PRIVATE WEALTH ADVISORY

INVESTMENT RESEARCH THAT CONVERTS

# Weekly Market Update 6-20-19




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The financial markets erupted higher yesterday on news that the Fed promised to cut rates at its July meeting.

As exciting as this move is… unfortunately the Fed did no such thing.

In its official statement released at 2PM, the only significant changes the Fed made were to:

1) Remove the word *"patient"* from its wording concerning cutting interest rates.
2) Add the phrase *"but uncertainties about this outlook have increased"* to its economic forecast.

Nowhere in the Fed statement was there any indication that the Fed was about to cut interest rates. In fact, the Fed still forecasts the following:

> *The Committee continues to view sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2 percent objective* ***as the most likely outcomes…***
>
> https://www.federalreserve.gov/monetarypolicy/files/monetary20190619a1.pdf

Put simply, the Fed didn't promise a rate cut in its statement. It didn't even suggest that its views on the economy, labor market, or the rate of inflation had changed! All it said was that "uncertainties" surrounding their forecast have "increased."

Apparently, the markets translated the phrase "*uncertainties about this outlook have increased" to* mean ***"we are about to issue a MASSIVE rate cut of 0.5% next month!"***

After the Fed statement hit the wires, Fed Chair Jerome Powell gave a Question & Answer session…

At NO point during the entire session did Powell say the Fed was prepared to cut rates as soon as July.

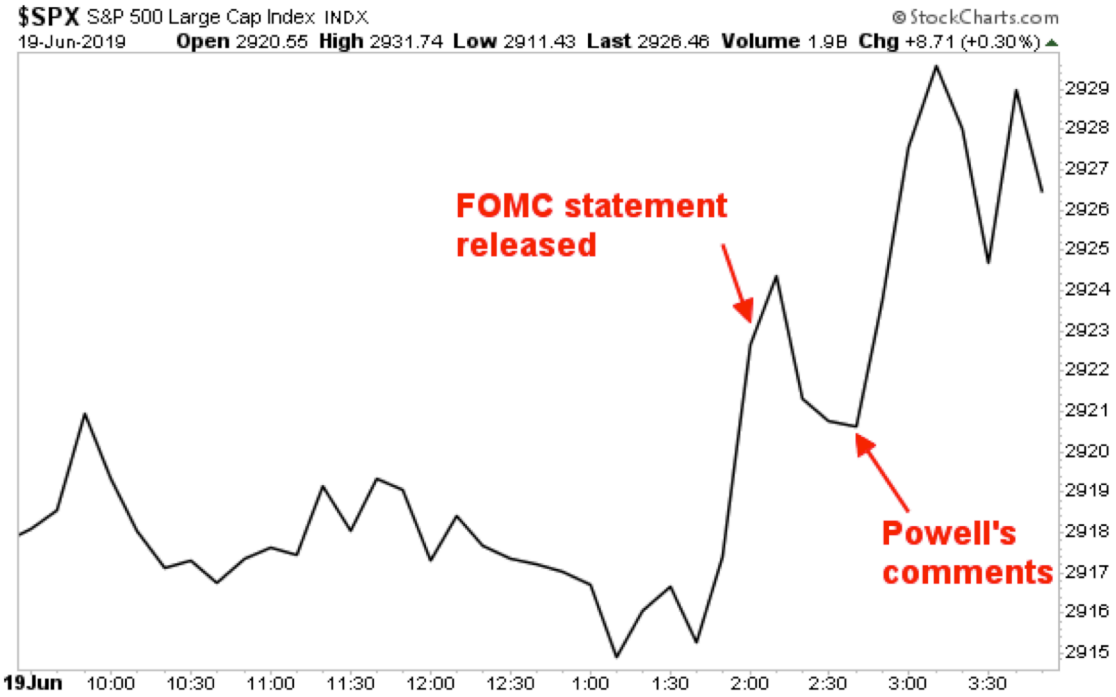
The two statements Powell *did* make that could be construed as leaning towards monetary easing were…

*"Because there are no definitive measures of inflation expectations, we must rely on imperfect proxies...* ***our deliberations made clear that a number of those who wrote down a flat rate path agree that the case for additional accommodation has strengthened since our May meeting****...*

…And when Powell was asked if the Fed committee is thinking about *"changing its policy before the next meeting?"* he responded,

***"…We're going to be monitoring the cross currents and the other items that we've mentioned, but that we'd like to see more going forward.."***

THESE were the statements that sent stocks through the roof. Indeed, before Powell's Q&A session, stocks were already rolling over based on the FOMC statement.




Look, I don't want to rain on anyone's parade, but the fact is that the market read WAYYYYY too much into Powell's statements. All he did was suggest that the Fed *might* think about easing at some point based on what happens between now and the end of July.

THAT'S it.

