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Weekly Market Update 7-8-20

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Weekly Market Update 7-8-20

I'm sending out this week's update a little early because I am increasingly worried that the stock market is ready for a pullback.

Stocks formed a breakout from a triangle formation (blue lines in the chart below) last week.



If you're unfamiliar with this concept, breakouts occur when an asset *breaks* above or below a particular line of importance (resistance or support). In the case of last week's breakout, stocks broke above resistance (the top blue line in the triangle).

Now there are two types of breakouts: confirmed and false.

A confirmed breakout occurs when an asset breaks above or below a line of significance and is able to *stay there*. When this happens, it signals that the market has made a significant change.

By way of contrast, a *false* breakout occurs when an asset breaks above or below a line of significance and is *UNABLE* to stay there. When this happens, the asset typically reverses hard and then moves violently in the opposite direction.

I am increasingly concerned that the breakout stocks staged last week is a *false* breakout. First and foremost, stocks ran into overhead resistance (red line in the chart below) and



immediately began to roll over. If this breakout was a confirmed breakout, I would have expected stocks to break above that line with little difficulty.



Indeed, the S&P 500 is currently struggling at 3,184 (red circle in the chart below), which is well below the recent high of 3233 (blue circle in the chart below). Again, stocks are struggling to break to new highs and this suggests the breakout might NOT be the real deal.





So, what comes next?

If this is indeed a false breakout, stocks should roll over and fall soon. In terms of specific levels, we could easily see stocks drop to test 2,950 or even 2,880 on the S&P 500. That would mean an 8%-10% for the S&P 500.



I want to stress that stocks are not the only asset class suggesting a pullback is coming.

Long-term US Treasuries are considered a “risk off” asset class or “safe haven” in that investors typically flood into them whenever the stock market takes a dive. With that in mind, I want to note that the Long-Term Treasury ETF (TLT) has recently broken above its downtrend (blue line in the chart below) and is about to challenge major overhead resistance (red line in the chart below).



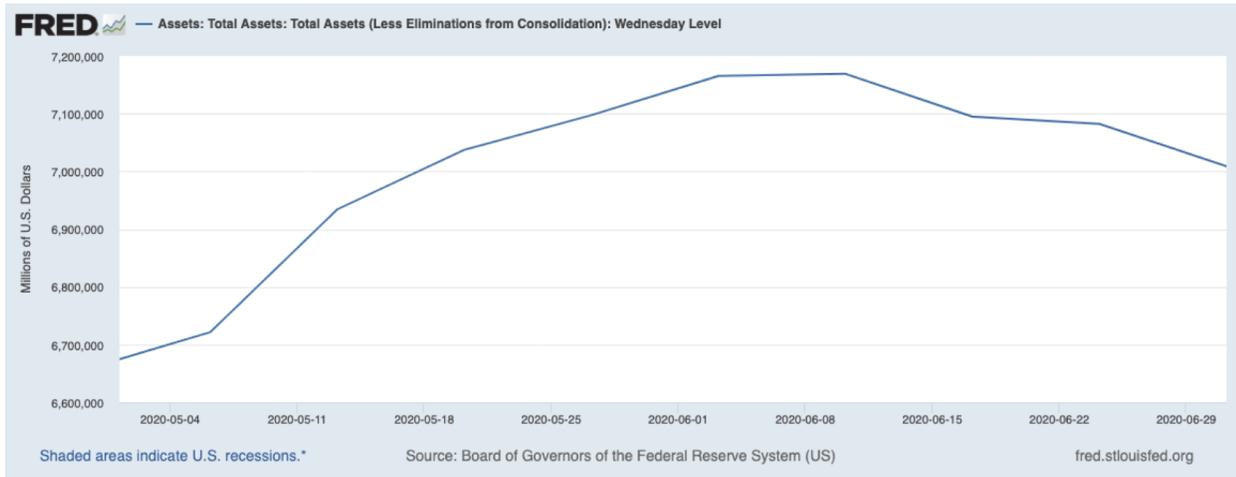
This is extremely bullish and suggests TLT might be about to explode higher. That would ONLY happen if stocks dropped hard.

Moreover, the ratio between the S&P 500 and TLT is stuck in a range. Indeed, using this ratio as a “risk on vs. risk off” metric, we’ve actually be in a “risk off” environment since early June.





