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# Weekly Market Update 5-7-20

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I want to take a step back to discuss the big picture of the economy for a moment. We'll get to the markets later in this update.

The economy is clearly in a severe recession/ depression. Employers laid off 20 million Americans in April alone. Some 33 million Americans have filed for unemployment. And real-world economic metrics indicate a 10%+ collapse in economic activity.

- Rail traffic has fallen 9% year over year.
- The US Chemical Activity barometer has fallen 14.8% year over year.
- The new orders metric from the Institute for Supply Management suggests a 25% contraction.
- Some 43% of US industries have reported negative Earnings Per Share Growth.

This is truly horrific stuff, suggesting a 10%+ contraction in GDP year over year. By way of comparison, the recession that hit during the Great Financial Crisis (late '07 to early '09) saw GDP contract less than **7% total**. We're well past that already.

However, the big question is whether this will be a short contraction that ends in a V-shaped recovery, or if the contraction becomes prolonged akin to the Great Depression of the 1930s.

The term "the Great Depression" is thrown around a great deal, but very few people actually understand what triggered it. Most history books/ public education forums review the Great Depression from a pro-Socialist/ central planning framework, with Franklin Delano Roosevelt (FDR) portrayed as the President who "saved" the US by introducing countless socialist programs.

The reality is very different.

When FDR took office, he surrounded himself with socialists, communists and fascists. This combined with FDR's continual meddling with the economy via regulations, taxes, stimulus programs and other items resulted in actual job creators/ industrialists at both medium and large businesses going into hibernation, **choosing not to invest in expanding operations/ hiring people.**

Think of it this way… a typical job created by an FDR government program would be short-term in nature, lasting only as long as it took to complete a given project.

By way of contract, a job created an entrepreneur/ business owner is an ongoing, potentially long-term job. Moreover, because it is based on actual economic demand, not central planning, there is the potential for growth, both in terms of income and promotion.

These two jobs are the same in name. But they are totally different in nature.

I realize the above claims might ruffle some feathers. The whole world is increasingly pro-socialist, despite the fact few if any people actually understand what it means to live in such an environment.

Your typical socialist today believes that socialism in American would mean everything staying the same in terms of quality… but things would simply be free because the government pays for them.

Real socialism is more akin to the D.M.V or the post office: both government-run programs that are antiquated and excruciating to deal with. Real socialism is not dynamic, nor is it vibrant.

If you need further evidence of this, consider that the UK DIDN'T have a prolonged Great Depression in the 1930s.

In the U.S., the Great Depression lasted from 1929 to 1939. By way of contrast, the depression in the U.K. began in 1929 and ended in 1933/1934. Indeed, unemployment started *falling* as early as 1933 in the UK. And it never went back.

The UK, unlike the US, didn't have a "New Deal" or any of the other major stimulus programs that FDR introduced. Instead, the UK government focused on maintaining a balanced budget by raising taxes and cutting public spending.

When these policies proved untenable from a political standpoint (certain industries/ areas in the UK were experiencing unemployment of 70%), the government abandoned the Gold Standard, leading to an aggressive devaluation of the British Pound and the bottom was in.

I want to be clear here… the UK depression was sharp and severe… but it was relatively short, lasting four to five years. By way of contrast, the US Depression **lasted 10 years**. And the key difference between the two countries was how its political leaders approached their respective situations.

The US went socialist with a central planning approach. The UK didn't. The results speak for themselves.

I bring all of this up, because the US today is once again embarking of path of central planning/ socialism to combat the current economic contraction.

Never before have so many people, jobs, and companies relied on US government and Federal Reserve stimulus/interventions.

The CARES act is providing business with loans that DO NOT need to be repaid provided the businesses use a certain percentage of the money to maintain payroll. Moreover, the new CARES unemployment benefits are greater than those of normal unemployment to the point that some workers are preferring to NOT work.

> *Jamie Black-Lewis felt like she won the lottery after getting two forgivable loans through the Paycheck Protection Program.*
>
> *Black-Lewis saw the $177,000 and $43,800 loans, one for each of the spas she owns in Washington state, as a lifeline she could use for payroll and other business expenses.*
>
> ***She'd halted pay for the 35 employees** — including herself — at Oasis Medspa & Salon, in Woodinville, and Amai Day Spa, in Bothell, in mid-March, when nonessential businesses in Washington closed due to the coronavirus pandemic.*
>
> ***When Black-Lewis convened a virtual employee meeting to explain her good fortune, she expected jubilation and relief that paychecks would resume in full even though the staff — primarily hourly employees — couldn't work.***
>
> *She got a different reaction.*
>
> *"It was a firestorm of hatred about the situation," Black-Lewis said…*
>
> ***The anger came from employees who'd determined they'd make more money by collecting unemployment benefits than their normal paychecks.***
>
> https://www.cnbc.com/2020/04/22/she-got-a-paycheck-protection-loan-her-employees-hate-her-for-it.html

This same dynamic is playing out on a larger stage in the financial markets. The Fed has effectively nationalized the credit markets and bond markets.