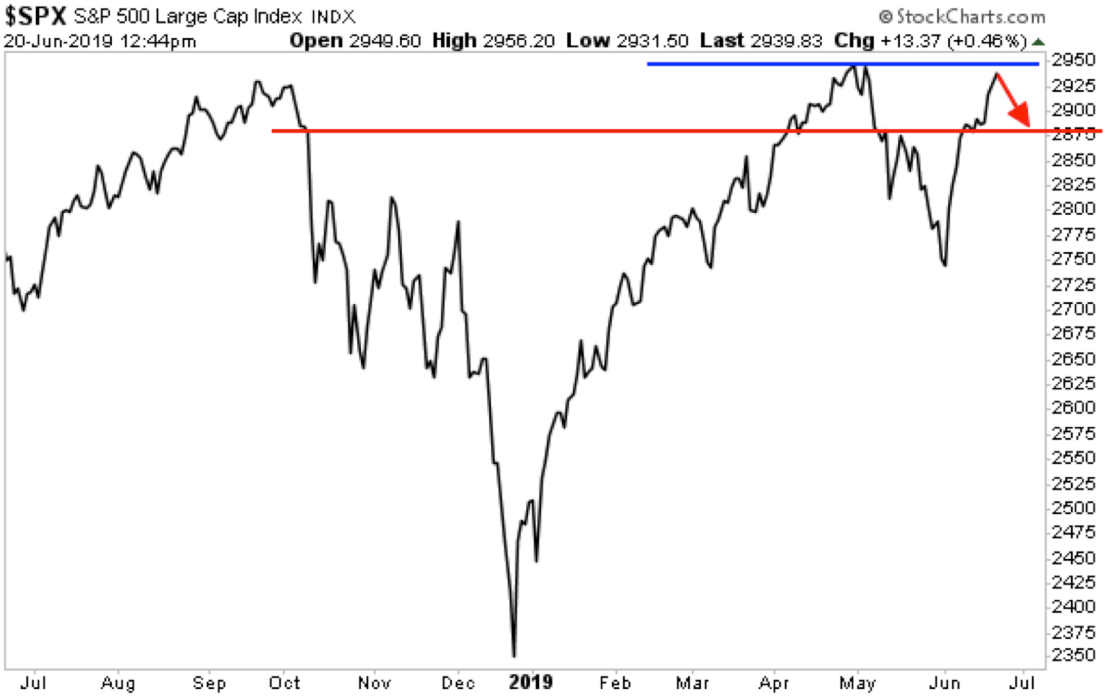
Put simply, the financial system initially perceived the Fed statement and Fed Chair Jerome Powell's answers in his Q&A session to be EXTREMELY dovish.

However, once traders began to digest what the Fed and Fed Chair REALLY said, the markets lost their mojo.

Stepping back, the stock market (blue line in the chart below) finally caught up to the NYSE's breadth (black line in the chart below). **Put simply, the rally has now reached its ultimate upside target**.


Stocks are MORE than overdue for a pullback here. Whether it's a shallow pullback or the beginning of a larger correction remains to be seen.

My current view is that the S&P 500 will soon roll over to test support at 2,900 or so.




What happens at that point will largely hinge on how the US/China talks play out at the G-20 meeting in Osaka Japan next Friday and Saturday June 28th and 29th.

The latest news on this front involves President Trump presenting his usual "*things are going well and a deal could be made"* statements.

> ***<u>China and the United States are rekindling trade talks</u>*** *ahead of a meeting next week between Presidents Donald Trump and Xi Jinping, cheering financial markets on hopes that an escalating trade war between the two countries would abate.*
>
> *"I think we have a chance. I know that China wants to make a deal. They don't like the tariffs, and a lot of companies are leaving China in order to avoid the tariffs," [the President] told reporters at the White House.*
>
> *"**<u>I think the meeting might very well go well, and frankly our people are starting to deal as of tomorrow</u>**. The teams are starting to deal. So we'll see. China would like to make a deal. We'd like to make a deal, but it has to be a good deal for everybody."*
>
> *https://www.reuters.com/article/us-usa-trade-china/us-china-rekindle-trade-talks-ahead-of-trump-xi-g20-meeting-idUSKCN1TJ1R7*

However, the mouthpiece for the Global times (the official media outlet for Communist Party of China) quickly tweeted the following:


**Put simply, the US and China *will* meet, but no real progress has been made on the key issues (IP theft, technology theft, etc**.).

At the end of the day, I do not believe a deal will be made… soon, if ever.

Chinese leadership will NEVER agree to a deal that makes them look weak. This means China will never sign a deal in that entails financial/ trade punishments for violations.

Conversely, the Trump administration has made it clear that playing "hardball" with China will be one of its primary campaign focal points in the build up to the 2020 Presidential election.

So as hopeful as the markets are about a deal being struck soon, I believe that they are as misguidedly bullish here as they are about the prospect of the Fed cutting rates aggressively in July.

Put simply, the market is primed for a major disappointment, both from the Fed and the Trade War.

The signals I'm watching most closely are…

The US Dollar (UUP). The Dollar fell on the Fed announcement… but it has yet to break support (red line in the chart below) OR take out its bull market trendline (blue line in the chart below)


**If the Fed was indeed about to start easing, the US Dollar should have DECISIVELY taken out both of these lines.**

This is the single most important chart in the world for determining what's about to hit the stock market. And right now, the US Dollar is telling us "close, but no cigar."

