



PRIVATE WEALTH ADVISORY

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Weekly Market Update: 6-16-15

Stocks are bouncing briefly this week because:

- 1) It's options expiration week and Wall Street will be gunning the market to insure a bloodbath for options traders.
- 2) The Fed's FOMC meeting occurs on Tuesday and Wednesday (stocks tend to rally into these).

From a technical standpoint, stocks have bounced off their 126-DMA. This has been key support for the last two years. However, these recent bounces have been weaker than usual (compare them to the ones occurring from December '14-February '15).



For certain, momentum is waning in the markets. The number of S&P 500 stocks that are above their 200-DMA has broken support. This indicates fewer and fewer stocks are participating in the rally.



I also note that credit markets are showing a flight to safety already underway.

The below chart prices High Yield Credit (Junk Bonds) against Treasuries. When money is flowing into Junk Bonds (risk on) the chart rallies. When money is fleeing Junk Bonds and moving into Treasuries (risk off) the chart falls.

As you can see, the chart peaked in mid-2014. It has since failed to establish a new high and is now on the verge of breaking out of a rising bearish wedge formation. A breakdown here would herald a new round of market volatility.



The same is occurring in the sovereign bond space. The below chart prices Emerging Market Bonds against Treasuries. When money is flowing towards Emerging Market Bonds the chart rallies. When money is fleeing Emerging Market Bonds and moving into Treasuries (flight to safety) the chart falls.



Once again we have a failure to make a new high. And we are now fast approaching the long-term trendline for this chart. When and if we break it, then we will enter a VERY sharp "risk off" period in the markets.

In short, the credit markets and bond markets are waving red flags that the era of easy credit is ending. When Emerging Market Bonds take their lower trendline, then it's all over and we're moving into the next Crisis: the bond crisis.



We get additional signs of market turmoil from silicon valley.

I've noted before the similarities between the current market environment and the Tech Bubble of 1999. Both were Fed-fueled manias in which investors and VC firms collectively lost their minds.

Investors generally speaking have very poor memories. Having kept interest rates at zero for over six years, the Fed has managed to create an environment in which it is simply *assumed* that money is virtually free.

Between this and an excessive obsession with technological advancement, investors have stopped thinking about archaic concepts such as revenues or profits and have returned to measuring success via page views, free member signups, and the like (again like 1999).

At the end of the day unless a business actually makes money, it's just a hole in the ground into which the owners (investors) are dumping money.

Which brings me to today's host of unprofitable Tech gimmicks...

Twitter (TWTR) is a Wall Street darling that has been given a "pass" regarding actual profits for the last two years (the company has never made a dime in its history). No more. The chart suggests that unless TWTR can find a way to monetize 140 characters... it's going to ZERO.



LinkedIn (LNKD) is another company that's big on concept and small on profits (profit margins, when there are profits, are at less than 2%). The chart looks like it's staging a final dead cat bounce. After that the bull market is over.



Let's add this to our Tech Bubble 2.0 portfolio...

Action to Take: Short LinkedIn (LNKD).

Amazon (AMZN) has been unprofitable in two of the last three years. The company operates on razor thin margins in a highly competitive market with rising costs.

The stock is on the ledge of a cliff. Once we take out the green line there is NO support down to \$375. And the door is certainly open to \$275 in the coming months.

