



# PRIVATE WEALTH ADVISORY

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## Market Update: 3-11-15

A tectonic shift is taking place in the markets.

For most of the last six years, there has been a massive divergence between financial markets and the global economy.

The reason for this has to do with the transmission system of the QE programs. Under QE, Central banks bought financial assets from the large banks. The banks then took this excess liquidity and expanded their derivatives trades and other financial securities.

As a result, very little, if any, of that \$11 trillion actual entered the real economy. Instead it was funneled into the financial markets, blowing bubbles in every asset class on the planet (commodities, stocks, bonds, etc.).

Put another way, there is a reason that the last six years have not felt like a recovery: because it wasn't, at least not by any historical definition of the term. When you strip out accounting gimmicks, REAL data shows that GDP has been flat-lining **at least since 2010.**

The question thus became, when would the excessive leverage in the financial markets peak out and asset prices began to reflect the ugly underlying economic realities?

That process has officially begun. **Financial markets are now entering a phase of price discovery in which they fall to levels more closely aligned with actual economic growth.**

The results have not been pretty. Take a look at the following charts:

Oil... the breakdown has brought us to THE trendline that goes back to the beginning of the bull market in 1999:



Many analysts seem to think that Oil 's drop was an isolated incident for the financial markets. While the collapse has been aggressive, when you look at other commodities associated with the real economy, it is immediately apparent that Oil was just playing "catch up."

Take a look at the industrial metals as a whole: they peaked out in early 2011!!!



The same goes for coal. Globally, coal accounts for 40% of global electrical needs. It took out its bull market trendline **back in 2012!**



These charts, tell us, point blank that the financial markets have been operating under delusions far in excess of actual economic growth . **They also tell us that the bubbles are bursting.**

One economically-sensitive commodity that is due for a collapse is Copper:

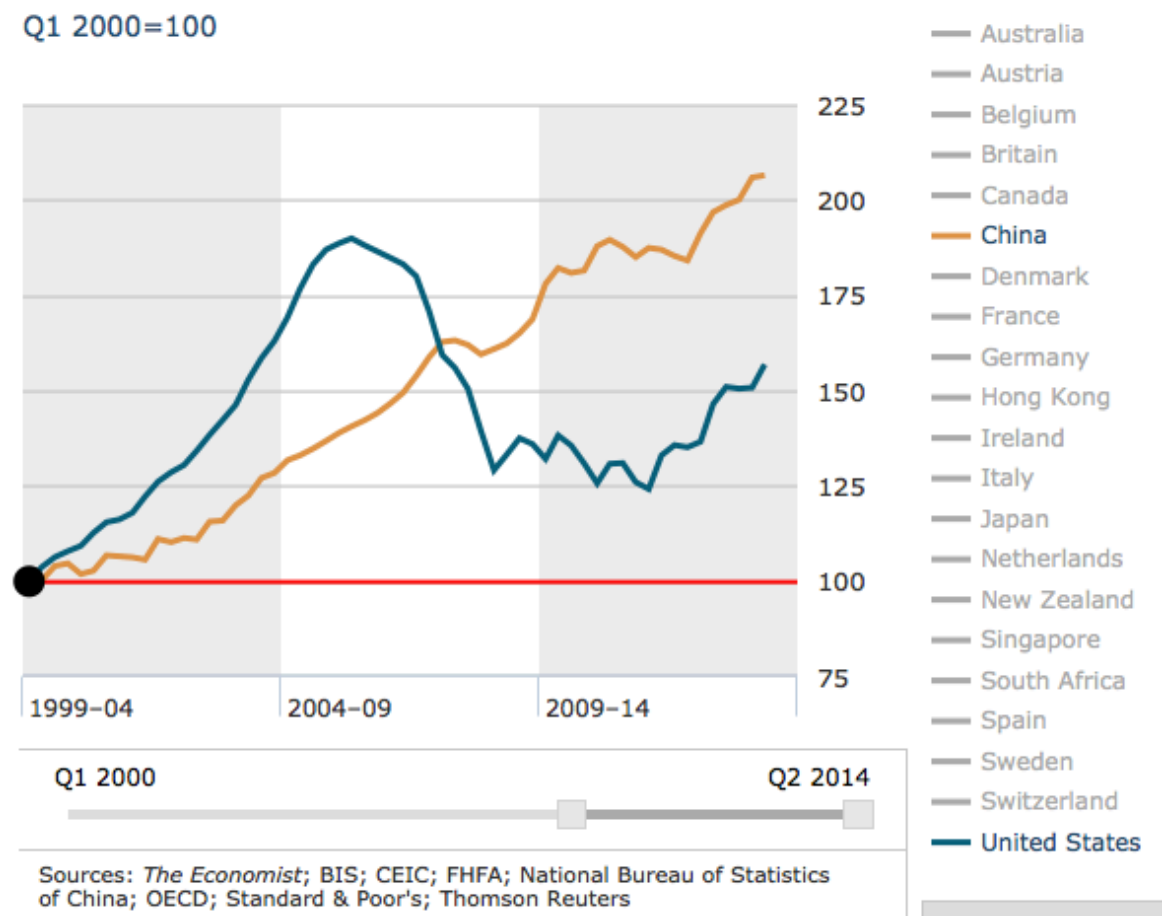


We've just staged a dead cat bounce off of support. But I expect we're going to \$2.00 here in the next six months.

**Action to Take: SHORT the Copper ETF (JJC).**

As I've previously noted, a severe slowdown in China's economy is a black swan just waiting to land. China's rail traffic and retail sales to Hong Kong are both at levels not seen since the Asia Financial Crisis... and yet we are to believe that the Chinese economy is growing at 7%?

China is the biggest ponzi debt bubble relative to its real economy in the fiat world today. Its credit markets has risen from **100% of GDP to 250% of GDP in the last eight years alone**. And the Chinese real housing prices are up over 200%. To put this into perspective, when the US's house prices rose over 175%, it was **the single largest housing bubble in US history!**



The Chinese housing bubble is now bursting. Home prices fell over 4% in December 2014 alone (e.g. a \$600,000 home would fall in value \$576,000 **in 30 days**). And the creation of new land space (for building new projects) has fallen by a whopping 30% since November.

China's stock market is primed for a similar collapse. I think we're going to at least 35 if not 30 on the China ETF (FXI).



**Action to Take: Buy the UltraShort China ETF (FXP).**

I continue to watch the markets, closely. Barring any new developments you'll hear from me next week in our weekly market update.

Until then...

Best Regards

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