TRIGGERS MEDIA PUBLICATIONS INC.

TRIGGER$

Economic & Technical Analysis for the Active Trader
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JANUARY 2016
Vol.VI, Issue #1
Subscribers Edition

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Public Edition

DEBT STORM OVER EMERGING MARKETS

THE "NIFTY 9"

"FANG & NOSH" now the "NIFTY 9"

SOMETHING Is BURNING In HIGH YIELD CORPORATES?

A "WITCH'S BREW" BUBBLING In BOND ETF's

Gordon T Long
Market Research & Analytics

PUBLIC Contents

TRIGGER$

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PUBLIC Contents

Public Edition

Welcome to ***TRIGGER$ Free Public Edition*** of our December 2015 publication.

While the purpose of the ***Public Edition*** is to showcase the ***Subscribers Edition***, the ***Public Edition is being built as a stand-alone product.*** The primary difference betwen the two editions is the amount of infomation included from ***Gordon T Long, Market Research & Analytics***, as well as ***HPTZ market charts***. Only a portion of this material is inclded in the ***Public Edition***.

At Least one complete article from Gordon and previews of his other work can be found, as well as a random selection of other charts and analysis from him are also included each month.

Goldenphi also includes some of his material that can be found throughout each issue. ***S&P – A Closer Look*** & ***SIlver*** will always be shared and occasionally more than just a preview of the ***Traders Mentor*** section.

The ***Public Edition*** is still new and growing. We plan to continue to expand what we offer in this edition, so make sure to keep checking back each month and see what we have done!

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THE "NIFTY 9"
"FANG & NOSH" now the "NIFTY 9"
Gordon T Long

*Welcome to **TRIGGER$!*** **JANUARY 2016** ***Vol.VI, Issue #1***

Welcome to TRIGGER$ - more than just another trading magazine, each issue is a complete market report for your due diligence.

Another Great Issue!

This month's theme looks at the turning Credit Cycle and what that means. Gordon's cover article discusses the multiple impacts it is having and what we can look forward to next. Two of his other feature articles deal with the issue while discussing ***Bond ETF's*** and ***High Yield Corporates***.

His 4th feature of the month looks at more stock influences on the market in ***"Nifty 9"***.

Targets continue to be hit! See where the markets are going in the New Year!

Thank-you &
Good Trading!
Andrew J.D. Long, *MFTA*
" GoldenPhi"

TRIGGER$ Media Publications Inc.

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Technical Analysis: GoldenPhi & Gordon T. Long

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DEBT STORM OVER EMERGING MARKETS

Cover Story

THE ALL SEEING EYE

On Market & Economic Indicators

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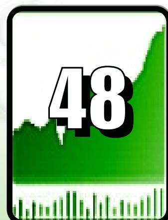

NEED TO KNOW

Technical Analysis

S&P *(short+long term)*
MATA TRIGGER$ & DRIVER$
VIX

THE VAULT

Currencies & Metals

Silver, Gold,
EUR/JPY, US$,
EUR/USD

DRIVERS

- feature article -

SOMETHING IS BURNING IN HIGH YIELD CORPORATES?

OPEN FORUMS

Letters to the Editor
Readers Comments
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"FANG & NOSH" now the "NIFTY 9"

Gordon T Long

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TECHNI-FUNDAMENTALISM

TRIGGER$ publications combine both Technical Analysis and Fundamental Analysis together offering unique (and often correct) perspectives on the Global Markets. The 'backbone' of this research is done by "Gordon T. Long, Market Research & Analytics" which is subscribed to by Professional Managers, Private Funds, Traders and Analysts worldwide. Every month "Market Research & Analytics" publishes three reports totalling more then 380 pages of detailed Technical Analysis and in depth Fundamentals. If you don't find our publication detailed enough, we recommend you consider theirs in addition to this one.

For the rest of us, TRIGGER$ offers a 'distilled' version of the 380 pages in a readable format for use in your daily due diligence. Read and understand what the professionals are reading without having to be a Professional Analyst or Technician.

Successfully navigating todays markets requires information from a broad variety of sources. Triggers examines it all. From Macro Geo Political to daily events; yearly cycles to break out points on a minute chart: we look at and analyze as much of the information as possible, pulling out the relevant and giving you what you need to know to make the right decisions on a daily basis.

An initial or 'beginning' publication occurs every month, both in a printable pdf as well as online. From there, the online version is updated daily with current events, charts, news and any relevant information pertaining to trading. The completed version of the publication isn't actually done until the last day of updates – which occurs right up until the publication of the next issue.

