PRIVATE WEALTH ADVISORY

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Weekly Market Update 6-13-19

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The President just gave the Fed its marching orders.

The media will of course ridicule the President as being unformed or not understanding inflation…

I believe they are missing the real implication of this claim.

As I noted in April issue of ***Private Wealth Advisory***, *The Pro-Inflation PR Campaign*, the Fed has very clearly begun to prepare the financial system for higher inflation.

If you've yet to review that issue, that basic ideas within are as follows…

According to the Fed's Dual Mandate as issued by Congress to the Fed in 1977, the Fed is meant to pursue two things:

1) Price stability (controlled inflation)
2) Maximum employment (economic growth)

Note that debt is not included anywhere in this.

Now, it was the debt markets, (not inflation and not the economy), that triggered a near-Crisis back in December 2018.

At that time, the Fed had hiked rates four times in the prior 12 months… bringing its Target Federal Funds rate to 2.25%-2.5%… while also shrinking its balance sheet by $600 billion.

Bear in mind, every $200 billion in balance sheet reduction is the equivalent of another rate hike… so in actuality the Fed had done the equivalent of SEVEN rate hikes in a single year.

Based on inflation… these policies were somewhat warranted… the Fed Underlying Inflation Gauge (UIG) showed inflation at 2.8%...

These policies were also somewhat warranted based on the employment numbers/ GDP growth… which were at 3.9% and 2.9% (for the year of 2018)...

So, technically, based on the Fed's Dual Mandate, the Fed was doing the *right thing*.

Except, the yields on Treasuries broke out of their 30+ year downtrend… signaling that the Everything Bubble has burst…

Then the Junk Bond markets began to blow up… remember, we're talking about a potential $3 trillion debt bomb here (this is the amount of corporate debt that would likely default in a debt crisis)…

Finally, the stock market nose-dived….

The above issues, not inflation and not the unemployment rate/GDP growth, are what forced the Fed to abandon any talk of raising rates.

They are also what forced the Fed to end its balance sheet normalization early (QT will officially end in September 2019, after just $600-$700 billion, instead of the intended $1-2 trillion).

Put simply, the Fed found out that its Dual Mandate really doesn't work in today's world of excessive debt…

After all, both inflation and unemployment/ GDP growth signaled that the rate hikes/ balance sheet reduction were warranted…

But the financial markets, specifically the debt markets, which trade based on the Fed's interest rate policy, signaled that if the Fed continued on its intended track… there would be a debt crisis.

And so… the Fed was forced to abandon its monetary policy goals…

More importantly, the Fed realized it was on the verge of triggering another crisis… **so the Fed had to find an "excuse" to start easing**…

However, the Fed can't simply come out and say *"there is way too much debt in the financial system, so we're going to ease to stop a crisis from happening…"*

First and foremost, this would fall outside the Fed's Dual Mandate…

And secondly, for the Fed to even admit the gravity of the situation (that it can't even go 12 months without easing monetary policy) would likely trigger a crisis of confidence…

So the Fed had to come up with some reason why it needs to start easing, despite low unemployment, reasonably high GDP growth, and relatively stable inflation (at least according to the official numbers).

It is now clear that the Fed has chosen "inflation is too low" as this reason.

Which is why, for several months now, we've been seeing various Fed officials appearing in public to claim "inflation is too low" or "we might need to start easing soon" or "we should make Quantitative Easing a *permanent* policy" etc.

In this context, President Trump's recent tweet that *"the United States has VERY LOW INFLATION, a beautiful thing,"* represents the President giving the Fed the "go ahead" to move forward with its

claim that "inflation is too low" as the reason to start easing monetary policy.

In vernacular terms, President Trump is saying, "get on with it!"

The question is how soon the Fed will respond.

The Fed meets next Tuesday and Wednesday, June 18th-19th. Currently the futures markets give only a 32% chance that the Fed will cut rates at this meeting…

However, those same futures markets believe there is a 67% chance the Fed cuts rates in July… a 55% chance the Fed cuts rates *again* in September with the odds favoring yet another rate cut sometime before year-end.

Put simply, the markets are forecasting **the Fed will cut rates three times this year**.

Let's be clear here… this is a desperate gamble by the Fed that it can put the debt crisis genie back in the bottle…

Which brings me to my query from two weeks ago…

1) Either the financial system enters a weak-$USD state, resulting in the $USD dropping while inflationary plays rally…

Or…

2) We enter a deflationary collapse right now…

Thus far, the financial system seems to be leaning towards option #1… though I suspect we won't get confirmation that this will prove the case until after the Fed's meeting next week.

