Private Wealth Advisory

Investment Research That Converts

Weekly Market Update: 8/4/16

The markets reacted today to the Bank of England (BoE) cutting interest rates for the first time since 2009. The BoE also relaunched its QE program to 60 billion pounds per month.

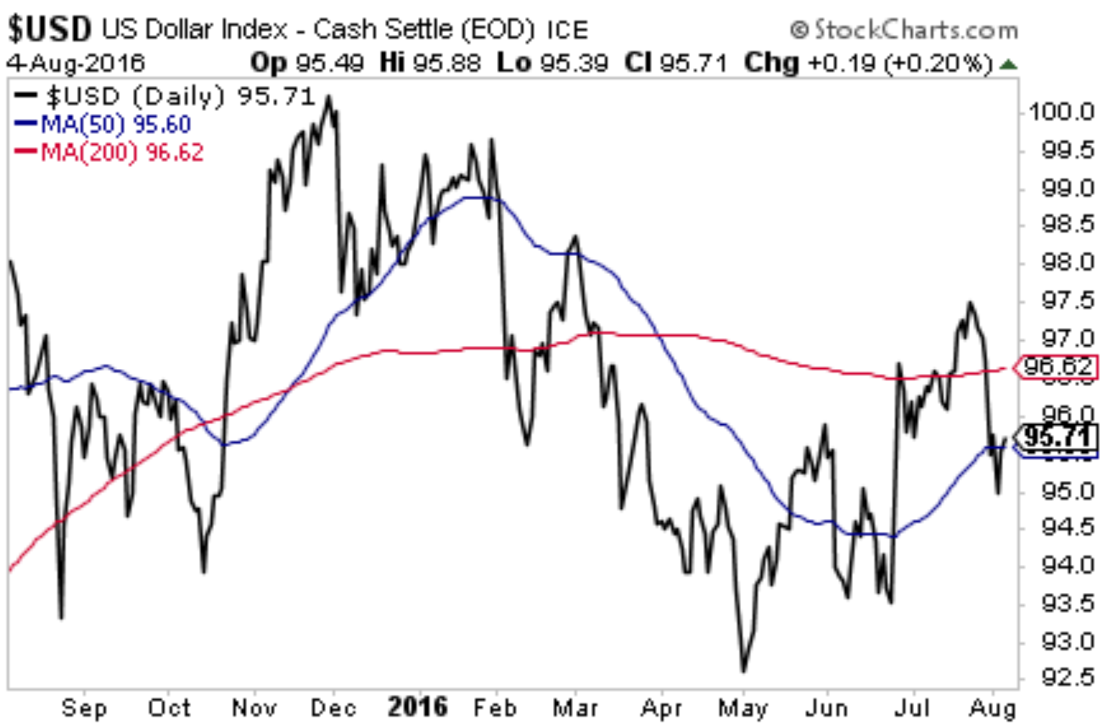
The immediate impact of this is the push the pound lower...

Why the BoE did this is beyond me. The Pound had already hit a 30-year low due to the Brexit. And there is ample evidence that QE is losing any impact it might have (more on this shortly).

On top of this, pushing the Pound lower is $USD positive.

As I write this, the $USD is at support, having nosedived in the wake of Japan's underwhelming stimulus which pushed the Yen pushed higher, collapsing the $USD.

Current levels coincide with the 50-DMA. If we hold here and rally again, we'll be approaching a bullish cross over (when the 50-DMA breaks above the 200-DMA) soon.



