# PRIVATE WEALTH ADVISORY

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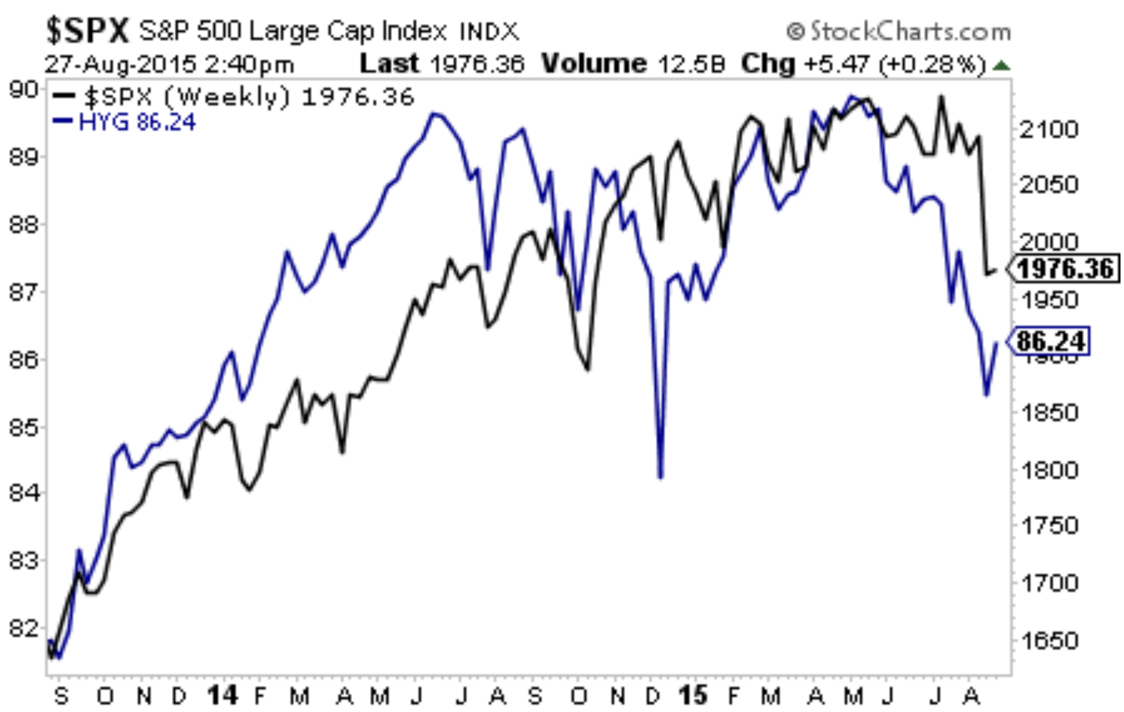
## Weekly Market Update: 8/27/15

Dear Subscribers,

I don't have a whole lot to add to my previous commentary from the last few weeks.

The fact of the matter is that, as I have averred previously, we are entering a period of "price discovery": a period in which the true underlying value of assets becomes apparent. This process began with Oil and Commodities in mid-2014. Bonds caught wind of the mess a few months ago, and then finally stocks "got it" in the last week.

I've shown the divergence between stocks and high yield credit/ bonds before. But it's worth reviewing to see how this collapse in stocks was really just stocks catching up with bonds.



Here are stocks against Treasuries.


These divergences remain in place. This collapse in stocks only let out a bit of the "steam" in the bubble! The S&P 500 could easily fall to 1700 before it was in line with the contraction Treasuries are forecasting!

Regarding the bounce in stocks, the TV is running non-stop with experts saying that this is a fantastic buying opportunity. These are the same folks who said that the collapse in Oil and Copper were irrelevant and that stocks are undervalued at a forward P/E of 20. Now they're saying stocks are a great "buy" right after a collapse that erased 10 months worth of gains in four days!

As for the bounce itself, it is nothing but Central Bank manipulation. Real buyers do not put in orders for several billion Dollars worth of stocks indiscriminately first thing in the morning.

The most critical item to note during the last few days is the absolute silence from Fed officials. The market wiped out all of its post-QE3 gains in a few days and neither Janet Yellen nor any other Fed officials appeared to provide verbal intervention.