Rather than breaking out to new highs, the $USD has fallen to retest its bull market trendline (blue line in the chart below).

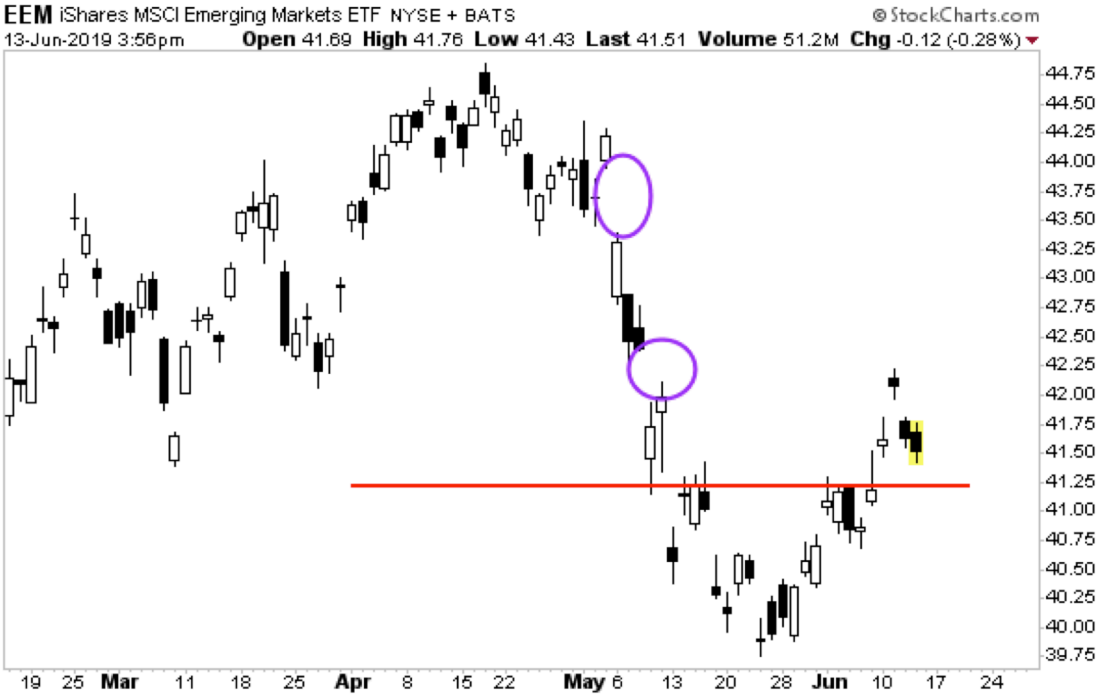
The $USD is now bouncing off support… and we need to be watching this situation closely…

If the $USD rolls over here and breaks that blue line, then we have confirmation that the financial system is switching into a "weak-$USD" period, and the debt crisis will be held off in favor of higher inflation.

This environment would favor those investments that benefit from a weak-$USD, specifically Emerging Markets (particularly Brazil), precious metals, and beaten down reflation plays.

Let's see what the charts say…

The Emerging Markets ETF (EEM) broke upwards through resistance (red line in the chart above) as the $USD fell. EEM shares are now taking a breather as they consolidate.



Provided EEM shares hold support/ former resistance (red line in the chart above), then we'll have confirmation that the financial system is moving into a "weak-$USD" period… and we should see EEM shares rise to fill the gaps (purple circles) at $42.25 and then eventually $43.75

Of the Emerging Market space, the commodity-centric market of Brazil should be the top performer…

The Brazil ETF (EWZ) looks quite bullish, having broken out of a clear downward channel (blue lines in the chart below) as well as above resistance (red line in chart below).

Here again we see a consolidation period taking place. If we hold support/former resistance (red line in the chart above), we'll have confirmation that at "weak-$USD" environment is taking hold.

While we're waiting for confirmation here, one play that I'm comfortable with us making is copper producer Freeport McMoRan (FCX).

As you can see in the chart below, we have a confirmed breakout of a bullish falling wedge formation (blue lines). We've since broken above former resistance (red line) and held.

The next move up should see FCX rally to $13.00.

The CEO certainly believes FCX share are undervalued… he just bought shares on the open market for the first time in a decade.

> *Vice Chairman, President, and CEO Richard C. Adkerson* ***paid $1.74 million on June 6 for 172,000 additional shares of the copper, gold, and molybdenum miner, an average per-share price of $10.14 each****.*
>
> *https://www.barrons.com/articles/freeport-mcmoran-ceo-richard-adkerson-bought-stock-51560199070*

Action to Take: Buy Freeport McMoran (FCX).