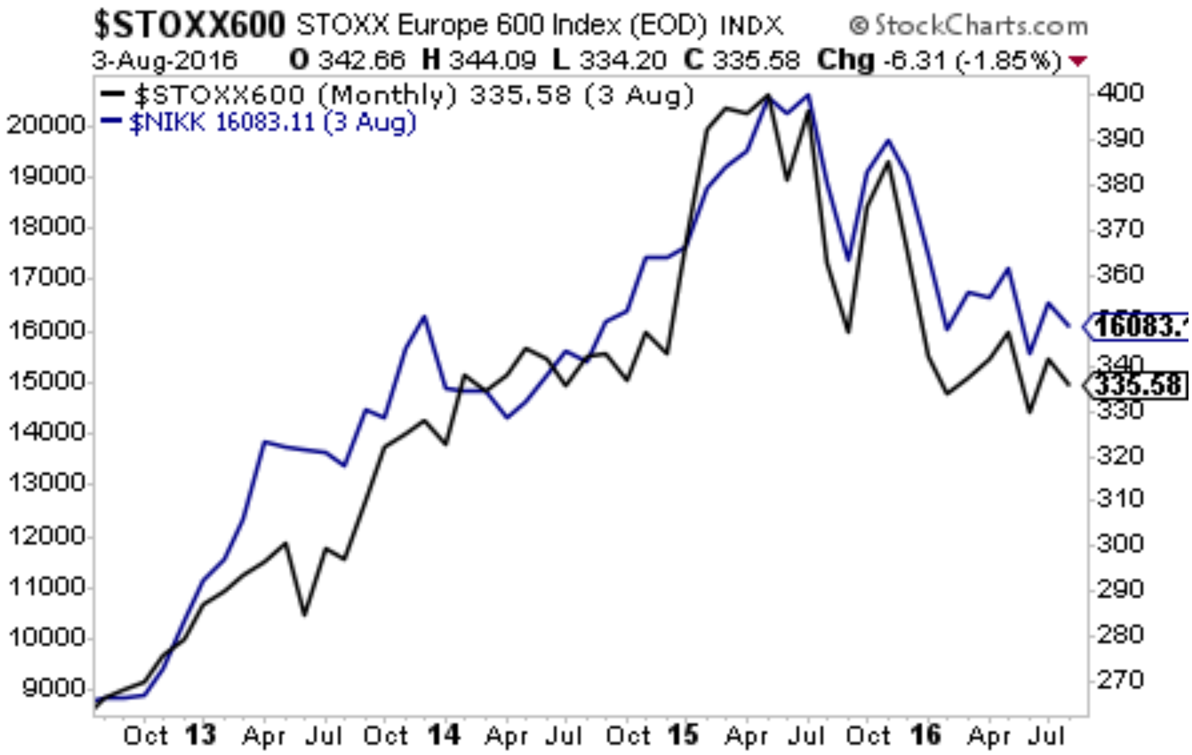
So… we now have the Bank of Japan (BoJ), the European Central Bank (ECB), and the Bank of England (BoE), all engaged in QE to the tune of roughly $200 billion per month.

This represents the single largest monthly spend of QE in the history of the markets. Even in the wake of the 2008 crisis, Central Banks were never spending this much money every month to prop up the markets.