As well as the Traditional Methods commonly used, "Market Research & Analytics" has developed "proprietary analytics" for both Technical and Fundamental Analysis and has designed a methodology to combine the two whereby the synthesis delivers a truly unique and forward thinking analysis that gives cutting edge insight.

"Techni-Fundamentalism"

DEBT STORM OVER EMERGING MARKETS

Something Appears Broken Somewhere?

Gordon T Long

A Year of Warnings

For well over a year, each month in Trigger$ we have laid out increasing concerns we had with the financial markets. Our concerns didn't say the market would crash, but rather the risk was dramatically increasing for the rewards offered. The truth is, when markets are being controlled or manipulated through central bank policy, traditional signals are distorted, or in some cases completely broken.

- ECHO BOOM
- GLOBAL SLOWING
- US$ & CORPORATE PROFITABILITY
- BUYBACKS
- REVENUE & EARNINGS RECESSION
- CREDIT CYCLE HAS TURNED

A REVENUE RECESSION

TWO QUARTERS OF NEGATIVE REVENUE GROWTH

(cont pg.4)

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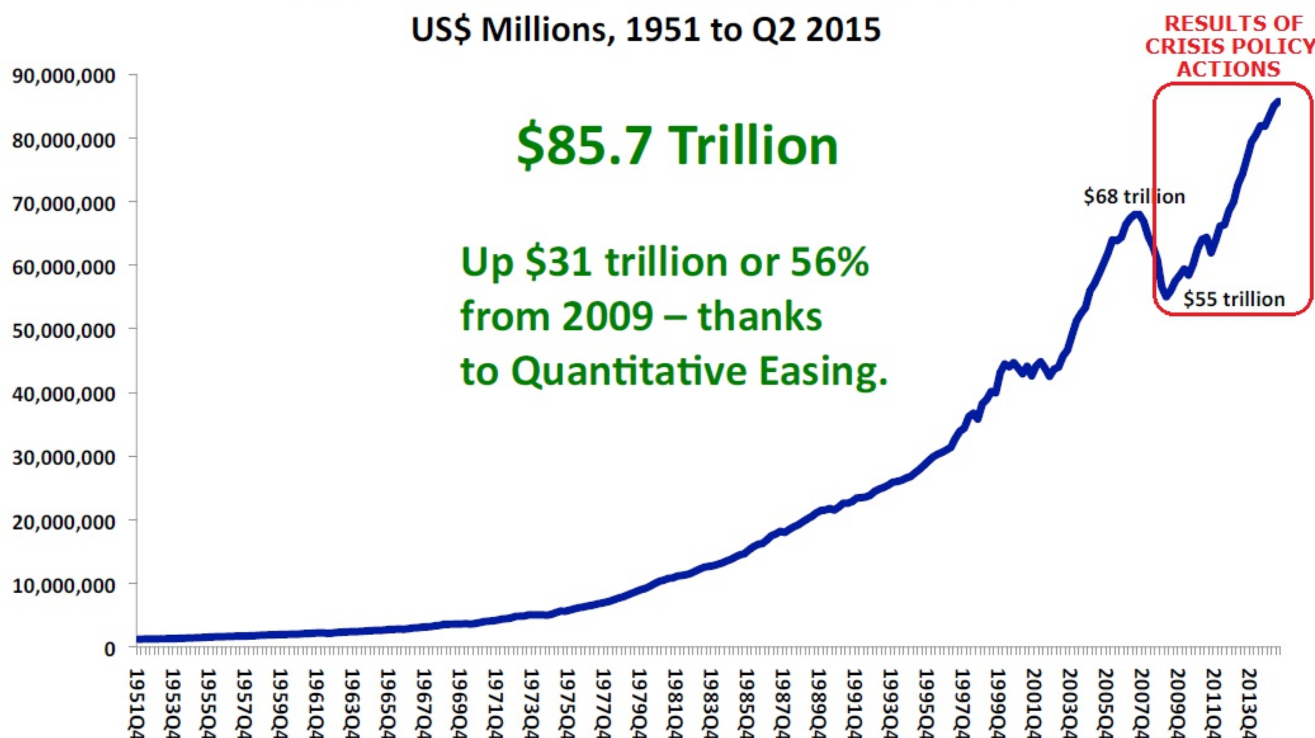
DEBT STORM.... (cont.)

Central Bank policy is aimed at stimulating demand through the assumption of the wealth effect. These historically unusual central bank policies have been highly successful in this regard. The question is at what cost and what unintended consequences? A chart like this suggests times should never be better, but that is not what "main street" is experiencing!

