PRIVATE WEALTH ADVISORY
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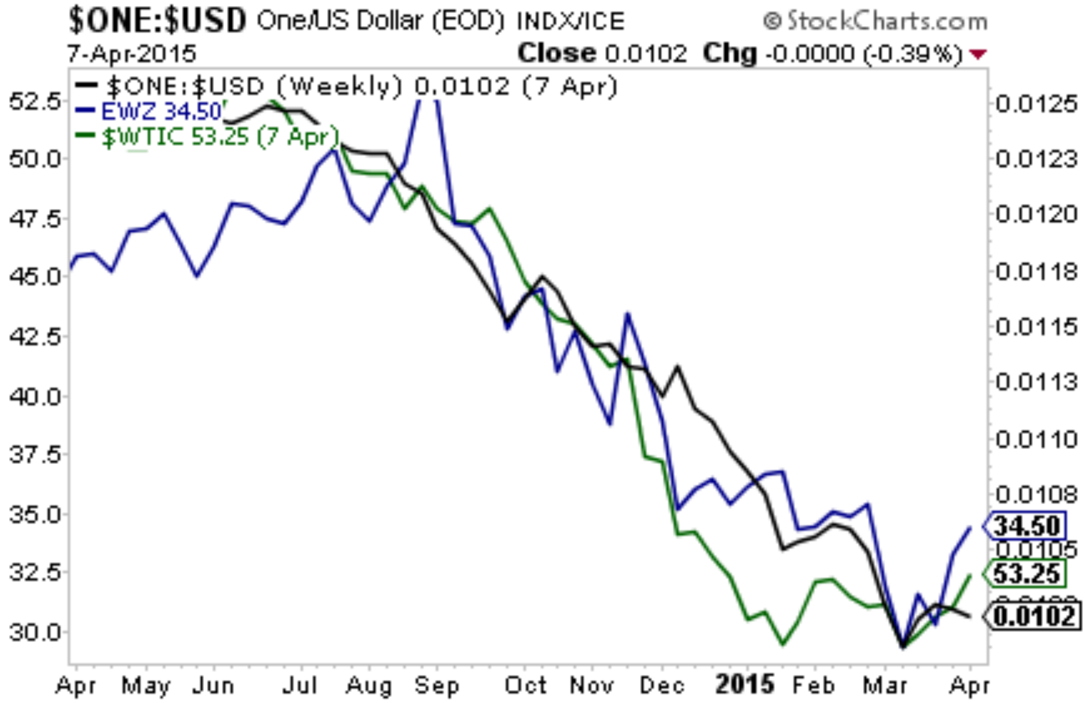
Market Update: 4-8-15

The markets have moved into "risk on" mode in the last month or so with emerging markets leading.

The driver for this has been the US Dollar, which has corrected nearly 4% since the beginning of March. The Dollar had just staged a 20% rally in six months, so it was more than overdue for a correction:

The trading algorithms that drive over 70% of market action today picked up on this correction and immediately piled into risk assets, particularly emerging markets.

The below chart shows the inverse of the US Dollar (the black line falls when the US Dollar rallies), Brazil's stock market (blue line), Oil (the green line).



As you can see, the Dollar correction has correlated almost perfectly with the rallies in emerging market stocks and Oil. The US Dollar remains the single most important issue for the global economy and numerous asset classes. With the US Dollar correcting now, capital has piled into risk assets.

The biggest mover in the emerging market space has been China, which has gone absolutely vertical in the last few weeks.

China is beyond a bubble at this point with Chinese Tech Stocks trading at a P/E of 220! To put this into perspective, the Tech Bubble, previously the single biggest stock bubble in history, had a P/E of only 156.

