PRIVATE WEALTH ADVISORY
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Weekly Market Update: 10/7/15

Dear Subscribers

In the last week, stocks rallied hard for two reasons:

1) Clear intervention on the part of "someone" (likely the Fed through intermediaries).

2) China's stock market being closed for the National Holiday (it closed on Thursday October 1).

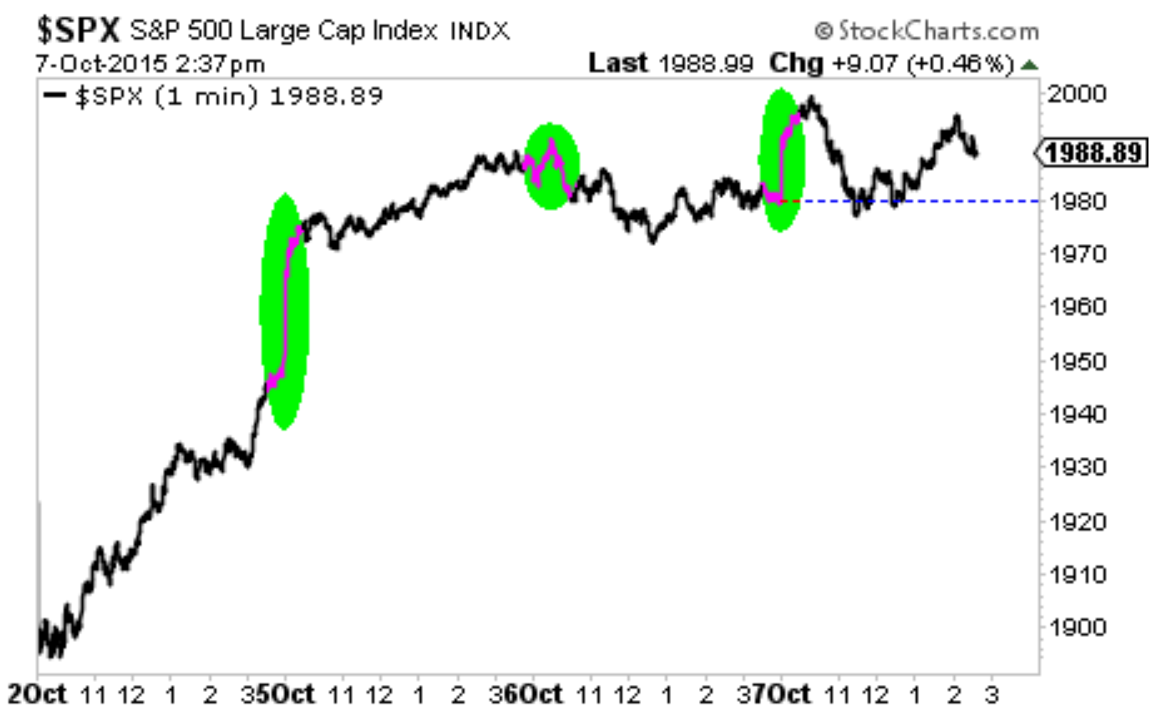
Regarding #1, REAL buyers of stocks do not purchase massive amounts of equities indiscriminately at the market's open. Any trader can tell you, large buyers of stocks buy in chunks over a period of time to insure the price doesn't rise.

In contrast, Central Bank manipulation involves indiscriminant buying because there is no consideration for value or price. The goal here is not to invest, but to drive stocks higher by any means possible.

The telltale sign of manipulation is the timing. The futures markets are thinnest between 2AM (when the Nikkei closes) and 3AM (when Europe opens). It is not coincidence that the market often rallies sharply during this time.

Below is a chart of last night's futures session. As you can see, the markets generally traded sideways until 2AM-4AM at which point they suddenly went vertical on no news. Once Europe opened, they began to trade sideways again, but by then the manipulation had been accomplished and the S&P 500 was set to open higher.

This pattern has played out every day during this recent rally: the futures market suddenly jumped higher around 2 AM, leading to the S&P 500 opening higher in the morning.



You can tell this is manipulation because stocks usually consolidate or drop shortly after the S&P 500's open: a clear sign that there are few if any REAL buyers buying at these levels. If REAL investors were putting in REAL buy orders, there would be follow through after the market's open.

Regarding #2, China's economic downturn and stock market crash have had a profoundly negative effect on the US markets. Once China's bubble burst back in May 2015, the S&P 500 peaked sooner after before collapsing over 10% in a matter of days.