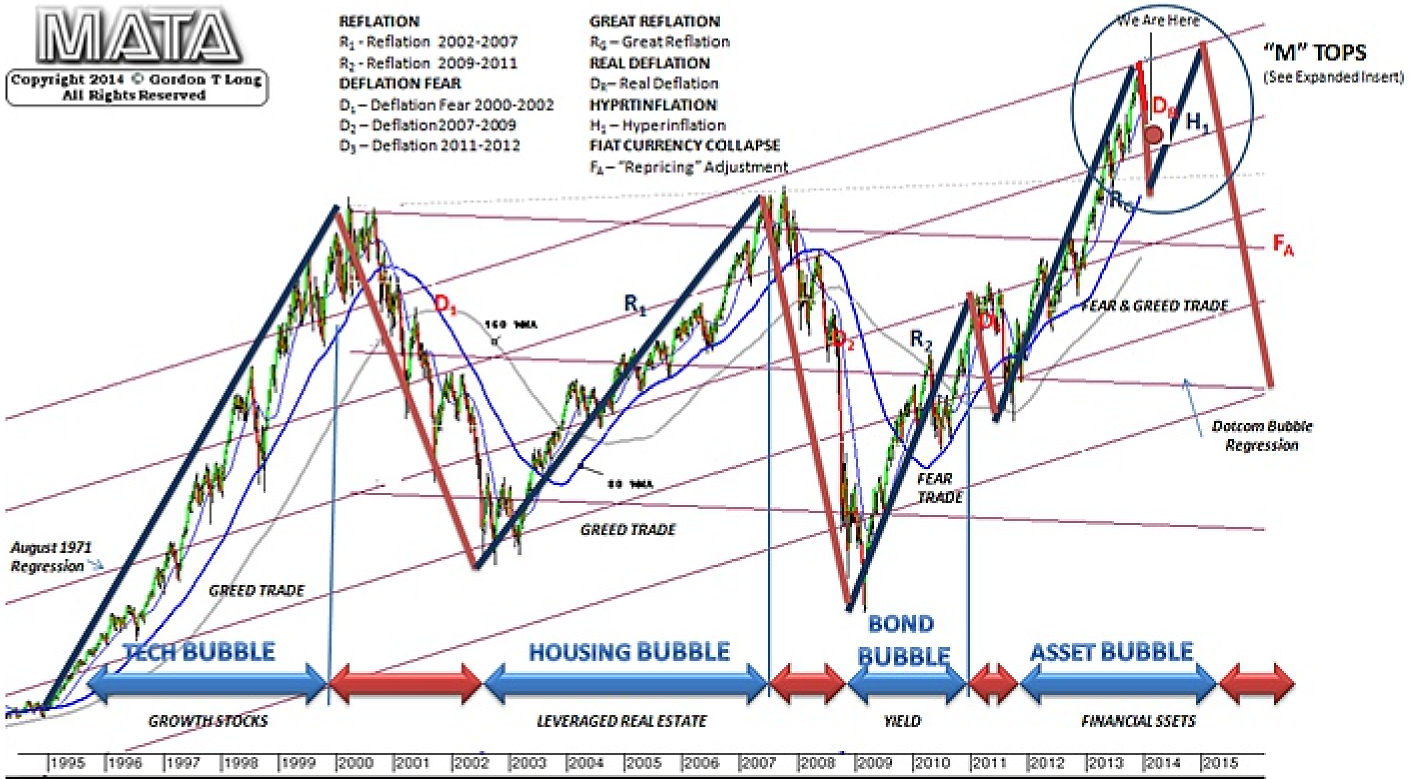


Our "M" TOP – *Revisited*

For Investors, until recently is has never been better for than since the post financial "triage" policies were implemented. The first leg of our "M" top evolved as expected including our expected deflationary period associated with a breakdown in commodities, as we lay out in our Thesis paper "The Globalization Trap" and specifically with the Emerging Market "Echo Boom" concept.

(cont pg.5)

DEBT STORM.... (cont.)

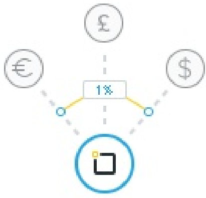


A MEGAPHONE TOP – *Expected Pattern*

A cornerstone of our "M" top theory was that we would complete a "Megaphone" top. This has clearly unfolded as shown here by Robert McHugh based on the Dow Jones Industrials versus the S&P 500 on the previous chart.