This is not terribly surprising. The Fed's balance sheet has actually been shrinking since early June. You'll recall that the primary driver of the move in stocks has been the Fed's massive balance sheet expansion (\$3 trillion). The fact the Fed is now PULLING liquidity from whatever reason suggests stocks are on borrowed time.



On top of this, we get additional warning signs the Volatility Index (VIX).

The VIX represents the premium investors are willing to pay to protect their portfolios from a market drop. When the VIX rises, it means investors are increasingly jittery. When the VIX falls, it means investors are increasingly complacent.

You'll note that the VIX is forming a bullish falling wedge formation (blue lines in the chart below). This is the same chart formation it made going into early June before erupting higher as stocks fell 8% in the span of four days (red rectangle in the chart below).



So... we know a risk off move is coming soon. Stocks, bonds, and the VIX are all suggesting this will be the case.

So how do we profit from this?

First and foremost, we are going long the VIX. And we are doing this with the **Short-Term Volatility ETF (VXX)**.

VXX tracks the VIX. So, when the VIX spikes, VXX follows. As such it's a great way to profit



from increased volatility hitting the financial system.

Action to Take: Buy the Short-Term Volatility ETF (VXX).

We are also going to short Tech Stocks.

The NASDAQ ETF (QQQ) is at the very top of its rising channel.



I suspect we'll see QQQ fall to test the lower part of this channel shortly. And we're going to profit from this with the **UltraShort NASDAQ ETF (QID)**.

QID returns 2X the inverse of QQQ. So, if QQQ falls 5%, QID returns 10%. And if QQQ falls 10%, QID returns 20% and so on.

As such QID is a great way to bet on tech stocks falling with some extra "juice."

Action to Take: Buy the UltraShort NASDAQ ETF (QID).

In light of the expected pullback in stocks, we're closing out our position in US Steel (X).

X has been a laggard for several weeks now. We're down 25% here and I don't want this loss getting larger.



Action to Take: Sell US Steel (X).

Outside of stocks, precious metals have begun their next leg up.

Gold has definitively broken out of the trading range that has determined price action for the last three months.



During bull markets in gold, gold miners typically outperform the precious metal. For this reason I like to track the gold miners to gold ratio (GDX: \$GOLD).

When gold miners outperform gold, this ratio rises. When gold miners underperform gold this ratio falls.

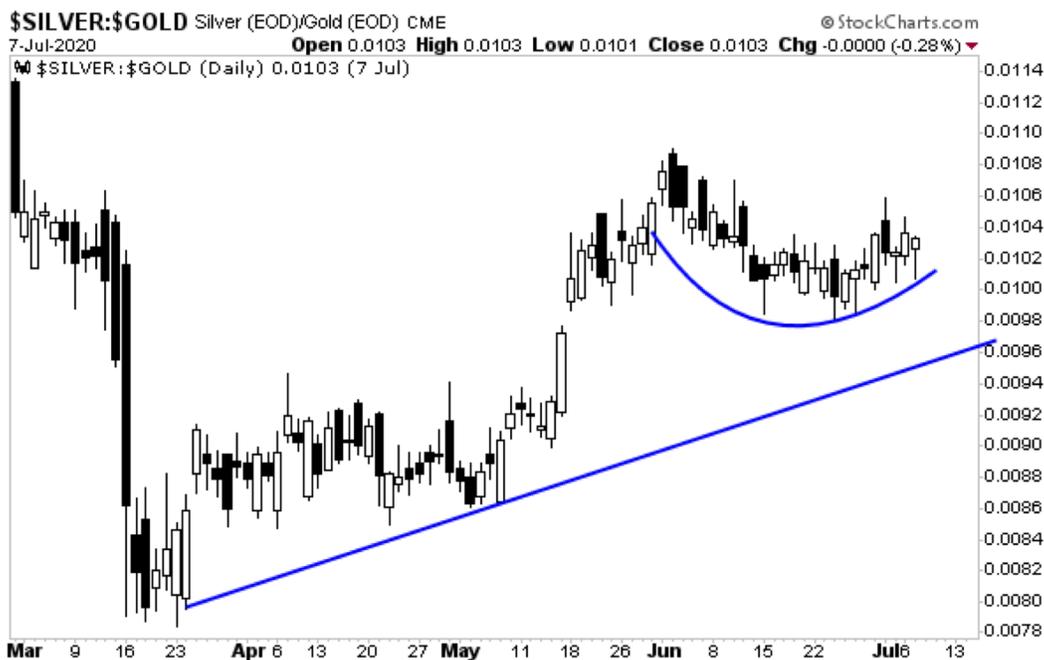
As you can see, the GDX: Gold ratio has a clear rounded bottom (blue line). Even better it has just broken above critical resistance (red line). This is **EXTREMELY** bullish.