I note, also that the Emerging Market complex has yet to retest its recent highs.

Globally there is almost $40 trillion in US Dollar denominated debt in the world. Some $4 trillion of this is in the Emerging Market space. In this context, Emerging Markets are highly sensitive to the US Dollar because strength in the currency quickly leads to debt defaults.

With that in mind, I note that the Emerging Market ETF (EEM) has not reclaimed its previous highs established in May 2019. Instead, they are testing overhead resistance (red line in the chart below).


**This again suggests that the US Dollar is not rolling over based on Fed easing any time soon.**

Finally, I would note that the rally in Gold, while exciting because it broke the precious metal's long-term downtrend (blue line in the chart below), has failed to break overhead resistance (red line in the chart below).


**Given how sensitive Gold is to the US Dollar, this again suggests that we are not about to see the US Dollar drop hard based on the Fed easing.**

I know I'm beginning to sound like a broken record… but the markets are taking their sweet time when it comes to revealing the next major trend.

As I wrote three weeks ago, "*either we rally and move into a weak-$USD environment, or we crash NOW.*"

The problem is that we are getting conflicting signals on this.

The $USD, precious metals, and emerging markets are all suggesting strongly that we are entering a weak-$USD environment. But they can't quite confirm that this is the case.

Meanwhile, bonds and economically sensitive commodities such as oil, copper and lumber are all suggesting that the bottom has fallen out of the economy… and we're about to be hit by a deflationary tidal wave. But risk-assets don't care about this… yet.

I believe all of this confusion will be cleared up within two weeks.

I suspect that once we move past the G-20 meeting and it becomes clear that there will be NO deal between the US and China… that the markets will more clearly "show their hand."

This begs the question… "w*hat should an investor do right now?"*

The answer is: *"unless you're a short-term trader who thinks in terms of holding a position at most for a few days,* ***NOTHING****."*

The bulk of the "risk on" move in the financial markets is OVER… both for stocks and precious metals.

However, it's too early to go short on anything new… as we do not have a confirmed breakdown in the markets.

Conversely, it's too early to go long on anything new either… as those asset classes that are on a hot streak need to consolidate and work off some of their overbought status.

**Thus, the best thing to do is to wait. Let the markets show us what's to come. We can then take action with confidence, knowing that our capital is being applied with discipline.**

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 longer monthly issue of ***Private Wealth Advisory.***

In the meantime, 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%.**

We just closed a 25% gain this morning… on a trade we for five days.

**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 | $63.68 | -5% |
| Uranium ETF | URA | 1/17/18 | $14.93 | $12.25 | -18% |
| Emerging Markets ETF | EEM | 5/1/19 | $44.00 | $42.91 | -2% |
| European Financials ETF | EUFN | 5/1/19 | $19.62 | $18.01 | -8% |
| Short-Term Volatility ETF | VXX | 5/16/19 | $28.10 | $26.05 | -7% |
| Amazon | AMZN | 6/13/19 | $1,870.30 | $1,918.19 | 3% |

| Position | Symbol | Buy Date | Buy Price | Current Price | Total Return* |
|---|---|---|---|---|---|
| Long Treasury ETF | TLT | 6/27/18 | $120.24 | $132.89 | 13% |
| 1-3 Year Treasury ETF | SHY | 2/7/19 | $83.68 | $84.78 | 2% |
| 7-10 Year Treasury ETF | IEF | 3/21/19 | $105.66 | $109.99 | 5% |

## PRECIOUS METALS/ MINERS PORTFOLIO

| Position | Symbol | Buy Date | Buy Price | Current Price | Total Return* |
|---|---|---|---|---|---|
| Gold | | 3/17/10 | $1,120 | $1,392.00 | 24% |
| Silver | | 3/17/10 | $15.44 | $15.37 | -5% |

**Prices as of 6/20/19 at market's close.**
***Gains include dividends**

## BEAR MARKET PORTFOLIO (KEEP POSITIONS SMALL)

| Position | Symbol | Buy Date | Buy Price | Current Price | Total Return* |
|---|---|---|---|---|---|
| Japan ETF (SHORT) | EWJ | 1/3/19 | $51.08 | $55.00 | -8% |
| UltraShort Russell 2000 ETF | TWM | 1/3/19 | $18.24 | $14.87 | -18% |
| JP Morgan | JPM | 1/10/19 | $99.89 | $110.19 | -10% |
| Itay ETF (SHORT) | EWI | 2/7/19 | $25.71 | $27.51 | -7% |
| Netflix (SHORT) | NFLX | 3/7/19 | $352.60 | $365.21 | -4% |
| Wayfair (SHORT) | W | 5/23/19 | $144.01 | $153.42 | -7% |
| ServiceNow (SHORT) | NOW | 5/23/19 | $266.26 | $288.80 | -8% |
| Shopify (SHORT) | SHOP | 5/23/19 | $271.54 | $328.01 | -21% |
| UltraShort China ETF | FXP | 5/23/19 | $70.52 | $60.67 | -14% |

**Prices as of 6/20/19 at market's close.**
***Gains include dividends**