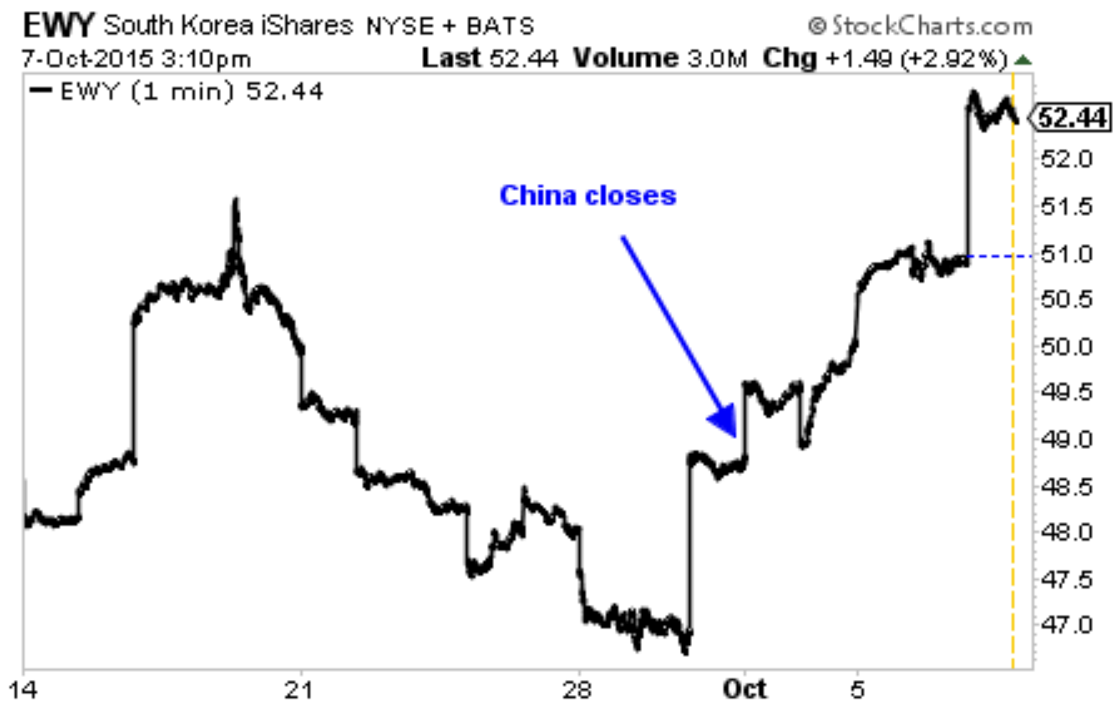
With that in mind, it is interesting to note that this recent stock market rally occurred the moment the Chinese stock market closed for its National Holiday.

The move has been most aggressive in Asian markets that have been most adversely affected by the China meltdown.

Here's Malaysia:

Singapore:

South Korea:

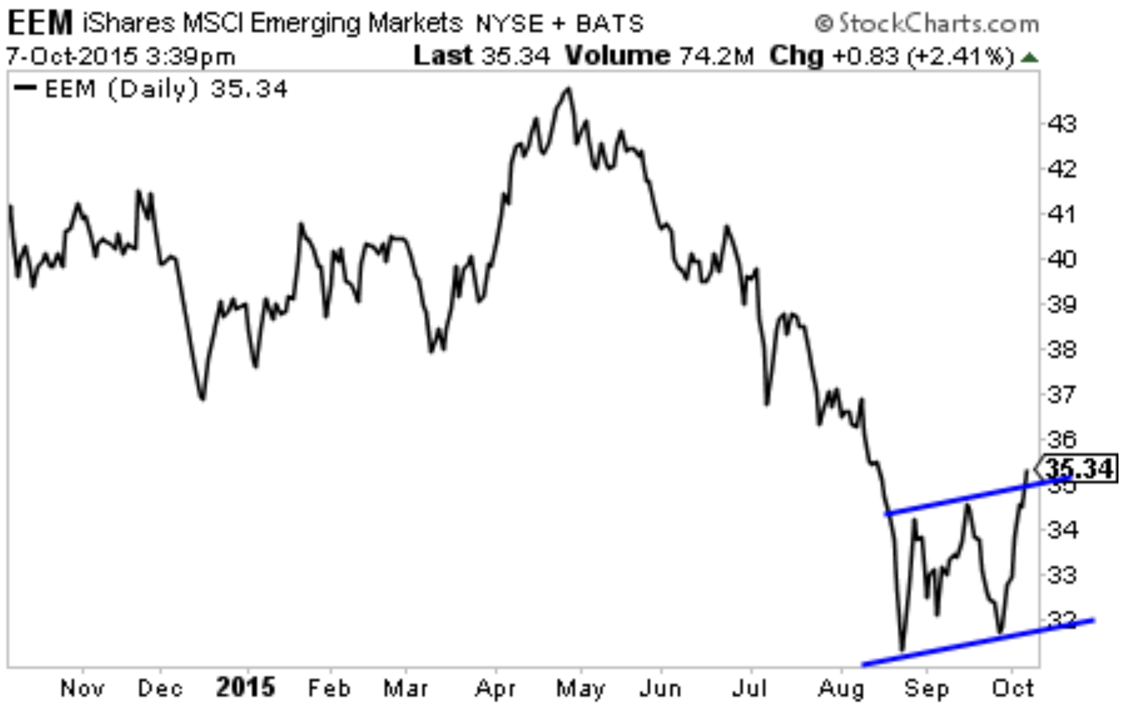


Thailand:

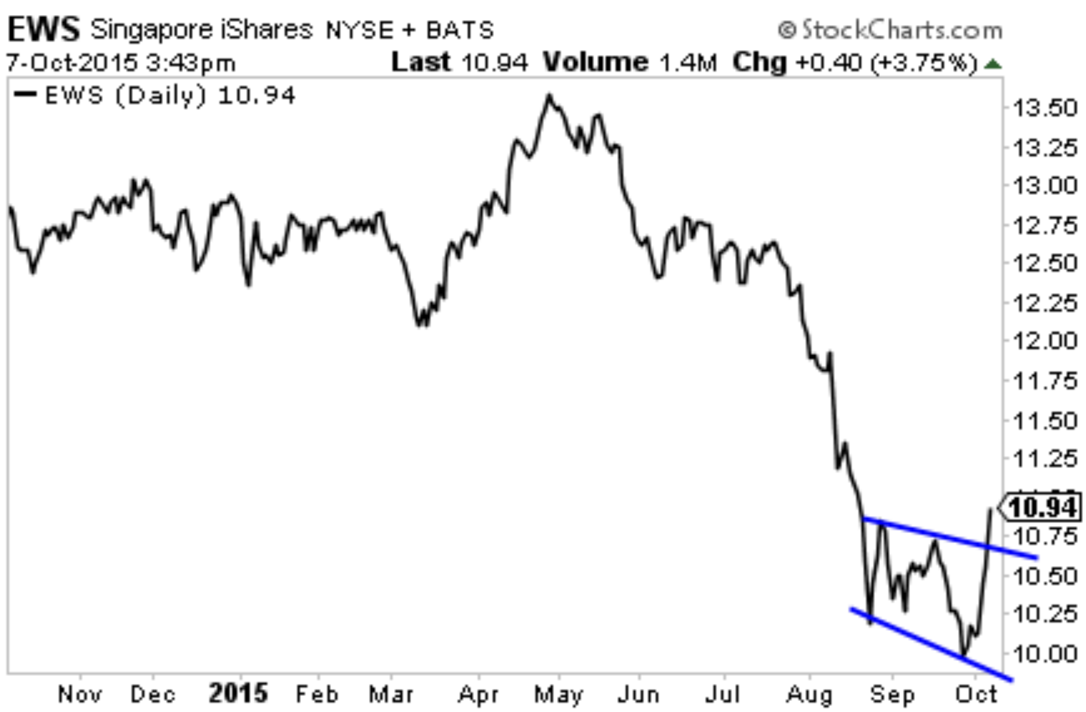
We're talking about 10%+ moves across the board in less than four days' time. These are NOT normal market moves.

Having said that, the bounce has resulted in several markets experiencing brief breakout from the consolidation patterns of the last month.

Here's the Emerging Market complex as a whole:



Singapore:



Malaysia:

I can't help feeling that these are "false breakouts."