(cont pg.7)

BitGold



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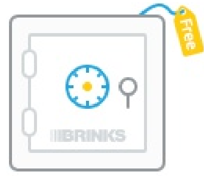

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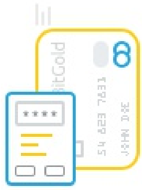

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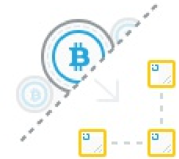

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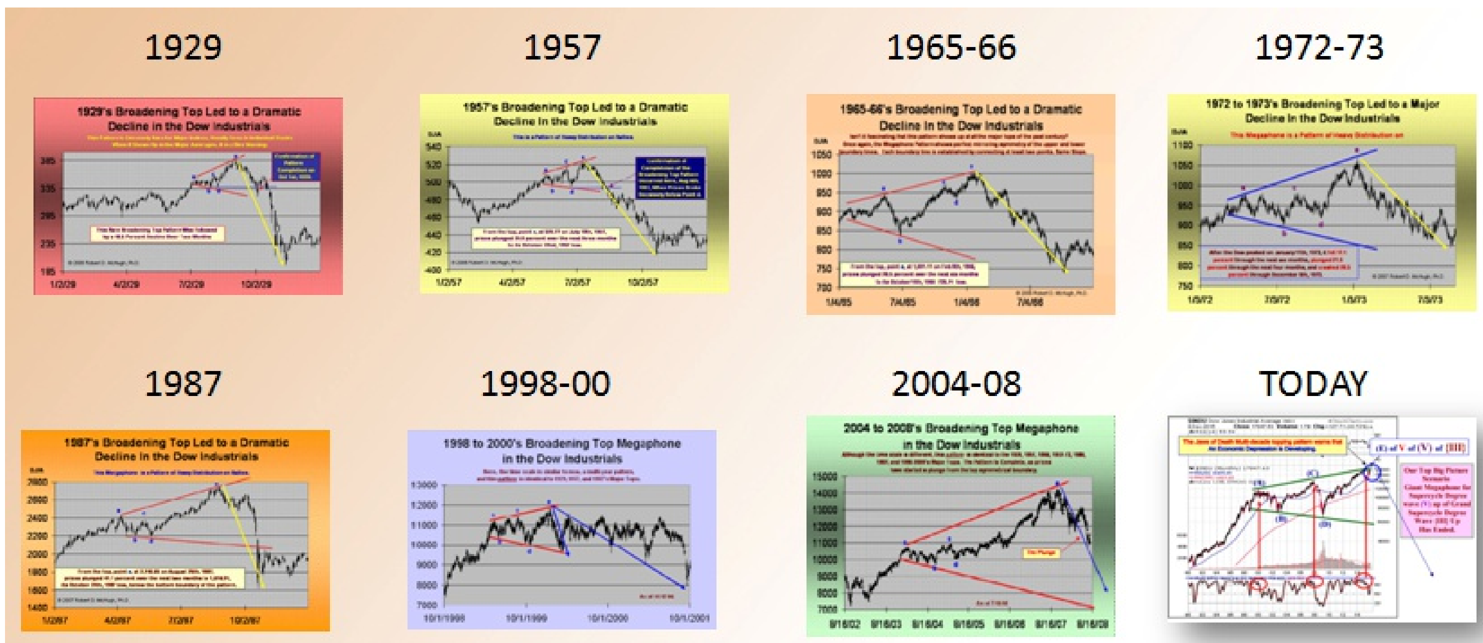
DEBT STORM.... (cont.)

MEGAPHONE TOPS – *Repeating Historical Pattern*

We laid out in the Studies Section of our MATA document, well over 2 years ago, the significance of this pattern at major market reversals. Nothing is ever a 100% probability, but it sure has worked well for us since the post financial crisis bottom.



Fractals

Another important part of our theory is that markets repeat in cyclical patterns. These patterns are observed at various degrees. Think of degrees as patterns on a monthly basis versus a daily basis for example. When you see this happening you chance of having the right pattern are much higher. The megaphone is one such pattern that is often seen. These patterns are not just signs waves by often non-periodic repeating cycles as laid out in work by famous mathematicians such as Benoit Mandlebot.

This more detailed chart from Robert McHugh shows that a smaller degree fractal appears to be occurring now and is stretching our “M” top slightly.

(cont pg.8)

DEBT STORM.... (cont.)

We initially thought that the inside weakness of our "M" top might be occurring in August and September. We did approach some critical levels, but the drop seemed too "light" against what we thought would occur and most importantly, would be required to prompt the next round of central banks initiatives.