Indeed, the best the Fed had to offer was NY Fed President Bill Dudley stating: *"From my perspective, at this moment, the decision to begin the normalisation process at the September meeting seems less compelling to me than it was a few weeks ago."*

This is nowhere near the same conviction we saw from Fed officials during market collapses in 2011, 2012, or October of 2014. Every time the market took a dive during those other periods, a Fed official appeared to dangle some new policy (usually QE) in front of stocks.

Not this time. The fact is that the Fed's hands are tied for political reasons. The Fed is entirely responsible for the bubble in stocks. Bernanke, while still Fed Chairman, when confronted with criticism that QE failed to generate any economic growth, stated that QE was a success because stocks were rallying.

Unfortunately for the Fed, more and more research has gone public revealing that QE didn't actually boost the economy in any meaningful way. On top of this, more and more media outlets have picked up the message that the Fed's policies, specifically QE, have *increased* wealth inequality.

> ***How Federal Reserve Quantitative Easing Expanded Wealth Inequality*** (*Forbes* May 2015).
>
> ***Fed Policy May Have Widened America's Wealth Inequality, Philadelphia Fed Paper Says*** (*Wall Street Journal* June 2015)

***The Federal Reserve and inequality*** (*Washington Post* June 2015).

With that in mind, the Fed will not be able to launch another QE program unless stocks absolutely crash. My target for this is around the S&P 500's long-term bull market trendline (green line) at 1400.


Until we hit that line, the Fed's hands are tied due to political pressure. This is particularly true during the next 15 months because we are approaching a Presidential election in the US.

So why are stocks bouncing so hard?

Two items:

1) The aforementioned intervention by Central Banks (likely the Fed lending money to the Swiss National Bank to buy stocks).
2) This week is the Fed's Jackson Hole Symposium that.

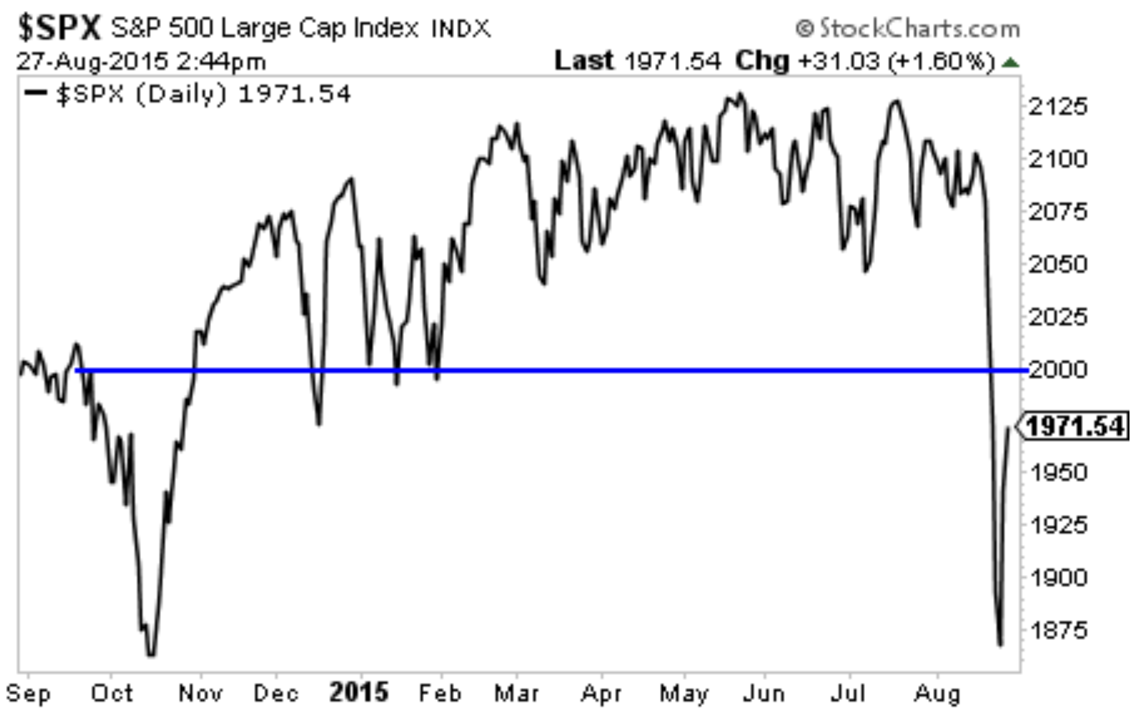
Regarding #2, this is a critical annual meeting for Fed policy; it has been the location at which several of the Fed's biggest monetary schemes have been revealed in the past.