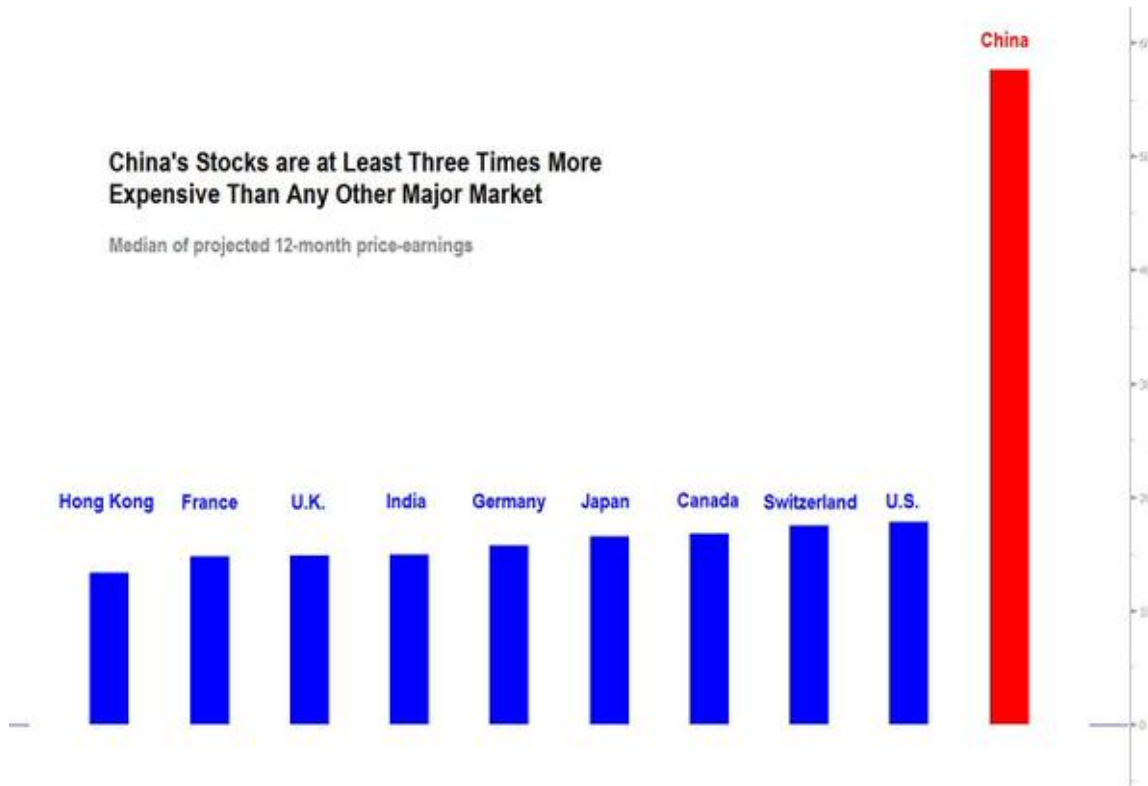


Facebook (FB) actually makes money but the stock is losing momentum. Below is THE line. Once we take it out, we're going down to \$60. Ultimately I think we'll hit \$25 in the 12 months



Finally, we need to address China.

China is the world's biggest stock market bubble. Not only is it massively overpriced against every other stock market index...



... but things are so out of control there that Chinese companies are now buying each other's stocks and reporting the gains as "profits."

Chinese companies are turning to an unlikely source for profits in the soft economy: the country's red-hot stock markets.

Take Dong Jun, who earlier this year shut down his factory making lighting equipment and electrical wiring and let go some 100 workers. The 50-year-old comes to the plant in the eastern city of Yancheng almost daily, but spends his time trading stocks on behalf of his company, Yanwu Keda Electric Co.

"Manufacturing is a very hard business these days," said Mr. Dong, chairman of the company. "I want to make some money from the stock market and use the profits to restart my manufacturing business later, when the economy turns for the better."

Chinese companies are finding stock investing an attractive option as the wider economy struggles with tepid demand, excess industrial capacity,

persistently high borrowing costs and other troubles. Their interest poses a challenge for policy makers, who want to nurture markets companies can tap for investment capital, rather than creating a venue for speculation.

<http://www.wsj.com/articles/chinese-firms-put-cash-to-work-in-stocks-1434463023>

By the look of things, the bubble has burst. The China ETF (FXI) has finally broken down in a serious way. It is time to add to our position here:



Action to Take: Add to your UltraShort China ETF (FXP) position.

Japan's Nikkei is also close to breaking down. However, we have yet to take out critical support:



When we take out the blue line, it will be time to add to our UltraShort Nikkei ETF (EWV).

This concludes this week's market update. In short, the number of warnings is increasing every week. The credit and bond markets (the smart money) are already signaling that we've entered a period of "risk off." It's just a matter of time before stocks "get it."

I'm watching the markets closely and will issue updates as needed. Barring any new developments you'll hear from me next week in our longer monthly issue of ***Private Wealth Advisory***.

Until then...

Best Regards

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