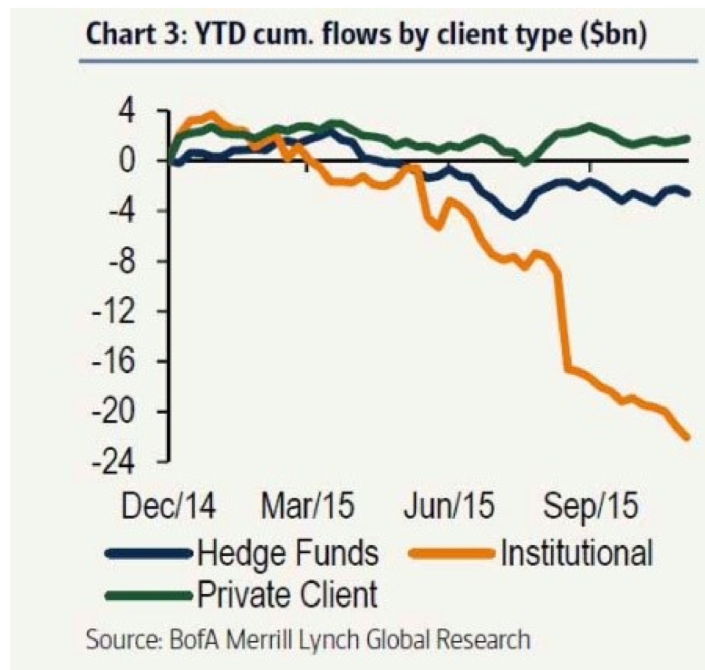
What we think is occurring is we are simply completing a final "fractal" before beginning the inside weakness of our "M" top.

(cont pg.9)

DEBT STORM.... (cont.)

This is the sort of pattern that is required to kill the present level of retail “Euphoria” in the market! And let me clearly state, as the chart on the right shows, this is only at the retail level and those institutions forced by their prospective to be invested. – Institutions that can, have already left or are in the process of leaving.

Net Equity Inflows vs. S&P 500
STREETTALKLIVE.COM
Net Equity Inflows
S&P 500
60000
40000
20000
0
-20000
-40000
-60000
1900.0
1700.0
1500.0
1300.0
1100.0
900.0
700.0
2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014
Despondency
Depression
Hope
Relief
Optimisim
Excitement
Thrill
Euphoria
Anxiety
Denial
Fear
Desperation
Panic
Capitulation
Despondency
Hope
Relief
Optimisim
Depression
Excitement
Thrill
Euphoria
3-Mo Avg Of Net Equity Inflows
S&P 500 Index