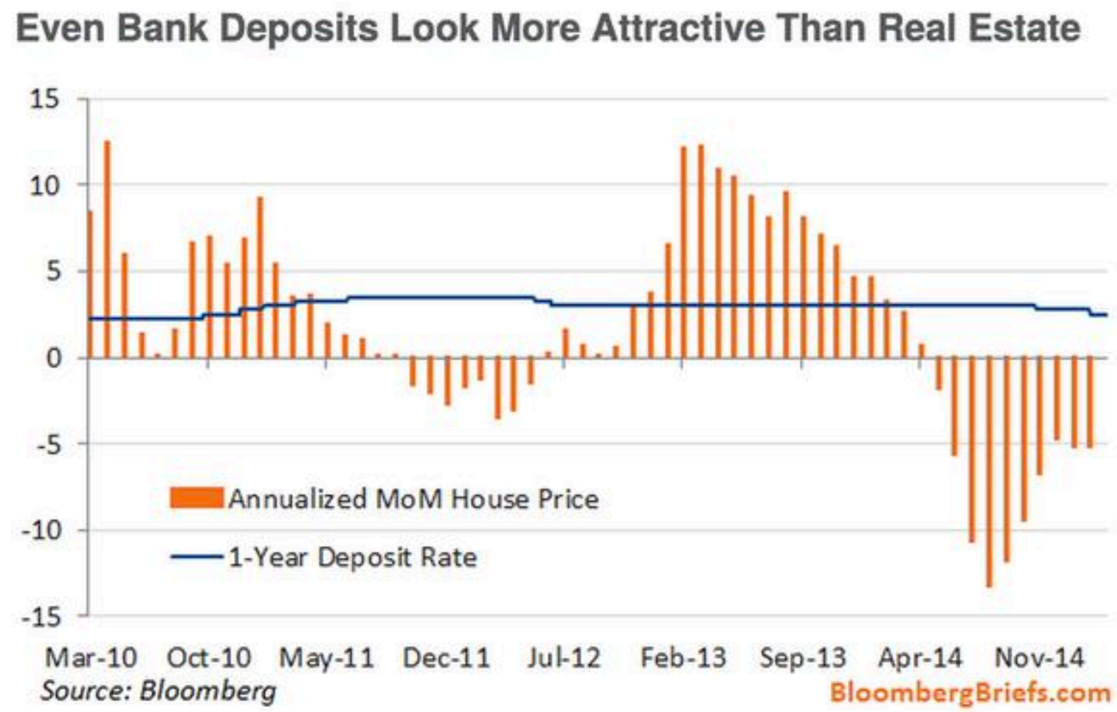
There are two reasons for this move in Chinese stocks:

1) The Government is trying to deflate property prices, forcing massive amounts of capital away from real estate speculation into stocks.

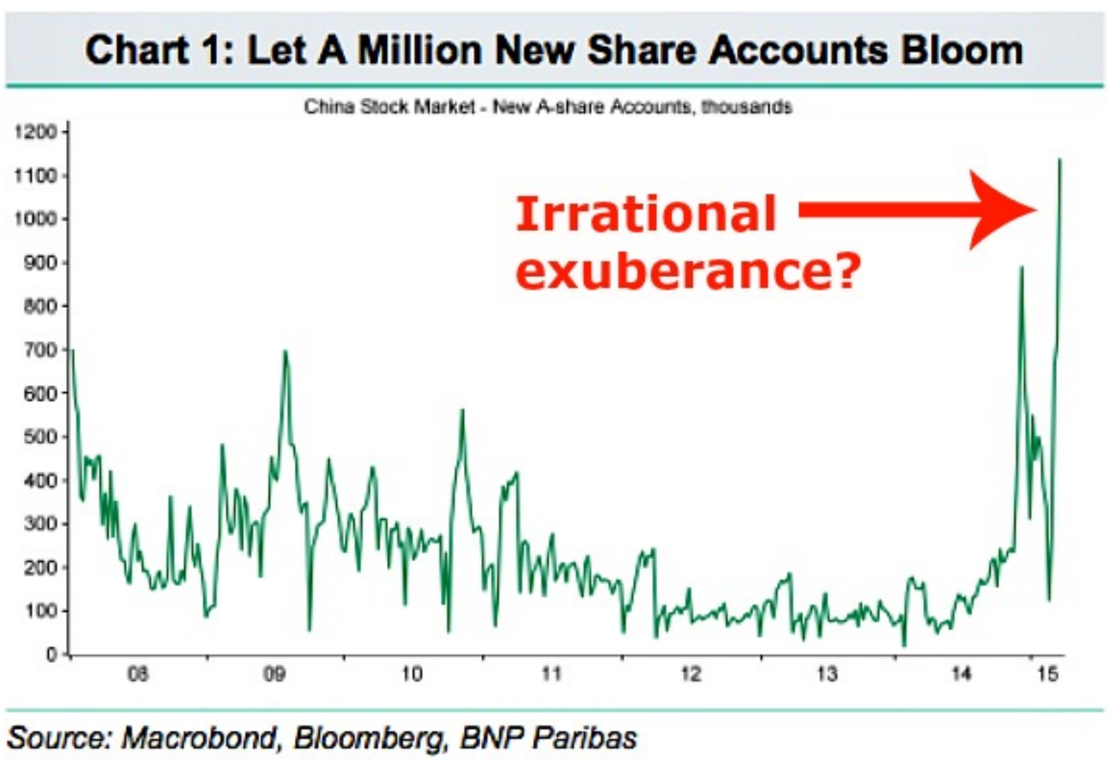
2) The insane amount of leverage in China's economy courtesy of its unregulated shadow banking system