A false breakout occurs when you have a breakout from a consolidation pattern with no follow through. If the move is sustained, then it's the real thing. But if the move is short-lived, and the market reverses… then **it's called a "false breakout."**

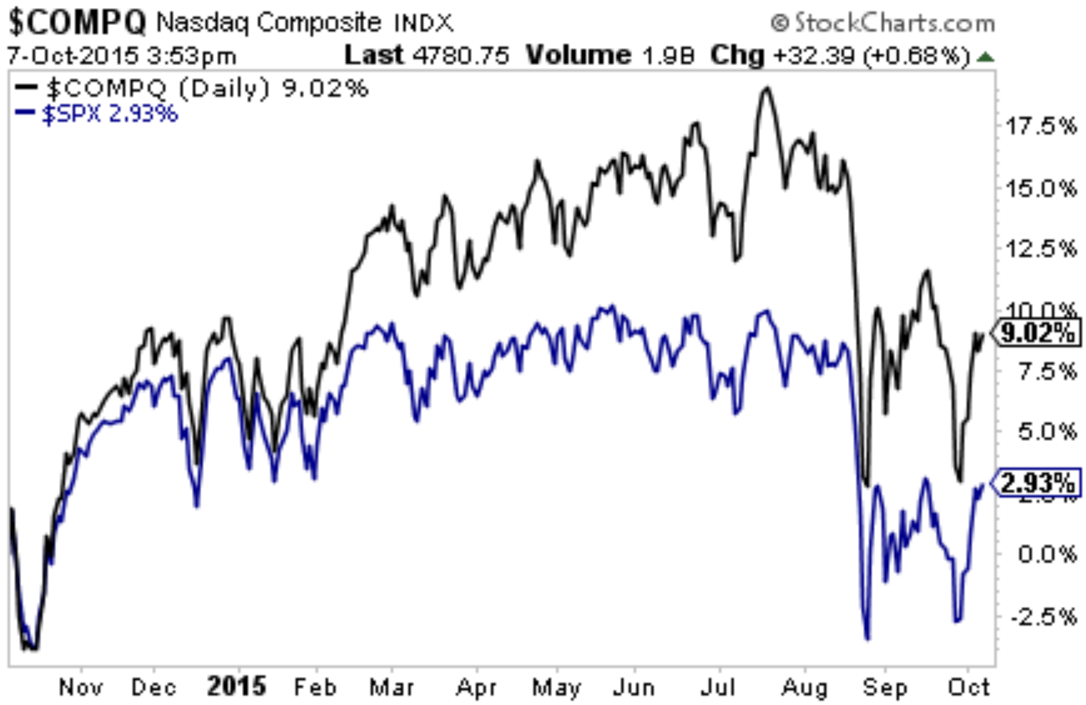
False breakouts matter a lot because typically they are followed by VERY rapid VERY violent moves. The reason for this is that the investors who took bets on the initial consolidation pattern resolving a particular way quickly discover they are wrong and rush to the exits.

Given that the above breakouts occurred on low volume with little follow through during a period in which the single most negative factor in the markets (china's collapse) is closed, **<u>I can't help feeling that all of these developments are simply "false breakouts" that will quickly reverse when China opens tomorrow.</u>**

For now we'll have to watch and wait. But something tells me the last four days are not indicative of an actual rally beginning.