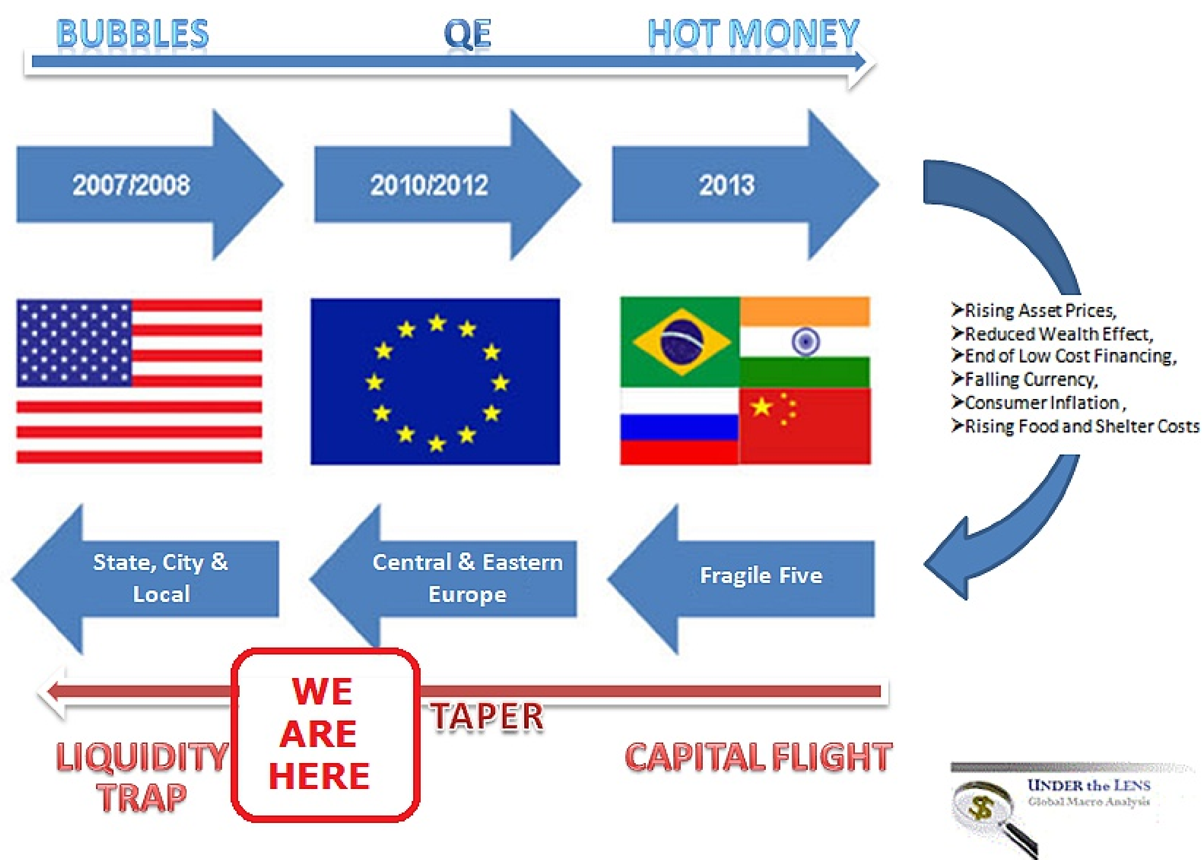


(cont pg.10)

DEBT STORM.... (cont.)

UNDERPINNINGS – Credit Cycle Has Turned

ECHO BOOM– *"As Expected"*



(cont pg.11)

The Financial Repression Authority

MACROPRUDENTIAL POLICY ADVISORS

Educating investors globally in understanding the challenges of investment and protection in the unfolding Era of Financial Repression

"Financial repression is not a conspiracy theory, it is rather a collective set of macroprudential policies focused on controlling and reducing excessive government debt through 4 pillars - negative interest rates, inflation, ring-fencing regulations and obfuscation - to effectively transfer purchasing power from private savings."
- The Financial Repression Authority

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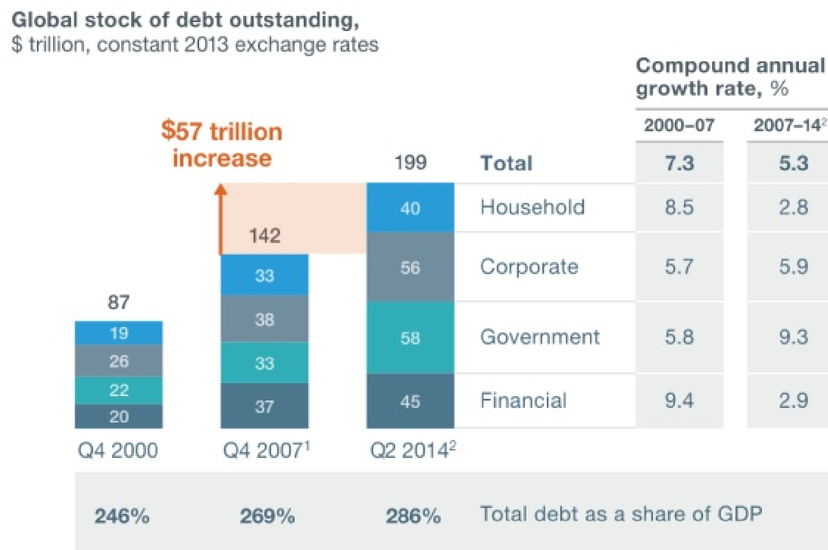
DEBT STORM.... (cont.)

My Macro Analytics and Financial Repression Authority guest, Graham Summers recently penned the following in an article entitled: The Shocking True State of the Financial System Today

> For six years, the world has operated under a complete delusion that Central Banks somehow fixed the 2008 Crisis.
>
> All of the arguments claiming this defied common sense. A 5th grader would tell you that you cannot solve a debt problem by issuing more debt. There is no way that things are better now. After all, we've just added another $10 trillion in debt to the US system.
>
> Similarly, anyone with a functioning brain could tell you that a bunch of academics with no real-world experience, none of whom have ever started a business or created a single job can't "save" the economy.
>
> However, there is an AWFUL lot of money at stake in believing these lies. So the media and the banks and the politicians were happy to promote them. Indeed, one could very easily argue that nearly all of the wealth and power held by those at the top of the economy stem from this fiction.
>
> So it's little surprise that no one would admit the facts: that the Fed and other Central Banks not only don't have a clue how to fix the problem, but that ***they actually have almost no incentive to do so.***
>
> So here are the facts crystallized in 6 points:



(cont pg.12)

DEBT STORM.... (cont.)

1) The REAL problem for the financial system is the bond bubble. In 2008 when the crisis hit it was $80 trillion. It has since grown to over $100 trillion.