Regarding #1, the Governments' moves to crack down on real estate speculation has forced property prices to collapse in China. Prices across the board are down 5.7% year over year. In some markets the collapse has been even larger.

Historically, real estate has been the asset class of choice for Chinese investors. However, because of the drop in China's property prices, today a Chinese investor would make more money leaving his or her money in a bank account than buying property.

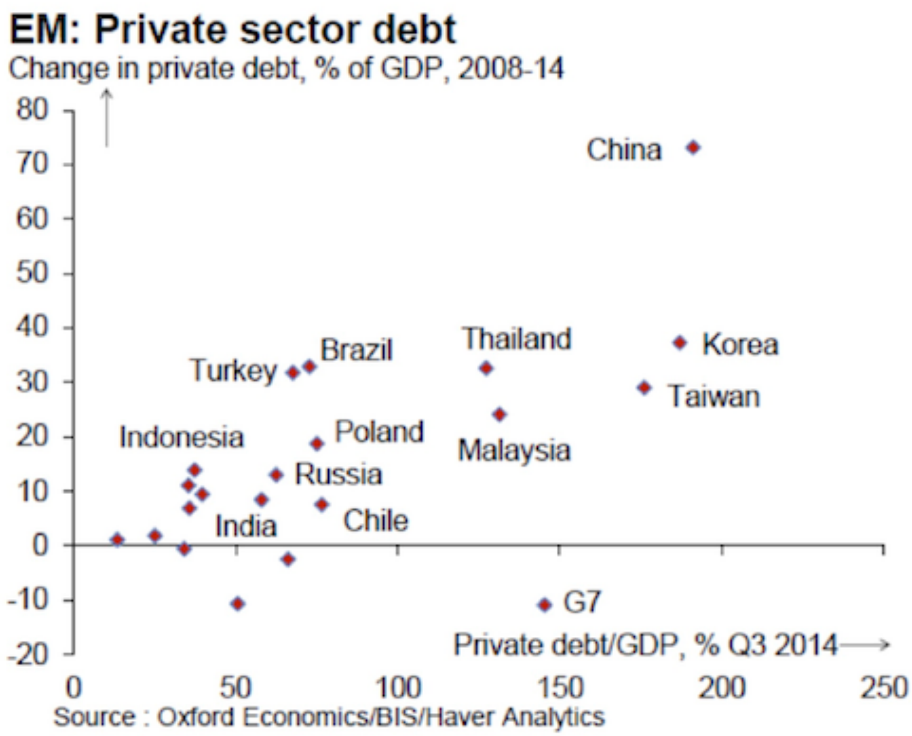


As a result, Chinese investors are moving out of real estate into stocks at a blistering rate. The below chart showing the number of new brokerage accounts in China says it all.



That's a heck of a lot of new "dumb" money moving into stocks.

Regarding the second point (China's leverage), consider the below chart:



China's private debt levels are absolutely EXPLODED higher post-2008. No other country has even come close.

We shorted the China market roughly one month ago. Obviously we were quite early with our position sharply down since then. However, we're now beyond overbought and at key resistance. I think this will stop this move dead in its tracks and we'll see a collapse shortly.

