy Date	Buy Price	Current Price	Total Return*
Nemont Mining	NEM	3/26/20	\$64.50	\$65.34	1%
Barrick Gold	GOLD	3/26/20	\$28.15	\$29.12	3%
Jervois Mining	JRVMF	8/6/20	\$0.18	\$0.23	30%
Rare Earth Metals	REMX	8/6/20	\$44.05	\$40.70	-8%

Prices as of 8/27/20 at 11:45 AM EST.

*Average of today's price and original buy price.



RECENTLY CLOSED TRADES

<u>Position</u>	<u>Symbol</u>	<u>Buy Date</u>	<u>Buy Price</u>	<u>Sell Date</u>	<u>Sell Price</u>	<u>Gain</u>
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%



RECENTLY CLOSED TRADES CONTINUED

<u>Position</u>	<u>Symbol</u>	<u>Buy Date</u>	<u>Buy Price</u>	<u>Sell Date</u>	<u>Sell Price</u>	<u>Gain</u>
Freeport McMoRan	FCX	4/30/20	\$8.81	6/4/20	\$10.13	15%
Uber	UBER	5/14/20	\$32.49	6/4/20	\$36.70	13%
Wayfair	W	5/28/20	\$163.54	6/4/20	\$181.08	11%
Trade Desk	TTD	6/2/20	\$308.03	6/4/20	\$344.37	12%
Alcoa	AA	6/2/20	\$9.95	6/4/20	\$11.18	12%
Alpha Pro Tech	APT	5/14/20	\$15.39	6/4/20	\$10.72	-30%
Carnival Cruise Lines (half)	CCL	4/29/20	\$16.61	6/5/20	\$21.73	31%
Dave And Busters (half)	PLAY	4/29/20	\$16.36	6/5/20	\$19.48	19%
Simon Property Group (half)	SPG	4/30/20	\$66.69	6/5/20	\$87.18	31%
Carnival Cruise Lines (other half)	CCL	4/29/20	\$16.61	6/9/20	\$22.52	36%
Dave And Busters (other half)	PLAY	4/29/20	\$16.36	6/9/20	\$19.64	20%
Simon Property Group (other half)	SPG	4/30/20	\$66.69	6/9/20	\$87.31	31%
Enterprise Partners	EPD	4/9/20	\$16.78	6/11/20	\$19.47	19%
Adobe	ADBE	5/28/20	\$382.80	6/11/20	\$398.04	4%
Shopify	SHOP	5/28/20	\$751.02	6/24/20	\$888.00	18%
Smith & Wesson	SWBI	6/2/20	\$15.29	6/24/20	\$18.24	19%
Wayfair	W	6/16/20	\$196.91	6/24/20	\$200.28	2%
Coca Cola	KO	4/9/20	\$49.46	6/25/20	\$44.43	-10%
Trade Desk	TTD	6/16/20	\$377.75	7/2/20	\$446.39	18%
Square	SQ	6/16/20	\$93.07	7/2/20	\$115.73	24%
DocuSign	DOCU	6/25/20	\$169.48	7/6/20	\$194.27	15%
Trade Desk	TTD	6/16/20	\$377.75	7/6/20	\$462.43	22%
Square	SQ	6/16/20	\$93.07	7/6/20	\$126.20	36%
DocuSign	DOCU	6/25/20	\$169.48	7/6/20	\$197.54	17%
Pinterest	PINS	6/18/20	\$23.07	7/6/20	\$25.49	10%
Alteryx	AYX	6/25/20	\$164.08	7/6/20	\$171.20	4%
Coupa Software	COUP	6/25/20	\$272.98	7/6/20	\$288.62	6%



RECENTLY CLOSED TRADES CONTINUED

<u>Position</u>	<u>Symbol</u>	<u>Buy Date</u>	<u>Buy Price</u>	<u>Sell Date</u>	<u>Sell Price</u>	<u>Gain</u>
US Steel	X	6/4/20	\$9.17	7/8/20	\$6.75	-26%
Alcoa	AA	6/18/20	\$11.68	7/4/20	\$12.48	7%
UltraShort QQQ	QID	7/8/20	\$11.72	7/20/20	\$10.69	-9%
Short Term Volatility ETF	VXX	7/8/20	\$33.24	7/20/20	\$28.50	-14%
Silver (half)	SLV	8/23/19	\$14.87	7/22/20	\$21.43	44%
Silver Miners (half)	SIL	6/30/20	\$36.80	7/22/20	\$46.49	26%
Silver Juniors (half)	SILJ	6/30/20	\$11.90	7/22/20	\$15.35	29%
K92 Mining (half)	KNT.V	6/30/20	\$3.92	7/22/20	\$5.62	43%
American Gold & Silver Corp (half)	USA.TO	6/30/20	\$3.58	7/22/20	\$4.59	28%
NexGen Energy	NXE	4/23/20	\$1.33	7/22/20	\$1.78	34%
Gold (half)	GLD	8/23/19	\$148.28	7/27/20	\$182.05	23%
Silver (25%)	SLV	8/23/19	\$14.87	7/27/20	\$22.60	52%
Kirkland Lake (25%)	KL	2/23/20	\$41.79	7/27/20	\$50.74	21%
Silver Miners (25%)	SIL	6/30/20	\$36.80	7/27/20	\$49.74	35%
Silver Juniors (25%)	SILJ	6/30/20	\$11.90	7/27/20	\$16.13	36%
K92 Mining (25%)	KNT.V	6/30/20	\$3.92	7/27/20	\$5.70	45%
American Gold & Silver Corp (25%)	USA.TO	6/30/20	\$3.58	7/27/20	\$4.78	34%
Gold Miners ETF (half)	GDX	6/30/20	\$36.30	7/27/20	\$44.07	21%
Gold Mining Juniors ETF (half)	GDXJ	6/30/20	\$49.30	7/27/20	\$62.71	27%
Russia ETF	RSX	6/2/20	\$21.32	7/27/20	\$22.56	6%