As a quick reminder, the Fed is now intervening directly in:

1) The Treasury markets (U.S. sovereign debt).
2) The municipal bond markets (debt issued by states and cities).

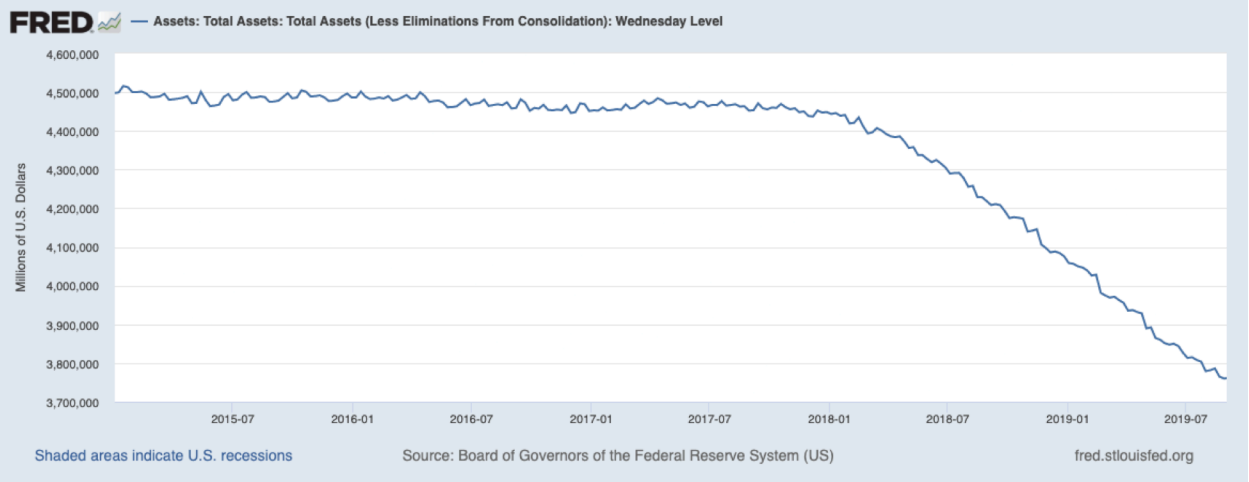
3) The corporate bond markets (debt issued by corporations).
4) The commercial paper markets (short-term corporate debt market).
5) The asset-backed security market (everything from student loans to certificates of deposit and more).

Never before in history has the financial system been so addicted to Fed interventions. Entire industries are relying/ hoping for bailouts to keep the lights on. And there is strong evidence that if the Fed hadn't nationalized the credit/ debt markets, we'd be below 2,000 on the S&P 500 right now.


The big problem with all of the above is that we know from recent experience that once the Fed begins to intervene in an extraordinary way, it is almost impossible for it to normalize policy.

Case in point, the Fed's attempt to normalize its balance sheet in 2018 only lasted about 14 months before the credit markets triggered a stock market crash.


The Fed was forced to abandon normalization in September 2019. So, from start to finish, the Fed was only able to shrink its balance sheet for about 18-20 months. And the total dollar amount of normalization was only $700 billion or roughly 15% of its $4.4 trillion balance sheet at the time.




Bear in mind, up until this point, the Fed had only been buying mortgage backed securities or Treasuries.

It is now buying:

1) Treasury bonds.
2) Municipal bonds.
3) Corporate bonds.
4) Commercial paper.
5) Asset-backed securities (everything from student loans to certificates of deposit and more).

My point with all of the above is that the US is embarking on a central planning/ socialist approach to dealing with the fallout from the economic shutdown. History has shown us that:

1) This will only prolong the economic pain.
2) These policies will be all but impossible to walk back/ normalize.

I want to be clear here. I know millions of Americans are suffering and relying on food banks and government stimulus to survive. I am now downplaying the severity of the problems we face. I am simply pointing out that it is going to be all but impossible to walk back these programs. And that, more than anything, is likely to trigger a potential Great Depression… AKA a prolonged economic downturn.

This is why legendary, senior investors like Warren Buffett and Sam Zell are NOT putting capital to work right now.

Warren 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.

Buffett recently reported that he did NOT invest heavily or sign any major deals during the market meltdown of March 2020. Many analysts believe this is because the collapse was too rapid for him to deploy capital.

That is false. Buffett DID take large stakes in airlines stocks. He subsequently dumped those positions because he realized that the long-term effects of the pandemic had permanently damaged the industry.