While China is in an epic bubble, one emerging that looks enticing is the Russia ETF (TRF).

Russian stocks have lost nearly 65% from their post-2009 peak in 2011. They are now bouncing off of levels not seen since the 2009 lows.

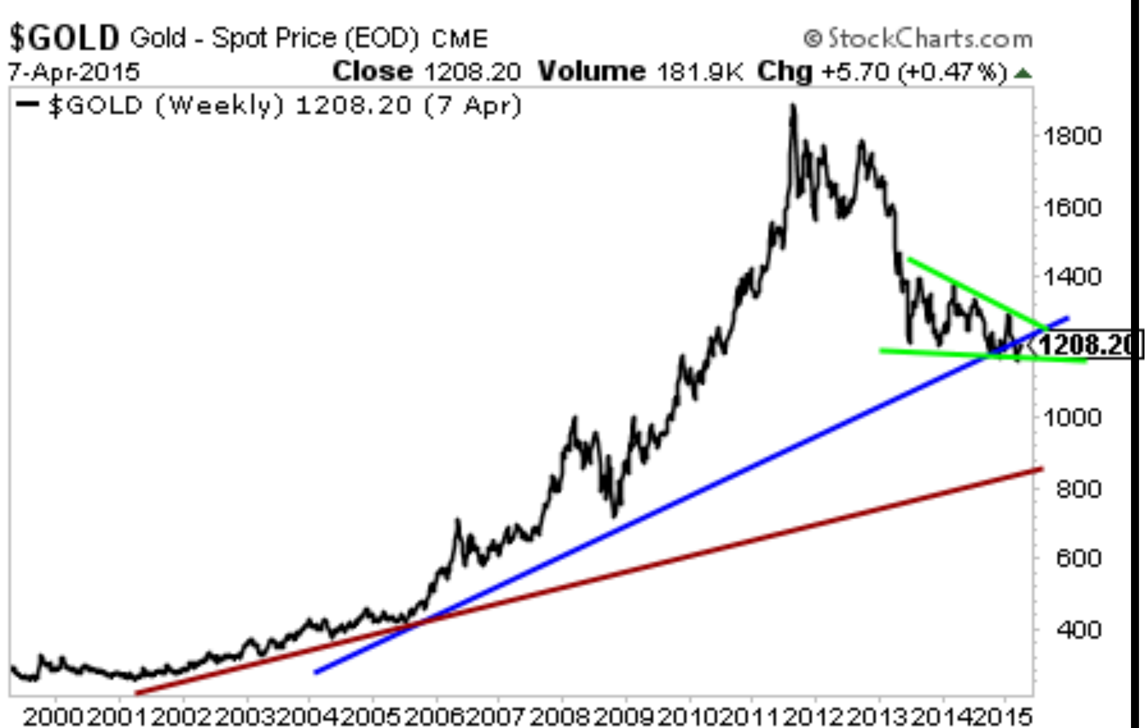
This is a bombed out market that is forming a clear falling wedge pattern here. This is generally a bullish pattern. I think we'll see a move to test the upper trendline and possibly break it.

Action to Take: Buy the Russia ETF (TRF).

Elsewhere in the markets, I've received a number of questions concerning Gold.

I continue to believe the precious metal will fall further. The recent bounce is due to Gold hitting the lower line of the wedge pattern that has dominated trading for the last four years:

In the near-term, we might see a bounce to $1250 per ounce here, but the fact remains that the longer-term chart is downright ugly. Gold has taken out one of its key bull market trendlines.



As you can see, Gold has taken out the bull market trendline running back to 2005. The next real line of support is below $1000 per ounce. I think we'll see this move in the next 2-3 months once this "risk on" rally ends for the markets.

In short, the markets are in a "reflation" mode today as the US Dollar rally takes a breather. This period will end shortly. We've just begun 1Q15 reports for stocks… NOW is when the markets will begin to digest just how much damage the US Dollar rally during the second half of 2014 will impact results.

I fully expect the markets to turn downwards with conviction within 2-3 weeks.

Barring any new developments you'll hear from me next week in our weekly market update for ***Private Wealth Advisory***.

Until then…

Best Regards

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