Another key feature of bull markets in precious metals is that silver outperforms gold. With that in mind, I also like to track the silver to gold ratio (\$SILVER: \$GOLD).

When silver outperform gold, this ratio rises. When silver underperform gold this ratio falls.

As you can see, the \$SILVER: \$GOLD ratio has been in an uptrend since mid-March. It is also forming a rounded bottom. So, we're a little early here, but we should see an upwards breakout soon in which silver **DRAMATICALLY** outperforms gold.



We have broad exposure to both silver and gold through the following positions. All of them remain buys.

<u>Open Positions</u>	<u>Symbol</u>	<u>Buy Date</u>	<u>Buy Price</u>
Gold	GLD	8/23/19	\$148.28
Silver	SLV	8/23/19	\$14.87
Kirkland Lake	KL	2/23/20	\$41.79
Nemont Mining	NEM	3/26/20	\$64.50
Barrick Gold	GOLD	3/26/20	\$28.15
Silver Miners	SIL	6/30/20	\$36.80
Silver Mining Juniors	SILJ	6/30/20	\$11.90
K92 Mining	KNT.V	6/30/20	\$3.92
American Gold and Silver Corp	USA.TO	6/30/20	\$3.58
Gold Miners ETF	GDX	6/30/20	\$36.30
Gold Mining Juniors ETF	GDXJ	6/30/20	\$49.30

This concludes this week's market update. The theme here again is that stocks are due for a pullback while precious metals are prepared for their next leg up.

I'm watching the markets close



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*
NexGen Energy	NXE	4/23/20	\$1.33	\$1.47	11%
Russia ETF	RSX	6/2/20	\$21.32	\$21.38	0%
Schlumberger	SLB	6/4/20	\$20.32	\$18.18	-11%
Kinder Morgan	KMI	6/4/20	\$16.10	\$14.66	-9%
Delta Airlines	DAL	6/4/20	\$31.97	\$26.59	-17%
Alcoa	AA	6/18/20	\$11.68	\$11.07	-5%
Slack Technologies	WORK	6/18/20	\$34.13	\$32.59	-5%
UltraShort QQQ	QID	7/8/20	\$11.72	NEW	BUY!
Short Term Volatility ETF	VXX	7/8/20	\$32.87	NEW	BUY!

OPEN POSITIONS: PRECIOUS METALS

Position	Symbol	Buy Date	Buy Price	Current Price	Total Return*
Gold	GLD	8/23/19	\$148.28	\$170.29	15%
Silver	SLV	8/23/19	\$14.87	\$17.40	17%
Kirkland Lake	KL	2/23/20	\$41.79	\$46.51	11%
Nemont Mining	NEM	3/26/20	\$64.50	\$63.62	-1%
Barrick Gold	GOLD	3/26/20	\$28.15	\$27.66	-2%
Silver Miners	SIL	6/30/20	\$36.80	\$39.11	6%
Silver Mining Juniors	SILJ	6/30/20	\$11.90	\$12.80	8%
K92 Mining	KNT.V	6/30/20	\$3.92	\$4.76	21%
American Gold & Silver C	USA.TO	6/30/20	\$3.58	\$3.50	-2%
Gold Miners ETF	GDX	6/30/20	\$36.30	\$38.84	7%
Gold Mining Juniors ETF	GDXJ	6/30/20	\$49.30	\$53.51	9%

Prices as of 7/8/20 at the 11:15 PM.



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 & Silver	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%
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%



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>
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 (HALF)	TTD	6/16/20	\$377.75	7/2/20	\$446.39	18%
Square (HALF)	SQ	6/16/20	\$93.07	7/2/20	\$115.73	24%
DocuSign (HALF)	DOCU	6/25/20	\$169.48	7/2/20	\$194.27	15%
Trade Desk (Other Half)	TTD	6/16/20	\$377.75	7/6/20	\$462.43	22%
Square (Other Half)	SQ	6/16/20	\$93.07	7/6/20	\$126.20	36%
DocuSign (Other Half)	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%
US Steel	X	6/4/20	\$9.17	7/8/20	\$6.75	-26%