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# Market Update: 4-25-15

I wanted to post an update on our Short Portfolio.

Timing the end of a bull market/ major market top is an extremely tedious process. Manias, by their very nature, are completely irrational. And you never get it right on the button.

For this reason, when you start to prepare for a market top, you always run the risk of being early. For investors, being early means sitting on losses as you wait for your investment thesis to come true. And no matter how patient you are, the mania always seems to last longer than you'd anticipated.

Let's start with the Emerging Markets.

Globally, emerging market economies have borrowed over $6 trillion in US Dollars. They've plowed all of this money into various projects and investments **without any kind of currency hedges**.

As a result, with the US Dollar now fully in a bull market, emerging market economies are getting crushed. Having recently been to South America, I can attest to this as just about everything was 20%-30% cheaper than the last time I visited a mere 13 months before.

The financial speculators have yet to realize this however.

For them, the first leg up in the Dollar's rally (July 2014 to February 2015) was some kind of fluke… not the beginning of a multi-year bull market. They don't realize that the US Dollar has just broken out of the largest falling wedge pattern in the history of fiat currency… a pattern that predicts the Dollar moving up to **at least 120** if not higher.

For this reason, traders were desperate to see *any sign of US Dollar weakness* as indicating that the pain of the US Dollar carry trade was over. So even though the US Dollar has corrected less than 4% (after moving straight up over 20%), they've piled into "risk on" assets again.

This has lead to a sharp rally in Emerging Market stocks. However, as you can see, this rally has only brought EEM up to test the upper trendline for a wedge pattern than has been in play since 2011.

This trendline has rejected EEM THREE different times in the last 10 years. And those rejections occurred much earlier in the business cycle, at a time when globally the economy was much stronger.

This time will be no different. And so when EEM finally rolls over, we'll be adding to our **UltraShort Emerging Markets ETF (EEV)** position. However, until then, we're going to have to get comfortable being in the red on this position.

The same is true for our **UltraShort Nikkei ETF (EWV).**

Japan will be ground zero for the global deleveraging cycle. In terms of sheer money printing, **<u>no other country comes even close to what Japan has attempted</u>**. The QE program announced in April 2013 was the single largest monetary program in history: a whopping 24% of GDP spent in buying up assets.

As a result of this, Japan is now buying up ALL of its own new debt issuance. The Bank of Japan is now the second largest owner of Japanese stocks. And the Japanese stock market has soared.

The move started since Shinzo Abe first promised to print more money has seen the Nikkei more than DOUBLE. However, it is now coming up against MAJOR resistance dating back to the early '90s. This will be the line in the sand for the Nikkei. Monetary madness can only go so far.

The same is true for China, which is now in its own speculative bubble:

We will continue sitting on both our **UltraShort Nikkei (EWV)** and the **UltraShort China (FXP)** positions**.** When these two markets finally top out, we'll add to our positions to average in a better entry point and increase our gains when the inevitable bursting of their respective bubbles begins.

Finally, we need to address the insanity in Tech Stocks, particularly Tesla (TSLA) and Amazon (AMZN).

We are currently shorting both companies. The reasoning is simple: both are unprofitable business models that rely on access to easy money and investor sentiment to stay in business.

TSLA is currently forming one of the clearest Head and Shoulders patterns I've seen:

AMZN has just seen shares explode higher because its cloud business segment saw a rise in revenues. It's now in a megaphone matter, that predicts a drop to at least 275 if not lower.

In summation: we're in the 9th inning for the liquidity driven stock market bubble that began in 2009. As I stated before, timing these things is impossible. It requires considerable patience and sometimes the ability to stomach considerable discomfort as manias **always** take longer than you expect.

I can remember back to 2008. I had clients shorting the market in January. For eight months we were early. And then, like today, we were surrounded by commentators stating, "all is well." Indeed, throughout 2008 every Wall Street CEO was parading on CNBC stating that their balance sheets were "rock solid."

Talk about a difficult time to maintain the courage of your convictions! The very leaders of global finance are arguing that you are wrong!

We waited eight months, and then, in the span of a few weeks, we locked in triple digit returns. I have similar expectations this time around. But once again, it's going to test our patience.

Best Regards

Graham Summers
Chief Market Strategist
Phoenix Capital Research

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