PRIVATE WEALTH ADVISORY
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Special Market Update: 7-21-15

Dear Subscribers

I am posting this week's market update early, as I will be traveling later this week. I will be monitoring the markets and can post short updates if needed, but I won't have time to provide a longer piece then.

Let's get started.

Options expiration week came and went, with the Federal Reserve once again juicing the markets.

It's telling that despite the fact all QE programs ended in October 2014, the Fed continues to expand its balance sheet almost exclusively during options expiration weeks.

Below is a list of the Fed's balance sheet activities by date. Balance sheet expansions are in black font. Balance sheet contractions are red. Options expiration weeks are shaded gray.

I find it interesting that the Fed, for some reason, feels the need to **expand** its balance sheet by an average of **<u>$10 BILLION</u>** during options expiration weeks… while **contracting** its balance sheet by an average of $3.2 billion during NON-options expiration weeks.

Mind you… this is going on during a period in which the Fed is NOT engaged in a QE program.

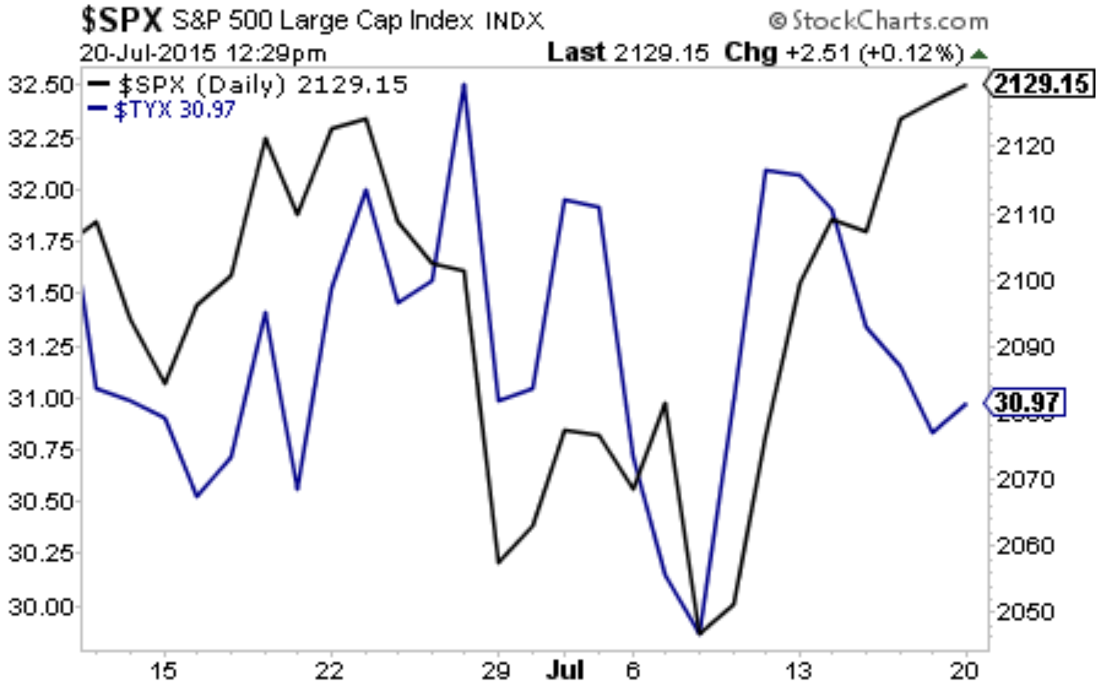
Last week, the Fed juiced the financial system by $12 billion. Using standard capital ratios (10 to 1) this translated into $120 billion in buying power for Wall Street to play with that week. Suffice to say, the Fed is actively engaged in manipulating the market to help Wall Street shred options traders. **There's the proof in black and white.**

Date	Balance Sheet Change
7/16/15	12,316
7/9/15	2,159
7/2/15	15,925
6/25/15	7,238
6/18/15	19,812
6/11/15	2,645
6/4/15	1,379
5/28/15	16,403
5/21/15	20,804
5/14/15	28,485
5/7/15	1,204
4/30/15	18,196
4/23/15	4,329
4/16/15	1,947
4/9/15	1,620
4/2/15	1,196
3/26/15	15,285
3/19/15	6,609
3/12/15	1,696
3/5/15	858
2/26/15	10,126
2/19/15	4,834
2/12/15	1,337
2/5/15	284
1/29/15	12,872
1/22/15	3,141
1/15/15	16,553
1/8/15	1,864
1/2/15	11,802
12/29/15	7,215
12/18/15	13,382
12/11/15	2,675
12/4/15	259
11/28/15	6,828
11/20/15	3,864
11/13/15	2,310
11/6/15	169

