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Special Update
BREXIT

SPECIAL UPDATE: BREXIT

The UK voted to leave the EU yesterday.

There are several key implications here:

1) Polls, like most economic surveys, are no longer accurate.

2) The EU is finished.

3) The next Crisis has begun.

Regarding #1… leading into the vote, most polls showed "Remain" as the clear winner. However, the final count saw "Leave" pulling in 52% of the vote: a shock even for those in favor of leaving.

Why were the polls so inaccurate?

The last seven years (and even the last 30 if you want to trace it back far enough) have been a period in which the elites have scorned the Middle Class globally. This period has been dominated by two key features:

1) Central banks, run by out of touch academics with little if any real world experience, has dominated the global economy resulting in the greatest misallocation of capital in history.

2) Corporations have used Globalism to maximize profits at the expense of middle class jobs. This has boosted profits to record highs. Those profits will revert to the mean.

These two items have resulted in massive income inequality as asset bubbles benefit the extremely wealthy who can leverage up to acquire assets to profit from the boom. Meanwhile, manufacturing has been hollowed out as outsourcing eviscerated the Middle Class.

In short, the world has been run by globalist elites who favor big business, Central Planning, and cronyism.

Anyone who criticized these trends were mocked by the media and elites. If you pointed out the damage being done to the economy, you were a conspiracy theorist. If you questioned open borders/ immigration and outsourcing, you were labeled a racist.

Countless jobs were lost by people who refused to toe the party line.

I am not picking either side in this debate. I am merely outlining how we've reached the point at which polls (and economic surveys) no longer have any predictive power.

In this environment, it is not surprising that people no longer trust the media or government. If having the wrong opinion can mean losing your job, you're not likely to **want to publicly state a view that runs counter to the mainstream narrative**.

This is particularly true if you're being asked your opinion by a pollster or government official (in the case of economic surveys).

This is why polls and economic surveys no longer have any real predictive power. As I've outlined before, in the US, 50% of the population sees the Government as an *immediate* threat to their right and freedoms.

What are the odds these individuals are going to honestly state how they see the economy or various political ideas?

***THIS* is why the Brexit polls were so wrong. It's also why we can longer trust economic data that is based on household surveys.**

Regarding #2… the EU is finished.

As I am writing this, we are already off the lows as the Central Banks intervene aggressively in the markets. The S&P 500 is barely down to last week's lows as one of the largest economies in the world leaves the EU.

In this context, Italy, Spain, Greece, and any other country now have the upper hand in terms of future negotiations with Germany and the EU.

Prior to the Brexit, leaving the EU was always an "unknown" for any problem country. Humans fear most what is unknown. In this sense, Germany always had the negotiation trump card of threatening that leaving the EU would result in financial Armageddon.

Today we found out that this is not the case. Britain has a long road ahead of it, but the world didn't end. Psychologically, a major line has been crossed. And going forward, Spain, Italy and other EU members will have the increased leverage of knowing that one EU member has already left without bringing about the end of the world.

This will result in Spain, Italy, Greece and others pushing for debt forgiveness and other items. The question now is how long Germany will be able to hold the mess together. At some point, the defaults/ debt forgiveness/ restructuring, will trigger an implosion in the derivatives

markets for the EU banks.

Timing this is impossible. All I can tell you is that the fuse is lit.

Which brings me to point #3: the next crisis is here.

Stocks are terrible at discounting tectonic shifts such as the Brexit. However, the British Pound is telling us that a MAJOR crisis has begun.

The Pound has made a confirmed break of it 30-year trendline. This is a MAJOR issue for the financial system. This is NOT something that the PPT or Central banks can somehow sweep under the rug.

The most likely outcome for this is that the Euro implodes and the US Dollar begins its next leg up in a BIG way.

The Euro is on the ledge of a cliff. As the PIIGS and EU banks come back into focus, we're going to new lows.

The US Dollar is ready to move to 120.

This will occur over the coming months. The currency markets are TOO big for the Central banks to manage. The Fed's balance sheet (at over $4 trillion) is LESS than a single day's worth of currency trading volume.

The next crisis is here. This is the Bear Stearns moment. We're going to see a coordinated Central Bank intervention today and over the weekend, **but over the coming months the REAL meltdown will begin.**

We are positioned for this perfectly. The best thing to do is to sit and wait and watch. The short-term gyrations in the markets are irrelevant. The REAL fireworks have yet to begin.

Best Regards

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