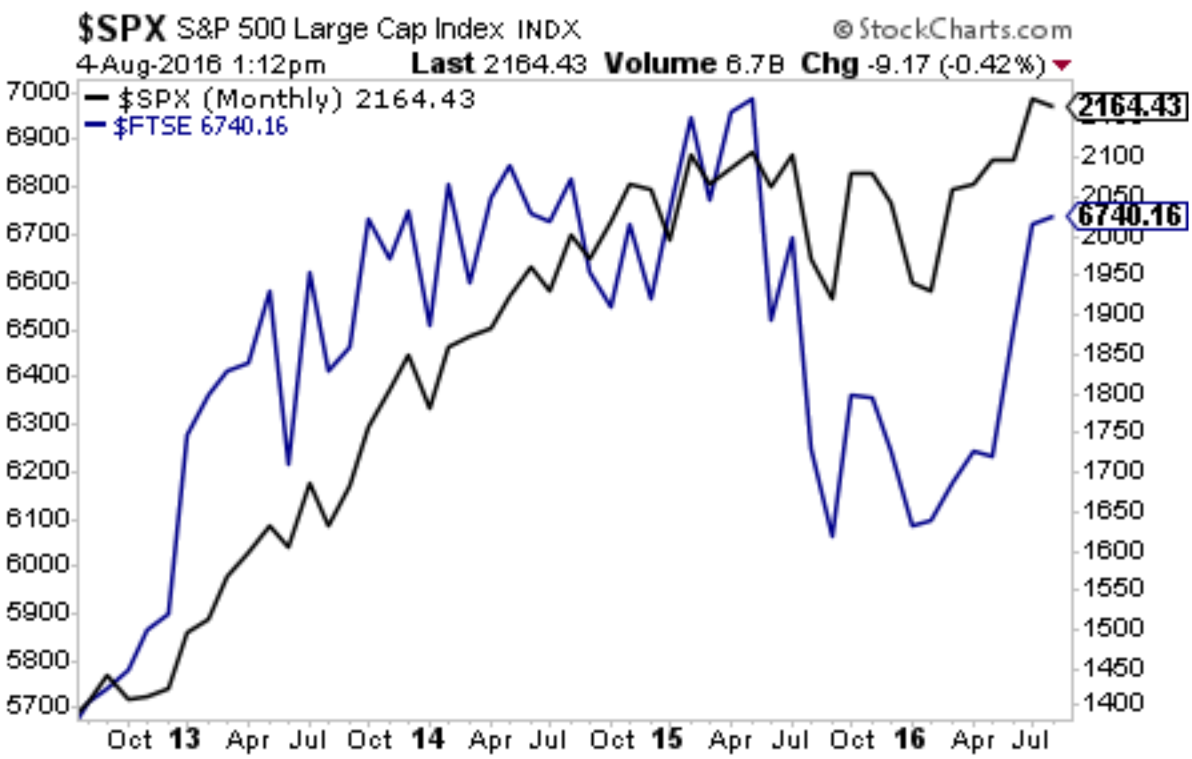
The fact that most global stocks continue to lag only proves that Central Banks are out of ammunition. China, Japan, Europe, and Germany's stock markets all peaked in 2015 and remain well below their bull market highs.

Indeed, we get a clear picture of just how futile QE has become from the Nikkei and Stoxx Europe 600: the two only markets in which there are active QE programs underway (the BoE just joined today).

If QE was the answer to a weak economy and weak stock market, the Nikkei and Stoxx Europe 600 should be hitting new highs. Instead they've been underperforming.



Indeed, the Nikkei is 13% off its highs while the Stoxx Europe 600 is 17% off its highs. In contrast, the only two markets that have been performing well have been the US and England… both of which were NOT engaged in QE (until the latter launched a QE program today).



One wonders just what the BoE was thinking launching QE at this point. Anyone could look at the economies of the US, EU, and Japan in the wake of their respective QE programs and tell that QE doesn't generate growth.

Moreover, as I mentioned before the British Pound was already at a 30-year low… so it's not clear why the BoE needed to devalue the currency more.

To me, this move reeks of desperation. I believe that collectively Central Banks are beginning to realize that they are effectively out of ammo. The push for Helicopter Money (fiscal, instead of monetary stimulus) coincides with this. Central Banks are effectively saying "we've done all we can do… it's now the politicians' responsibility to fix this mess."

In the very short-term, the S&P 500 is sharply overbought and needs to correct. I expect we'll get a pull back to at last 2,125 in the near future to retest former resistance.

The recent bounce notwithstanding, Credit suggests the S&P 500 should be at 2,120.

Oil suggests we should be sub-2,100.

I’m sure many of you are wondering why stocks have yet to dive. The simplest explanation is that hedge funds have been performing terribly in the first half of 2016 and so have been buying any and every dip aggressively. This was particularly true last week as we entered the usual window of time for performance gaming (gunning the market higher to end the month with the best possible results).