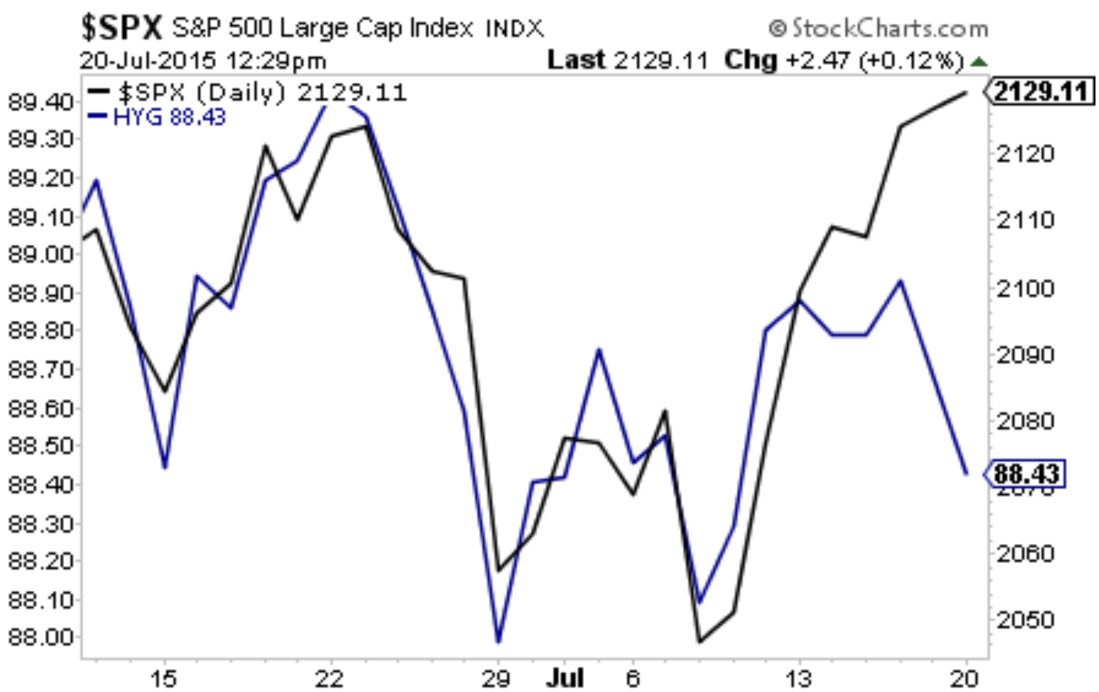
This negates any argument that the rally from last week was related to any kind of fundamentals. The market gunned higher on next to no volume driven by Wall

Street traders using Fed money and excessive leverage.

Interestingly, the move has not been confirmed by Treasuries (blue line). Yields continue to fall *despite* stocks acting as though "all is well."



The same is true for high yield credit (blue line), which is also showing the markets in "risk off" mode.