Bernanke unveiled QE 2 and Operation Twist at the Jackson Hole Symposiums of 2010 and 2012 respectively. He also laid out the basis for QE 3 at the same meeting in 2012.

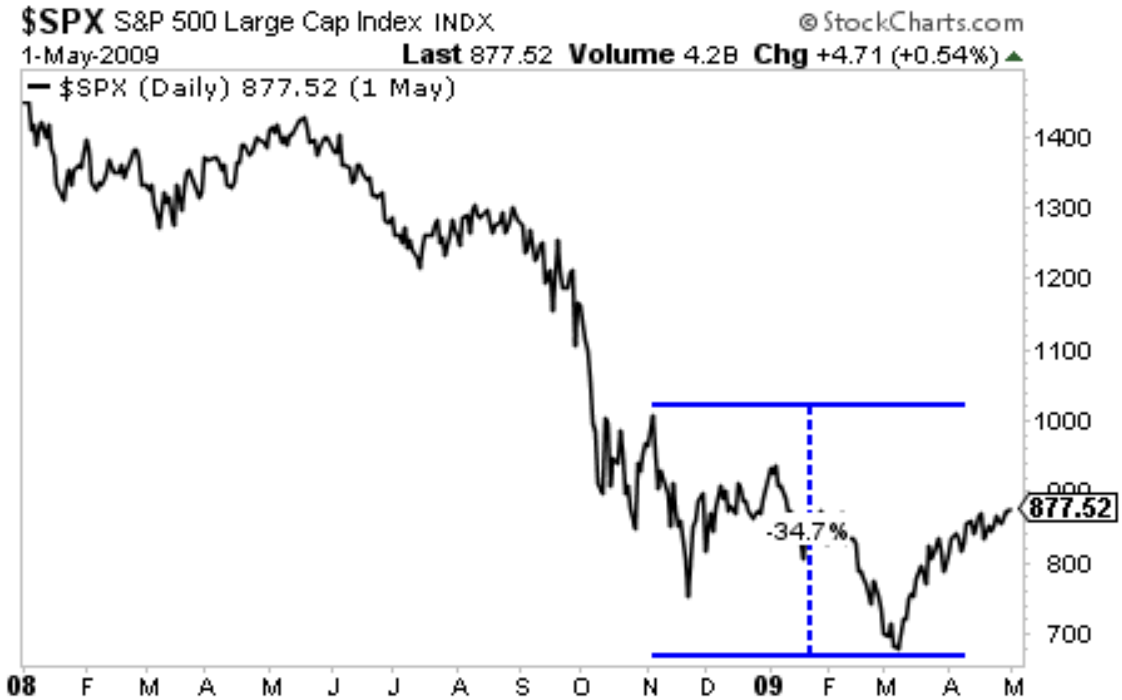
So traders and investors are buying stocks in the hope that the Fed will unveil or at least hint at some new monetary program during Jackson Hole this year. At the very least, they hope Fed Chair Janet Yellen will confirm Dudley's earlier utterances that any potential rate hike has been pushed back dramatically due to the market's collapse.

However, as I stated before, the Fed cannot hint at more QE. NY Fed Dudley, during his recent statements was quick to emphasize that the Fed was a long way off from even thinking about more QE. And this is coming from Dudley, the single most dovish Fed President in history!

Let's move on to the near-term for stocks. I think stocks will likely bounce to around 2,000. However, as I stated before, unless we get an absolute RABID rally in stocks back up to 2,100 by year-end, the bull market in stocks begun 2009 is over.




This bounce in stocks is the sharpest we've seen since October 2008. Unfortunately, after those previous sharp bounces, stocks soon rolled over collapsing another 34% to their March 2009 lows.




Will this be a repeat of that debacle? I have no idea. But based on the price action thus far, the bounce has been driven by clear manipulation and hype and hope of the Fed pulling a rabbit out of a hat during its Jackson Hole Symposium this week.

The best approach for now is to wait and watch. If stocks roll over sharply as I expect they will in the next week, we'll open some new trades to profit from it. And if this bounce is somehow capable of breaking to new highs, we'll position ourselves accordingly.

For now, we've locked in a lot of gains thanks to careful preparation for this collapse. Now let's sit on the sides for a few days to watch how the investment landscape changes.

I continue to watch the markets closely and will issue updates as needed. Barring any new developments, you'll next hear from me next Wednesday in our usual weekly market update.

Until then…

Best Regards

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