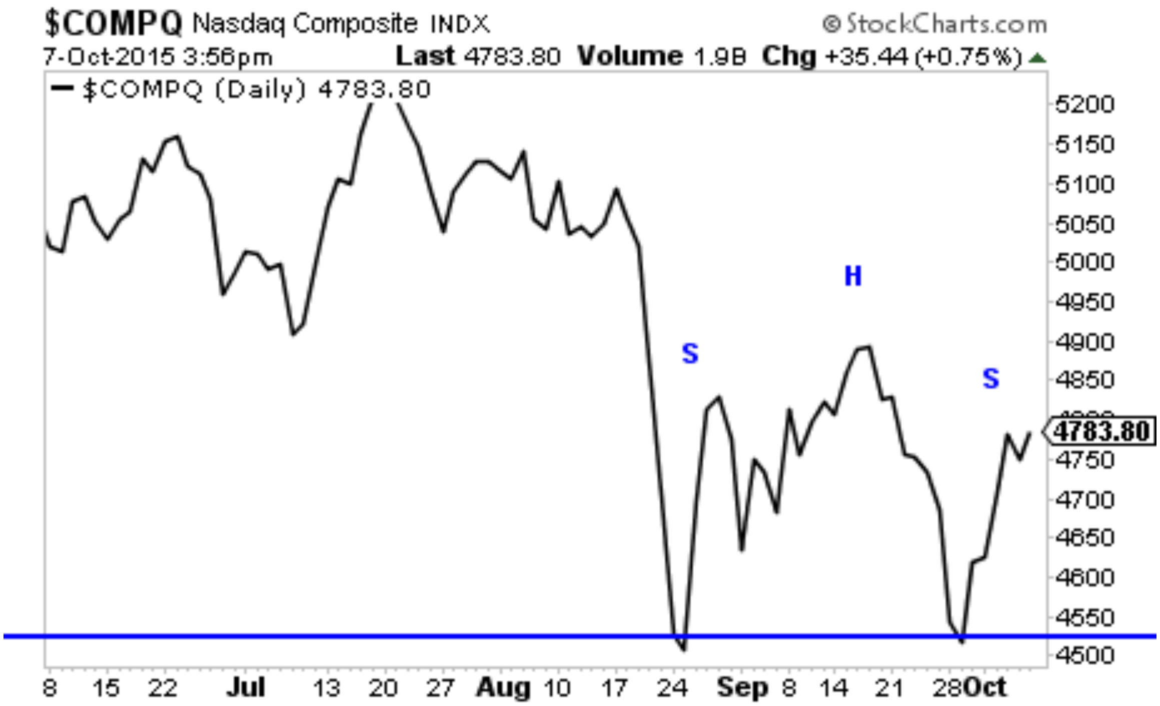
Let's move on to the US.

The leader for the US markets over the last year has been the NASDAQ, which is up 9% compared to the S&P 500's ~3% return over the same time period.

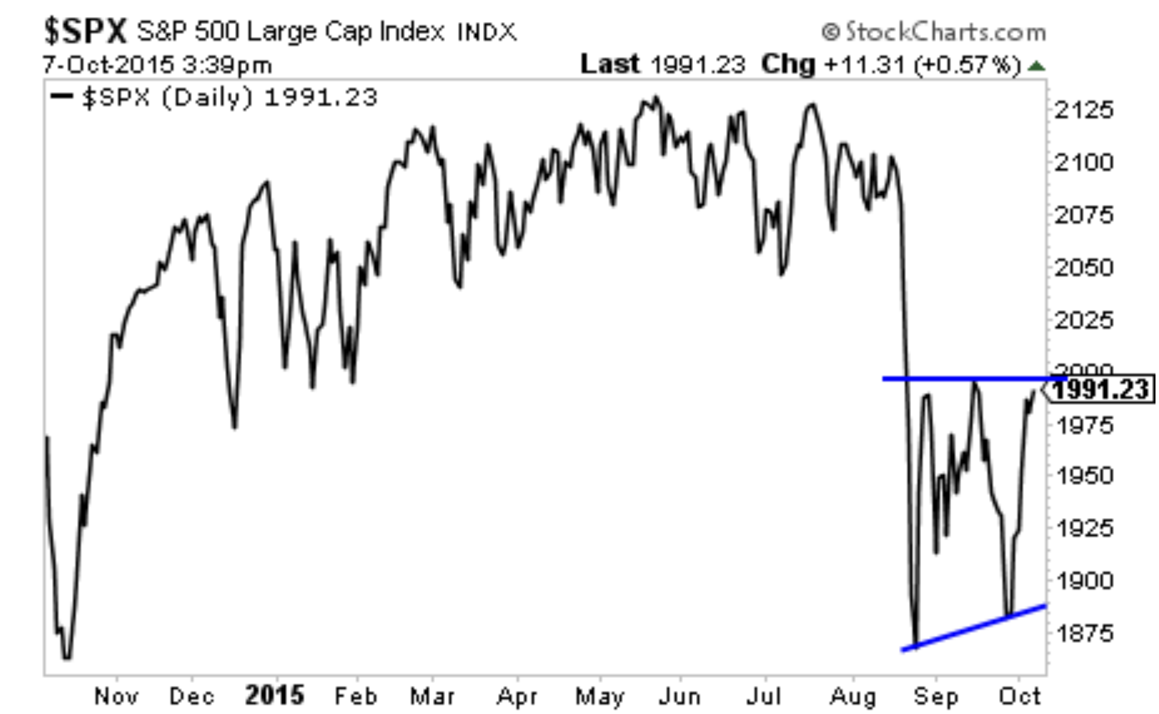


With that in mind, the NASDAQ index is stuck beneath key resistance despite the sharp rally of the last few days. This doesn't seem to indicate we're starting a new bull run.