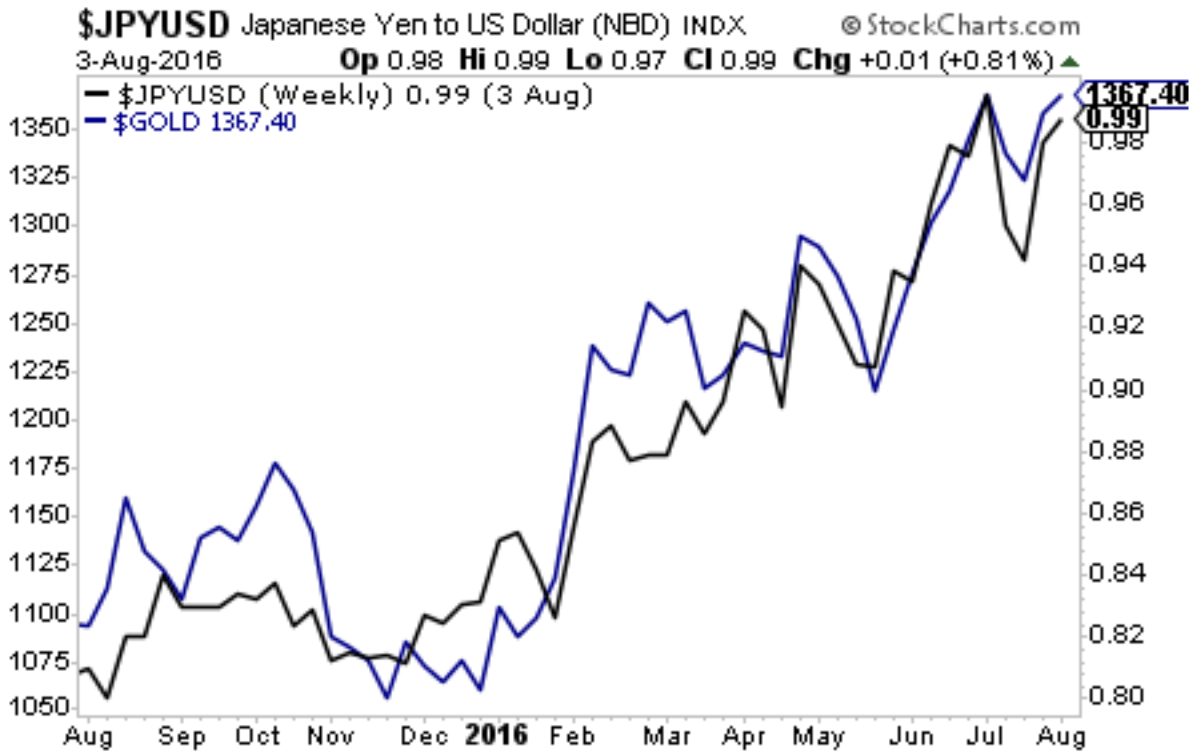
However, now that end of the month gaming and start of the month buying allocations are over, stocks should weaken considerably. Whether it takes a few days or a month, the S&P 500 should hit 2,100 if not lower.

At that point the question will be, will 2,100 hold or will this breakout prove to be another false breakout similar to the one that hit briefly after the Brexit.

I can sympathize with anyone who is getting tired of this market. The last two weeks the stocks have gone absolutely nowhere, trading in a range of 20 points (about 1%) on the S&P 500. Even the brief breakdown out of this range from earlier this week reverse to bring us back into the trading range again!

I continue to maintain my central thesis of the last few months, that as long as the $USD holds up, there is a ceiling over risk assets.

One area that is getting more and more compelling is precious metals. However, at this point Gold is basically a proxy for the JPY/ $USD pair.



As long as the $US continues to hold up, particularly relative to the Yen, I believe Gold and Silver are susceptible to a sharp correction.

Ultimately it all boils down to the $USD. If the $USD holds and continues to strengthen, then Gold, Silver, Emerging Markets and commodities will collapse. But if the $USD collapses and breaks support, this risk-on rally has legs.

