PRIVATE WEALTH ADVISORY
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Weekly Market Update: 6-8-15

I'm issuing this update early this week because there have been some massive technical changes to the markets in the few days.

First off, the S&P 500 looks to have broken out of its rising wedge pattern to the downside. It's too early to tell if this is just another false breakout (like the two upwards false breakouts we saw in Feb '15 and May '15 respectively).

If it is a real breakout, we don't have much support until 2,054 or so. At that point it's critical to see if we get a bounce or if the selling pressure intensifies.

If 2,054 does not hold, the next real line of support is 2,000. If we don't hold that, then the down side target established by the lower lows of 2014 is in play.

These are the short-term issues to note. The BIG PICTURE remains the massive 6-year bearish rising wedge in the S&P 500 (log scale). I've blown up the break of the lower trendline that was staged in the weekly chart last week below:

If this breakdown is confirmed then THE top is in and the bull market started 2009 is OVER.

Having invested over $3.5 trillion in pumping the stock market higher, the Federal Reserve won't let the market collapse without a fight. If things begin to heat up to the downside I expect the Fed will intervene verbally by promising to put off future rate hikes. This would be the Fed's primary tactic from 2,000 down to 1,500 or so on the S&P 500.

If that tactic fails and the market is at risk of hitting or taking out the bull market trendline established from 2009-2012 (green line in the chart below) I expect the Fed will switch tactics and begin to either *threaten* to launch or *actually* launch another QE program.

In short… things are beginning to get very interesting in the US markets. Just how interesting things will get right now remains to be seen, but I'm watching the above lines closely.

Outside of the US, Asian markets have begun to break their respective uptrends. China and Hong Kong remain above support, but Taiwan, South Korea, and Singapore have all broken their trendlines.

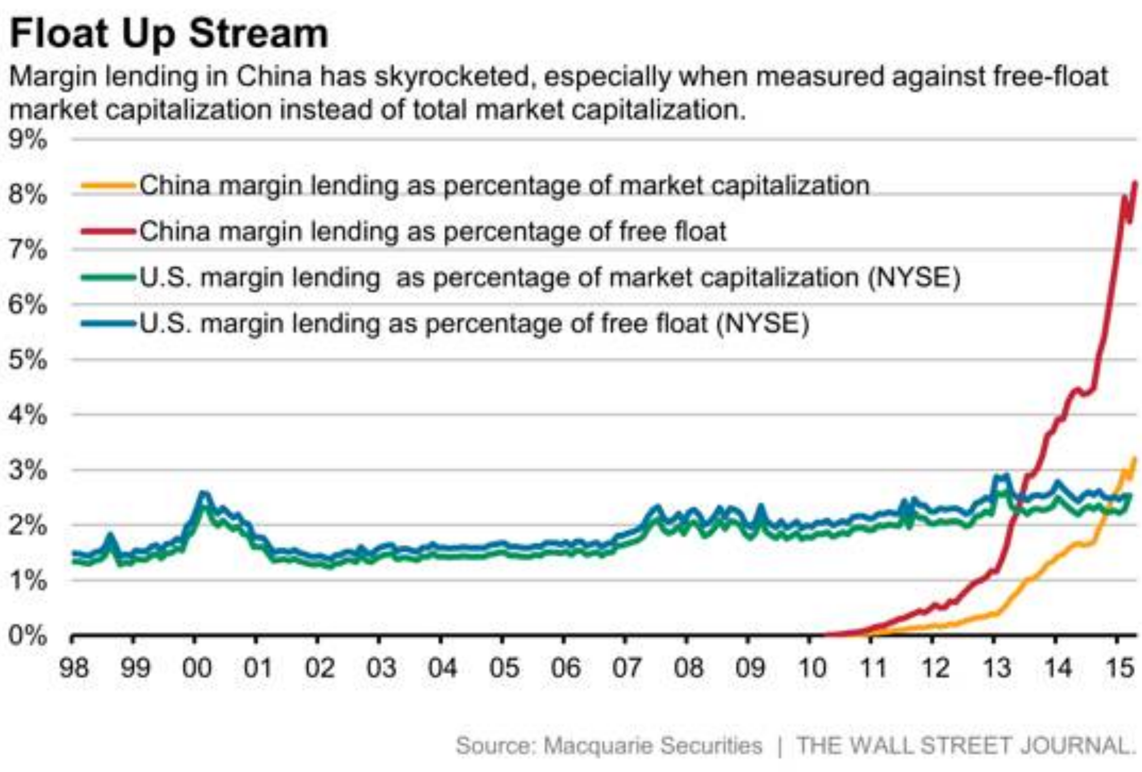
FXI iShares FTSE China 25 Index Fund NYSE + BATS
© StockCharts.com
8-Jun-2015 12:42pm
Last 49.51 Volume 9.0M Chg +0.55 (+1.12%)
iShares FTSE China 25 Index Fund (Daily) 49.51
Hong Kong Hang Seng (EOD) 27260.16 (5 Jun)
Taiwan Weighted Index (EOD) 9340.13 (5 Jun)
South Korea Seoul Composite (EOD) 2068.10 (5 Jun)
Singapore Straits Times Index (EOD) 3333.67 (5 Jun)
Jul Aug Sep Oct Nov Dec 2015 Feb Mar Apr May Jun

China is the outlier here as it is a margin debt driven bubble. it might be the single largest margin debt driven bubble in history. As a result, when it bursts, the Crash will be MUCH faster than is usually the case for stock Crashes.