2) **The derivatives market that uses this bond bubble as collateral is over $555 trillion in size.**

3) Many of the large multinational corporations, sovereign governments, and even municipalities have used derivatives to fake earnings and hide debt. **NO ONE knows to what degree this has been the case, but given that 20% of corporate CFOs have admitted to faking earnings in the past, it's likely a significant amount.**

4) Corporations today are more leveraged than they were in 2007. As Stanley Druckenmiller noted recently, in 2007 corporate bonds were $3.5 trillion… today they are $7 trillion: an amount equal to nearly 50% of US GDP.

5) The Central Banks are now all leveraged at levels greater than or equal to where Lehman Brothers was when it imploded. The Fed is leveraged at 78 to 1. The ECB is leveraged at over 26 to 1. Lehman Brothers was leveraged at 30 to 1.

6) The Central Banks have no idea how to exit their strategies. Fed minutes released from 2009 **show Janet Yellen was worried about how to exit when the Fed's balance sheet was $1.3 trillion (back in 2009).** Today it's over $4.5 trillion.

We are heading for a crisis that will be exponentially worse than 2008. The global Central Banks have literally bet the financial system that their theories will work. They haven't. All they've done is set the stage for an even worse crisis in which entire countries will go bankrupt.

USD – *A Historic Spike*

(cont pg.13)

DEBT STORM.... (cont.)

Graham Summers followed up in [Is the Fed About to Light the Fuse on a $9 Trillion Debt Bomb?]()

> The US Federal Reserve (Fed) and European Central Bank (ECB) have created a very dangerous situation.
>
> Throughout the last six years, there has been a sense of coordination between the Fed and ECB. This was evident both in terms of where capital went as well as how it was delivered via monetary policy.
>
> For instance, when the Fed released its discount window documents in 2011, it became clear that most of the funds from QE 2 actually went to foreign banks located in the EU.
>
> Similarly, when the EU banking system was close to imploding in 2012, the Fed coordinated with the ECB to announce QE 3 in an effort to prop up the EU banking system and calm overseas jitters to aid the Obama administration in its re-election campaign.
>
> In short, from 2008 to 2014, the Fed and ECB worked together.
>
> However, at some point this relationship was set to fracture. True, global Central Banks want to work together to maintain stability… but when every Central Bank is engaged in the competitive devaluation of its currency, at some point the relationship between Central Banks would become fractured as they individually had to choose to aid themselves over each other.
>
> That point is today…
>
> The Euro comprises 56% of the basket of currencies against which the US Dollar is valued. As such, the Euro and the Dollar have a unique relationship in which whatever happens to the one will have an outsized impact on the other.
>
> This relationship first began to run off the rails in June 2014 when the ECB cut interest rates to negative. Before this, the interest rate differential between the Euro and the US Dollar was just 0.25% (the US Dollar was yielding 0.25% while the deposit rate on the Euro was at exactly zero).
>
> While significant, the interest rate differential was not enough to kick off a complete flight of capital from the Euro to the US Dollar. However, when the ECB launched NIRP, cutting its deposit rate to negative 0.1%, the rate differential (now 0.35%) and punitive qualities of NIRP (it actually cost money to park capital in the Euro) resulted in vast quantities of capital fleeing Euros and moving into the US Dollar.
>
> Soon after, the US Dollar erupted higher, breaking out of a multiyear triangle pattern and soaring over 25% in a matter of nine months.

(cont pg.14)

To put this into perspective, this move was larger in scope than the “flight to safety” that occurred in 2008 when everyone thought the world was ending.

The reason this is problematic?

There are over $9 trillion in borrowed US Dollars sloshing around the financial system. And much of it is parked in assets that are denominated in emerging market currencies (the very currencies that have imploded as the US Dollar rallied).

This is the US Dollar carry trade… and it is larger in scope that the economies of Germany and Japan… combined.

In short, when the ECB cut rates to negative, the US Dollar carry trade began to blow up. The situation only worsened when the ECB cut rates even further into negative territory in September 2014 and again last week bringing the rate differential between the US Dollar and Euro to 0.55%.