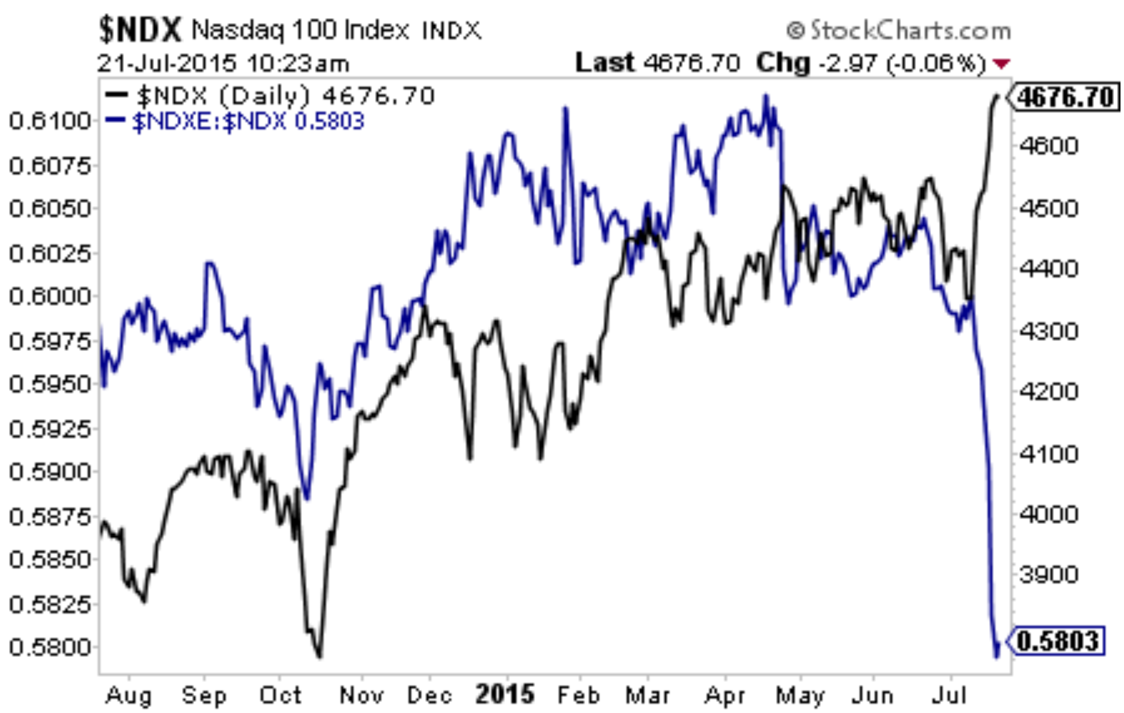


Finally, the market breadth (blue line) which measures the actions of the S&P 500 index as if every stock within it received equal weighting, is collapsing.

This tells us that the market's internals are deteriorating sharply with fewer and fewer stocks driving the rally. **Again, all of the above tell us that last week's rally is not to be trusted.**

As bad as things are for the S&P 500, the NASDAQ has gone completely bonkers, having recorded the longest quarterly winning streak in history (even longer than that which occurred during the Tech Bubble).

In the NASDAQ's case, the collapse in breadth is even more extreme.



Indeed, the NASDAQ's rally is being driven by a handful of unprofitable (or barely profitable) Tech firms. Of the top ten, only FIVE are even profitable. They are trading at an average P/E of 83… meaning that if you were to buy these businesses at these valuations, it would take 83 years for you to break even via profits.

Company	Symbol	P/E
Netflix	NFLX	204
Tesla	TSLA	N/A
Amazon	AMZN	N/A
Facebook	FB	95
Ali Baba	BABA	53
Google	GOOGL	34
Baidu	BIDU	33
Twitter	TWTR	N/A
LinkedIN	LNKD	N/A
FireEye	FEYE	N/A
	AVG P/E	**83.8**

We are in a Tech Bubble. It will burst just all bubbles do. We were early shorting Amazon, Tesla, and LinkedIn, but when the top is in, we'll double down and profit beautifully.

Speaking of which, TSLA looks to have just put in a double top. The chart suggests we're going to sub 200 shortly.

Amazon is in a definite blow off top, having hit a new all time high on no earnings. The long-term bull market trendline is 325 here, but we're likely going to 250 once the market turns.

LinkedIn (LNKD) has bounced off its long-term trendline, but now faces massive resistance at 229.

Meanwhile, as stocks remain in la la land, the US Dollar has broken out against a block of currencies.

Here's the Dollar/ Yen pair… we've just eeked out a new high:

The greenback has also broken out against the Swiss Franc…

… the Brazilian Real…

...the Canadian Dollar…

...the Australian Dollar...

... and the Euro:

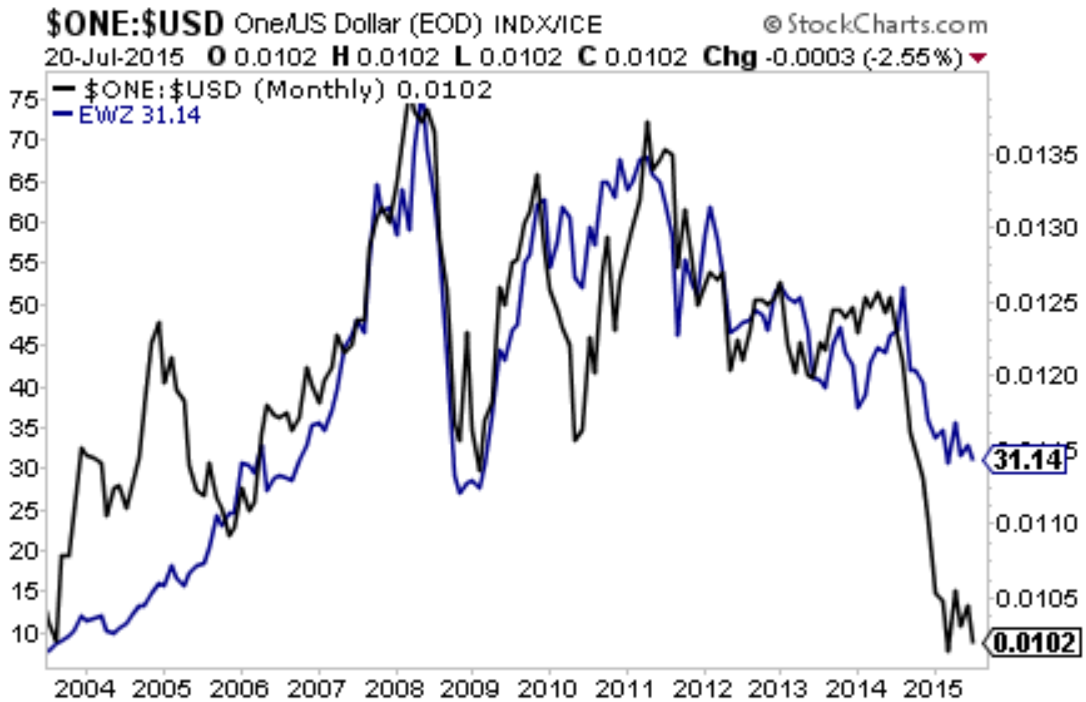
These moves tell us that the next round in the US Dollar bull market has begun. I believe we will see the US Dollar move into the 110-120 range within the next 12 months.