Margin debt is money that is borrowed by an investor in order to buy stocks. In the US, less than 3% of market float (shares that are actually traded on the open market) is owned via margin debt.

Because a significant percentage of corporate ownership is held *privately* in China, the free float for Chinese stocks is much smaller. As a result, a whopping 8% of market float is traded using margin debt.

Put another way, nearly one in ten shares traded on the Chinese stock market is owned using *borrowed money*. When the margin calls start, the selling pressure will be INTENSE.



From a technical analysis perspective of the Chinese market, I think we'll see a final push to a blow off top before the whole mess comes crashing down. My timeline for the collapse is before the end of the summer.

The Shanghai Composite remains in an uptrend (the blue line). I expect we'll fall to test the lower trendline (green line) in the next 6-8 weeks.

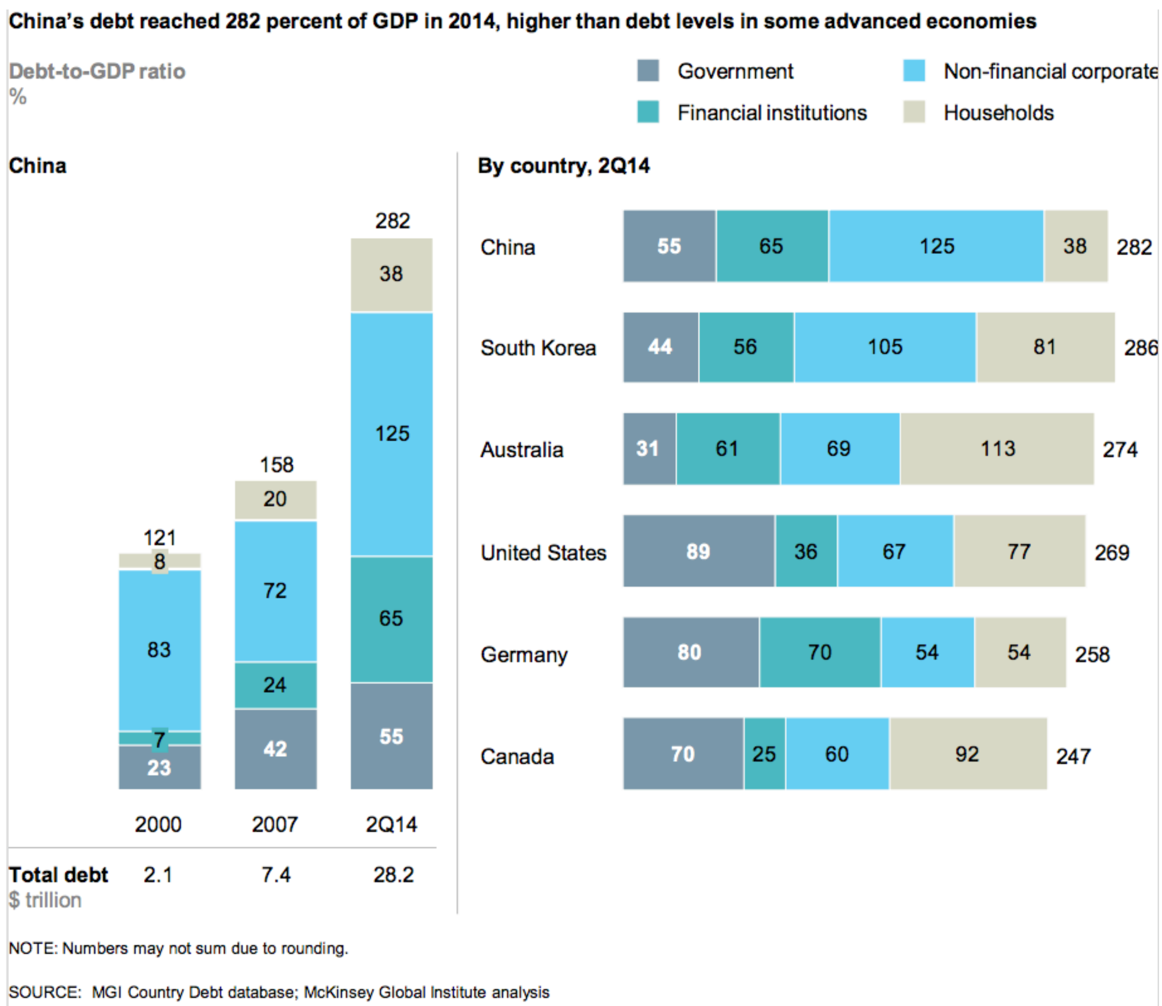
Indeed, even the China ETF (FXI) which is comprised of the 25 largest companies on the Chinese stock market looks to have peaked and is now in a downward trending channel. If we fall to 48 then the top is in and I'll suggest adding to our **UltraShort China ETF (FXP).**