Summer markets can be insufferable. This current environment is no different. Everything remains in tight ranges, like a spring, waiting for a big move. But that move has yet to hit. We are in a financial "no man's land."

This concludes this week's market update for ***Private Wealth Advisory***. As I mentioned last month, we need to be patient. Something big is developing in the markets, but it is taking its sweet time to unfold.

I apologize for the change in format in this weekly market update. Our graphic designer is ill and I am formatting this myself.

Best Regards,

Graham Summers
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Phoenix Capital Research

US Dollar Carry Trade Implosion	Symbol	Buy Date	Buy Price	Current Price	Gain/ Loss
Ultra Bullish Dollar ETF	UUP	5/23/11	$21.79	$24.75	**14%**
UltraShort Euro	EUO	4/10/15	$27.68	$24.17	**-13%**
UltraShort Yen ETF	YCS	5/27/15	$94.48	$60.55	**-36%**

US OUTPERFORMANCE	Symbol	Buy Date	Buy Price	Current Price	Gain/ Loss
Nuveen Enhanced Free Muni Credit Fund	NVG	1/2/14	$13.12	$16.38	**42%**
Wal-Mart	WMT	7/30/14	$74.78	$73.30	**3%**
Exxon	XOM	9/24/14	$95.82	$87.48	**-3%**
ProShares Ultra 7-10 Year Treasury	UST	11/26/14	$55.54	$64.33	**18%**
20+ Year Treasury ETF	TLT	7/15/15	$116.89	$139.45	**22%**
RPX Corp	RPXC	8/5/15	$15.48	$10.88	**-30%**
Apple	AAPL	9/11/15	$114.21	$105.87	**-6%**

INFLATION	Symbol	Buy Date	Buy Price	Current Price	Gain/ Loss
Gold		3/17/10	$1,120	$1,367.00	**22%**
Silver		3/17/10	$16.23	$20.38	**26%**
Uranium ETF	URA	6/8/16	$15.49	$13.74	**-11%**

RETAIL MELTDOWN	Symbol	Buy Date	Buy Price	Current Price	Gain/ Loss
Amazon (SHORT)	AMZN	2/25/15	$484.19	$760.77	**-57%**
American Eagle Outfitters (SHORT)	AEO	5/26/16	$15.36	$18.24	**-19%**

MARKET HEDGE	Symbol	Buy Date	Buy Price	Current Price	Gain/ Loss
UltraShort Nikkei ETF	EWV	1/6/15	$67.46	$44.52	**-34%**
UltraShort Emerging Market ETF	EEV	1/20/16	$24.03	$16.47	**-31%**
UltraShort China ETF	FXP	1/20/16	$59.95	$35.79	**-40%**
UltraShort Brazil ETF	BZQ	1/20/16	$74.40	$20.79	**-72%**
UltraShort Financials	SKF	2/10/16	$56.82	$41.52	**-27%**
UltraShort Russell 2000	TWM	2/10/16	$47.92	$31.12	**-35%**
UltraShort Gold ETF	GLL	5/26/16	$82.75	$65.76	**-21%**
UltraShort Silver ETF	ZSL	7/20/16	$29.20	$26.01	**-11%**
UltraShort S&P 500 ETF	SDS	7/27/16	$16.60	$16.66	**0%**

EU BANK COLLAPSE	Symbol	Buy Date	Buy Price	Current Price	Gain/ Loss
European Financials ETF	EUFN	7/5/16	$14.86	$16.08	**-8%**
Credit Suisses	CS	7/5/16	$10.30	$11.03	**-7%**
Deutsche Bank (SHORT)	DB	7/5/16	$14.18	$12.70	**10%**
Santander (SHORT)	SAN	2/3/16	$4.13	$4.02	**3%**
Barclays (SHORT)	BCS	7/5/16	$7.92	$7.96	**-1%**