Put another way, Buffett originally saw value, but after thinking more deeply about it, removed his capital. This says a great deal about what his thinking is concerning the current socio-economic environment in the US.

Similarly, Sam Zell is a billionaire real estate investor. Born in 1941, he grew up in the aftermath of the Great Depression and is familiar with its consequences. He too is not putting money to work right now.

Let's be clear here. Both Buffett and Zell became billionaires because they have an extraordinary ability to read long-term trends in the economy. Both men are legends of capital deployment. And both men failed to put capital to work during the market collapse.

They do not see long-term value here. Is it because they suspect we are entering another Great Depression?

We will have to wait and see. But this is something to keep in the back of your mind going forward.

Right now, stocks are anticipating a V-shaped recovery. However, much of that anticipation is being driven by two things

1) MASSIVE Fed intervention (the Fed just printed $2.5 trillion in the last eight weeks).

2) Fund managers have to do something with the money they have under management. So, they are reacting to the Fed's interventions by buying stocks.

The underlying economic realities are horrible. Everyone knows that. What everyone doesn't know, (including the market) is how long this depression will last. That is what we are waiting to find out. It is a medium-term concern.

Now let's move on to the short-term picture for the markets. Stocks are rallying, but struggling to break above resistance.

The question is if this is another consolidation period before we make a new leg higher, as was the case in from March 31st-April 6th, and April 20th-April 27th (red boxes in the chart below).


Breadth has held support and remains in an uptrend for now.

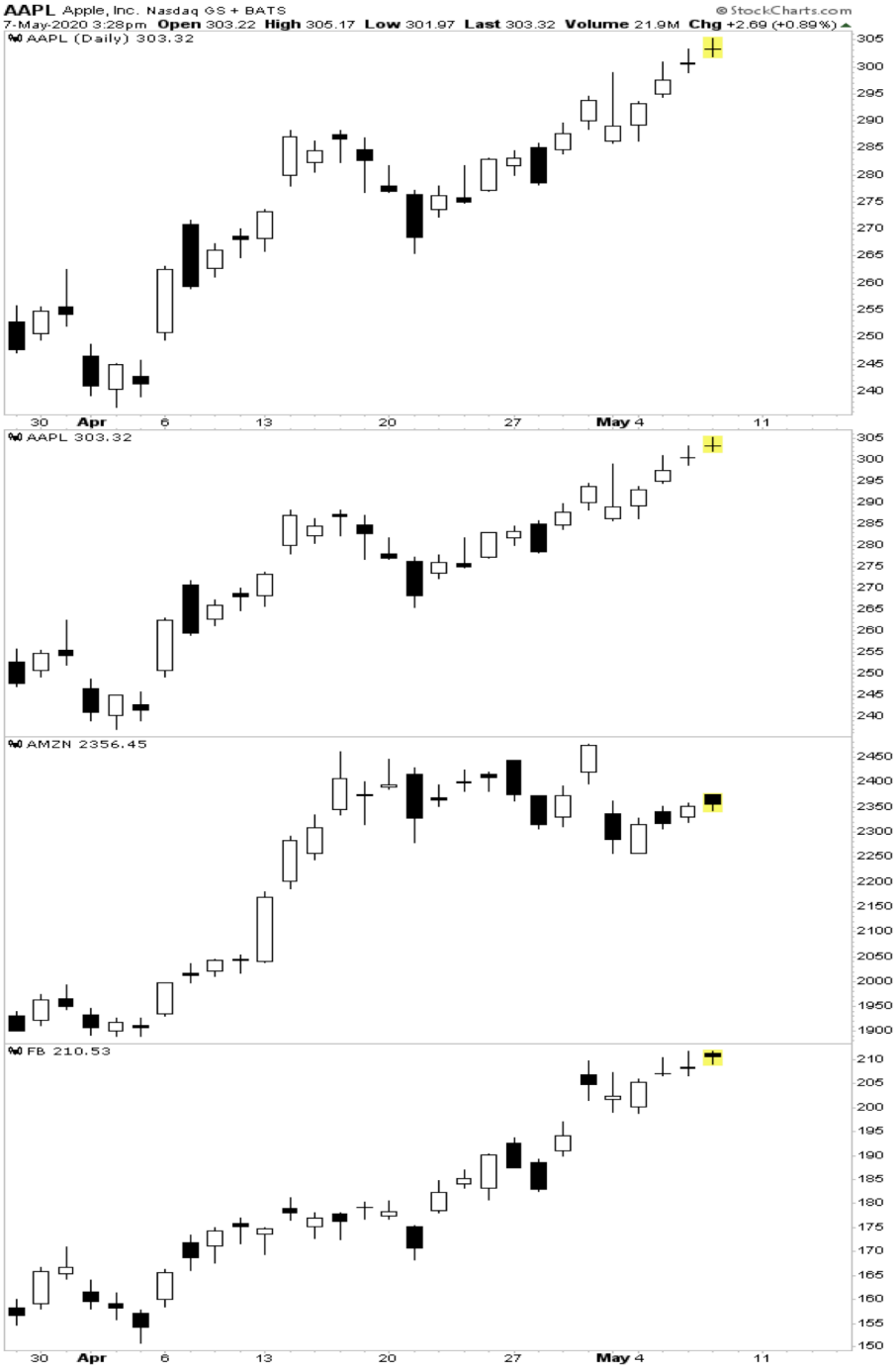
However, investment grade credit spreads are struggling to gain upwards momentum.