Many commentators are picking up on the theme of the bond bubble. However, most of them are stating that the US is in the most trouble.

I completely disagree.

China will prove to be the biggest debt problem in the global financial system. The country has gone on an absolute debt binge since 2008, adding $20+ trillion in new debt. To put this into perspective, **<u>it represents more than a THIRD of all debt issued in the world during that time period.</u>**

Today, China's debt levels surpass even those of the US. And this is for a country that is known to have some of the worst accounting standards and most corruption officials in the world (in 2012, over 10,000 Government officials fled China taking over $125 BILLION with them).



About half of China's debt is linked to real estate: a far more volatile asset class than Government bonds. We're one sharp plunge in prices away from total chaos.

I cannot tell you precisely when the whole mess will collapse, but it is not far off.

Speaking of debt, last week I noted that Spain's 10-Year bond yield had broken its downtrend and had begun to rise again. Since that time, yields continue to rise.

This mess is now spreading. Italy, the other "too big to bailout" country in the EU has now seen its 10-year yields do the same:

The European debt crisis is coming back. No one will panic until yields move north of 4%, but at the current pace this should happen in late Summer/ early Autumn.

Indeed, the rise in yields is not confined to the "problem" countries. Even Germany has seen its 10-year yields rise (though they remain within the confines of their downward trending channel).

The same is occurring for France.

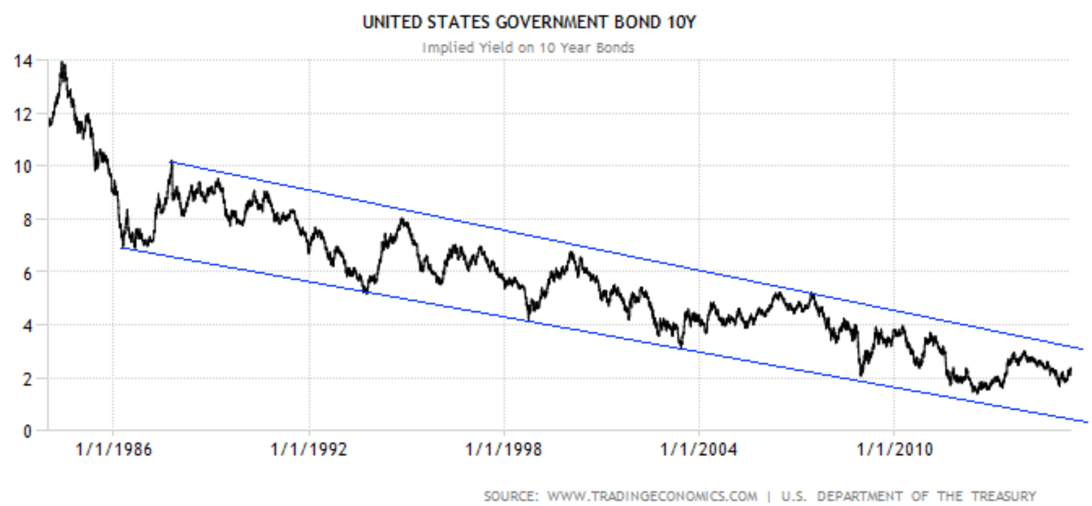
When France and Germany see the downtrends in their yields break, the EU Crisis will be back with a vengeance.

However, the multi-trillion dollar question is: **will it be Europe or Japan who goes bust first?**

Japan 10-year yield is on the verge of seeing its downward wedge pattern breakout to the upside. With the Bank of Japan buying ALL new debt issuance for that country, when yields begin to rise it's GAME OVER as the the entire Japanese financial system will go bust.

When this happens, we'll add to our UltraShort Nikkei ETF (EWV) position.

And finally… when the bull market in US bonds ends… the REAL Crisis will have begun. At that point, the $555 trillion in interest rate based derivatives will begin to implode and the current financial system as we know it will end.



This concludes this week's market update.

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 weekly market update of ***Private Wealth Advisory***.

Until then…
Best Regards

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Phoenix Capital Research