If we're at the beginning of a new rally for stocks, we NEED to break above this without difficulty. So far that has not been in the case. Indeed, we might be forming a Head and Shoulders top here:

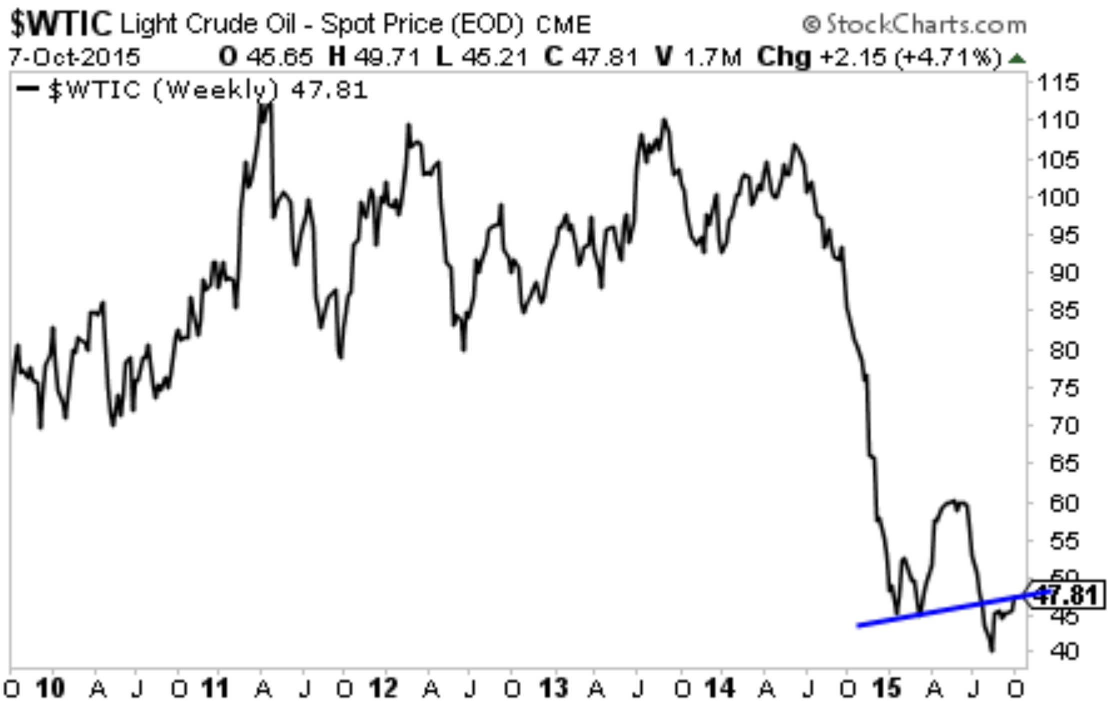


Here's the S&P 500: again, the same story… a sharp rally but we've yet to take out resistance.



In short, I don't trust the market action since Thursday of last week. It's too early to make a definitive call, but the odds favor this being a false breakout or dead cat bounce.

Consider that Oil has yet to clear even its first line of resistance. If this recent bounce in "risk assets" was due to an uptick in economic activity or some of fundamental quality, Oil should be bouncing harder. Instead, it hasn't even broken above initial resistance!



Elsewhere in the markets, Silver has begun to poke its head above resistance. I had thought we'd be breaking down to sub-$14 before the next leg up begins. Depending on how this breakout develops it might be time to buy. It's too early for now, but I'm keeping this on my radar.

Finally, I wanted to take a moment to address Japan.

The data coming out of Japan in the last few weeks has been truly awful. The country's GDP shrank at an annualized pace of 1.2% in 2Q15. Since that time, Japan has posted two consecutive months of Year over Year declines in industrial production: first a 0.6% decline in July, then a 0.5% decline in August.

Industry comprises over 25% of Japanese GDP. Based on the above declines in industrial production, Japan is once again in a technical recession (its second in as many years).

This paves the way for a new round of QQE from the Bank of Japan. The BoJ failed to act this month, I expect we'll see more QQE there in the coming months as Japan's economy weakens. Again, something to keep on our radars.

This concludes this Weekly Market Update. I'm watching the markets closely and will issue updates as needed. Barring any new developments, you'll next hear from me next week in our regular weekly market update of ***Private Wealth Advisory.***

Until then…

Best Regards

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