This in turn will knock Oil down. Indeed, the Oil chart suggests the bounce of the last few months is over and we're going to $30 per barrel if not lower.

Time to re-open our Oil Short…

Action to Take: Buy the UltraShort Oil ETF (SCO)

This will also kick Brazilian stocks off a cliff. The below chart shows the inverse of the US Dollar (so if the Dollar strengthens the black line falls) against Brazil's stock market. As you can see, Brazil (EWZ) is primed for a collapse to catch up with the US Dollar.



Action to Take: Buy the UltraShort Brazil ETF (BZQ).

Let's move on the Greece…As you'll recall from my last note to you, these are the steps that need to be completed in order for a third Greek Bailout to go through.

1) Greece agrees to a new austerity program.

2) Germany's parliament must issue a mandate giving Chancellor Angela Merkel the right to negotiate a new bailout deal with Greece.

3) Finland's, the Netherland's, Slovania's, Estonia's, and Austria's Parliaments also must agree to let their Finance Ministers negotiate a new deal with Greece.

4) EU Finance Ministers must negotiate a new bailout deal with Greece.

5) Germany's parliament must sign off on the new deal.

6) Greece must accept the deal.

Currently, we have just passed #2 on the list. There are still plenty of steps to go.

The biggest problem concerns the nature of the bailout deal itself. The US and the IMF are pushing for debt forgiveness for Greece. Germany is completely opposed to this because it would set a dangerous precedent for negotiations with other problem countries down the road.

EU banks, like all big banks, use sovereign bonds as the senior most collateral backstopping their derivatives portfolios. The entire Greek debt market is about €345 billion in size.

In contrast, Spain has over $1.0 trillion in debt outstanding… and Italy has €2.6 trillion. **These bonds are backstopping tens of trillions of Euros' worth of derivatives trades. A debt haircut or debt forgiveness for them would trigger systemic failure in Europe.**

Spain and Italy are not even the largest problem countries in the Euro either…

> *During the recent shenanigans about Greece,* ***it slipped out that the German government is increasingly worried about France's public debt...*** *This year it looks as though, in gross terms,* ***the French debt to GDP ratio will be just above 98pc.***
>
> http://www.telegraph.co.uk/finance/economics/11750178/Frances-staggering-debt-levels-are-far-more-worrying-than-ours.html

This is why Germany may be willing to alter some elements of a 3rd Greek Bailout deal… but is completely opposed to any debt forgiveness while Greece remains in the Euro… **it cannot afford for Spain, Italy or France to consider debt forgiveness an option.**

The key quote from German Chancellor Angela Merkel is the following:

> *Merkel stressed that a classic debt 'haircut' was out of the question as long as Greece remained a member of the euro zone:* ***"That can happen outside a currency union but it can't happen in a currency union."***
>
> http://www.theglobeandmail.com/news/world/merkel-hints-at-debt-changes-after-review-of-new-greece-bailout/article25583775/?cmpid=rss1&click=sf_globe

This is a strong signal that debt forgiveness would only be on the table if a problem country left the Euro temporarily to deal with it (temporarily as in for five years).

How the Euro situation will play out is a mystery. But a Grexit is **not off the table**. And we are at least four weeks off from a deal being reached. The IMF and ECB have signed off on emergency loans to allow Greece to pay back immediate debt payments (yes, Greek creditors are now literally paying themselves), but Greece is on life support. Any wrench in the bailout negotiations could re-trigger the whole debt crisis.

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

Until then…

Best Regards

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