Another play that caught my eye is the online retail giant Amazon (AMZN).

The below chart looks a lot like a gigantic "cup and handle" formation. If this reading proves correct, AMZN shares could see a run to new highs, well north of $2,200 per share.

This is well worth a wager. If the Fed can induce anything like a reflation wave, AMZN shares will outperform. Treat this as a speculative position… and don't bet the farm on it.

Action to Take: Buy Amazon (AMZN).

To conclude, the financial system appears to be telling us that we're entering a "weak-$USD" environment. However, everything seems to be waiting on next week's Fed meeting to see what happens.

There is a chance the Fed doesn't cut rates next week, which could potentially shock the market, but I am increasingly leaning towards the view that the Fed will convince the market that it is cutting rates sooner rather than later… with at least one rate cut in July.

That's likely to prove the story for the next two weeks… after that comes the G-20 meeting in Osaka Japan… which Wall Street seems to believe will involve Presidents Trump and XI coming to some kind of trade agreement.

I don't think that will prove to be the case, but am watching the markets for signs of what's coming. As I write this, the China ETF (FXI) has broken resistance (red line in the chart below), but is struggling to kick of a real rally.

This suggests the markets remain unsure. How FXI trades next week will be a major clue of what's to come… it will be critical to see how FXI acts relative to support/ former resistance (red line) next week. If FXI explodes higher, a trade deal is coming… if not… then we're in for a prolonged period of greater tension between the US and China.

This concludes this week's market update for ***Private Wealth Advisory***. I'm watching the markets even more closely than usual and will issue updates as needed. Barring any new developments you'll next hear from me next Thursday in our regular weekly market update of ***Private Wealth Advisory.***

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 over 50%.**

In the last two weeks we've locked in gains of 10%, 16% and 21%.

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

Until Next Thursday…

Best Regards,

Graham Summers
Chief Market Strategist
Phoenix Capital Research

OPEN POSITIONS

STOCKS PORTFOLIO

Position	Symbol	Buy Date	Buy Price	Current Price	Total Return*
Energy ETF	XLE	3/21/19	$67.08	$61.41	-8%
Uranium ETF	URA	1/17/18	$14.93	$11.97	-20%
Emerging Markets ETF	EEM	5/1/19	$44.00	$41.56	-6%
European Financials ETF	EUFN	5/1/19	$19.62	$18.43	-6%
Short-Term Volatility ETF	VXX	5/16/19	$28.10	$27.61	-2%
Freeport McMoran	FCX	6/13/19	$10.83	NEW	BUY
Amazon	AMZN	6/13/19	$1,870.30	NEW	BUY

Position	Symbol	Buy Date	Buy Price	Current Price	Total Return*
Long Treasury ETF	TLT	6/27/18	$120.24	$131.13	12%
1-3 Year Treasury ETF	SHY	2/7/19	$83.68	$84.62	2%
7-10 Year Treasury ETF	IEF	3/21/19	$105.66	$109.24	4%

PRECIOUS METALS/ MINERS PORTFOLIO

Position	Symbol	Buy Date	Buy Price	Current Price	Total Return*
Gold		3/17/10	$1,120	$1,345.00	20%
Silver		3/17/10	$15.44	$14.89	-8%
First Majestic Silver	AG	5/12/17	$6.59	$6.63	1%
Gold Mining ETF	GDX	6/6/18	$21.38	$23.24	9%
Gold Mining Juniors ETF	GDXJ	6/6/18	$30.59	$31.51	3%

Prices as of 6/13/19 at market's close.
***Gains include dividends**

BEAR MARKET PORTFOLIO

Position	Symbol	Buy Date	Buy Price	Current Price	Total Return*
Japan ETF (SHORT)	EWJ	1/3/19	$51.08	$54.14	-6%
UltraShort Russell 2000 ETF	TWM	1/3/19	$18.24	$15.41	-16%
JP Morgan	JPM	1/10/19	$99.89	$109.54	-10%
Itay ETF (SHORT)	EWI	2/7/19	$25.71	$27.38	-6%
Netflix (SHORT)	NFLX	3/7/19	$352.60	$343.43	3%
Wayfair (SHORT)	W	5/23/19	$144.01	$161.71	-12%
ServiceNow (SHORT)	NOW	5/23/19	$266.26	$273.79	-3%
Shopify (SHORT)	SHOP	5/23/19	$271.54	$306.99	-13%
UltraShort China ETF	FXP	5/23/19	$70.52	$67.80	-4%

Prices as of 6/13/19 at market's close.
***Gains include dividends**