While high yield credit spreads are preparing for a violent move either up or down.

Moreover, the VIX is in a downtrend but refusing the break to new lows.


And the stock to treasury ratio is preparing for a breakout of some kind as well. It can't seem to break above resistance (red line) but is still above its trendline (blue line) for now.

Finally, I would note that even the BIG FOUR market leaders (MSFT, AAPL, AMZN, and FB) have all been struggling to break out to new highs in the last few days. Note that these stocks are closing in the middle or lower part of the day's action since Monday.



What does this all mean?

We're in no man's land in the markets. Nothing is clear other than the fact stocks are struggling to break out to new highs. Whether this is because stocks are merely consolidation before exploding higher as they did from March 31st-April 6th, and April 20th-April 27th or if we're due for a more significant pullback remains to be seen.

In light of this, we are not putting more capital to work this week. We are however closing out one trade, our JP Morgan (JPM) long. The stock is breaking down and I don't want this loss to get any bigger.

**Action to Take: Sell JP Morgan (JPM).**

This concludes this week's market update. 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, a few slots have opened up for our options trading service ***The Crisis Trader***.

We recently closed the doors on this service to new subscribers. However, three members have decided option trading is not for them (I'm unsure why this is as we've locked in gains of 11%, 24% and 24% in the last two weeks).

Regardless, there are now three slots available for this service. If you'd like to lock one of them in, you can do so at the discounted price of $499 (normally this service costs $999).

However, once those three slots are full, the doors are closed on this service again. To lock in one of the three slots 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* |
|---|---|---|---|---|---|
| Goldman Sachs | GS | 4/9/20 | $185.02 | $182.21 | -2% |
| Steel Dynamics | STLD | 4/9/20 | $24.44 | $24.11 | -1% |
| Enterprise Partners | EPD | 4/9/20 | $16.78 | $17.21 | 3% |
| Coca Cola | KO | 4/9/20 | $49.46 | $44.74 | -10% |
| NexGen Energy | NXE | 4/23/20 | $1.33 | $1.39 | 5% |
| Square | SQ | 4/27/20 | $63.60 | $75.28 | 18% |
| Carnival Cruise Lines | CCL | 4/29/20 | $16.61 | $13.45 | -19% |
| Dave And Busters | PLAY | 4/29/20 | $16.36 | $10.98 | -33% |
| Simon Property Group | SPG | 4/30/20 | $66.69 | $56.43 | -15% |
| Freeport McMoRan | FCX | 4/30/20 | $8.81 | $8.95 | 2% |
| Wayfair | W | 4/30/20 | $124.35 | $176.78 | 42% |

## OPEN POSITIONS: PRECIOUS METALS

| Position | Symbol | Buy Date | Buy Price | Current Price | Total Return* |
|---|---|---|---|---|---|
| Gold | GLD | 8/23/19 | $148.28 | $161.88 | 9% |
| Silver | SLV | 8/23/19 | $14.87 | $14.29 | -4% |
| Silver Miners | SIL | 8/23/19 | $27.74 | $33.16 | 20% |
| Silver Mining Juniors | SILJ | 8/23/19 | $9.13 | $9.80 | 7% |
| K92 Mining | KNT.V | 2/20/20 | $3.61 | $3.69 | 2% |
| American Gold and Silver Corp | USA.TO | 2/20/20 | $3.19 | $3.21 | 1% |
| First Majestic Silver | AG | 2/20/20 | $8.44 | $8.38 | -1% |
| Kirkland Lake | KL | 2/23/20 | $41.79 | $43.15 | 3% |
| Gold Miners ETF | GDX | 12/12/19 | $34.75 | $35.24 | 1% |
| Gold Mining Juniors ETF | GDXJ | 12/12/19 | $42.60 | $43.60 | 2% |
| Nemont Mining | NEM | 3/26/20 | $64.50 | $64.93 | 1% |
| Barrick Gold | GOLD | 3/26/20 | $28.15 | $27.52 | -2% |

**Prices as of 5/7/20 at the 3:20PM.**

# 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%** |