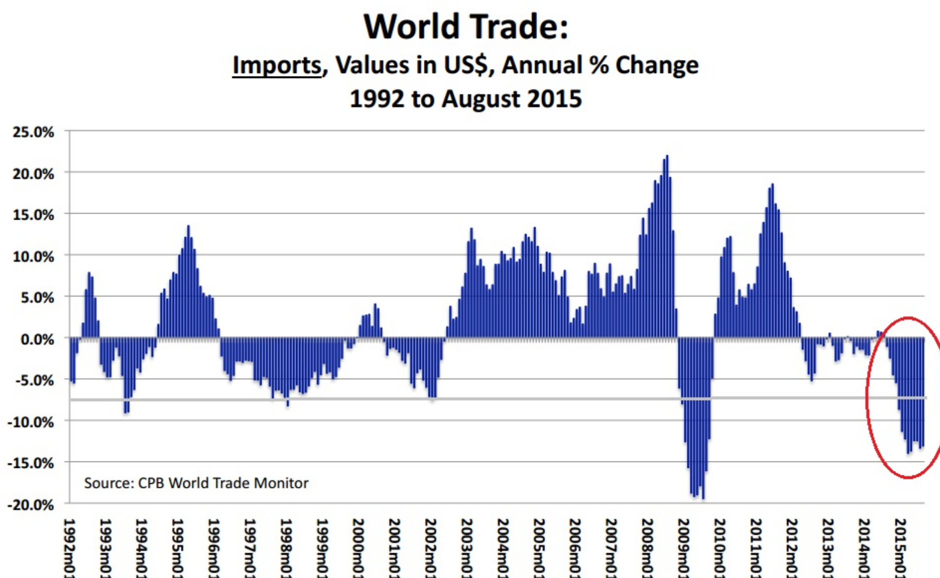
Now, the Fed is talking of raising interest rates. **Even a symbolic rate hike to 0.3% or 0.5% could trigger a complete implosion of the $9 trillion US Dollar carry trade.**

If you think this is just fear mongering, you’re mistaken. The Treasury Dept. issued emergency kits to employees a few months ago in anticipation of systemic volatility during the rate hike. Similarly, the Fed boosted the size of its market operations department in Chicago case the NY Fed loses control of the system when rates increase.

In short, we could very well be on the eve of another systemic crisis. The financial elites have been preparing for this for months.

SLOWING GLOBAL TRADE – *Comparable to 2008*

There is little doubt the global economy is now slowing at a rate comparable to the 2008 Financial Crisis. It is startling and seems to be left as a foot note to most coverage by CNBC.



(cont pg.15)

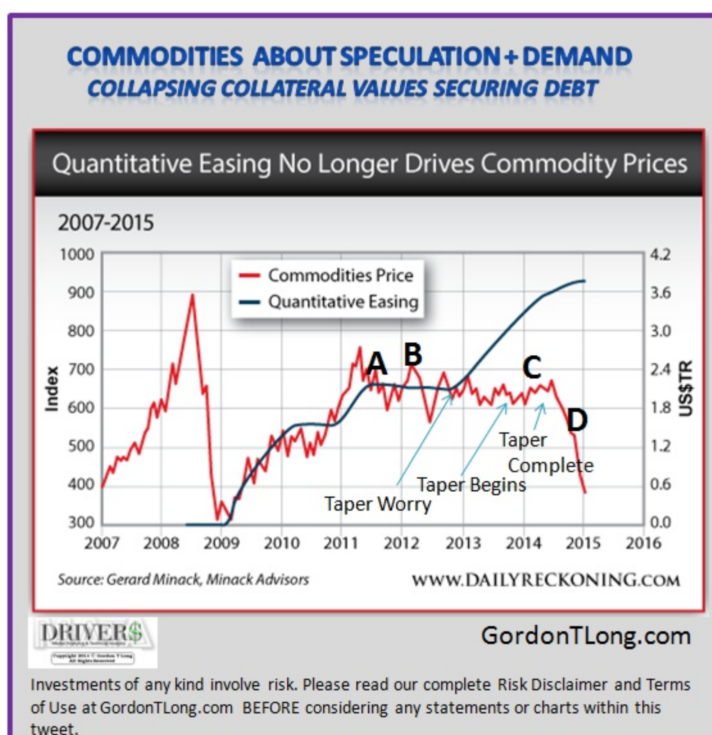
DEBT STORM.... (cont.)

COMMODITIES – *Taper and the Glencore Canary*

I have discussed previously that the commodity complex and energy began falling when the realities of a potential US Taper program actually occurring were first realized. We have felt since the announcement by the US Federal Reserve of its "TAPER" program that an inevitable collapsing commodity market in Emerging Economies would be the catalyst for the next crisis. We concluded in our Thesis paper "The Globalization Trap" that a good proxy for a slowing China would initially be commodity prices and in turn the levered players behind the massive commodity run-up.

Make no mistake about it; China is in the process of a hard landing which is being once again temporarily camouflaged by credit expansion!

This is a ticking time bomb with players like Glencore are 'ground zero'.



A - Glencore Dips Below IPO Price On Second Day Of Trading,

B - $82 Billion Glencore Xstrata Megamerger Near,

C - Spot The Goldman And Glencore Aluminum Warehouses,

D - Depression-Level Collapse In Demand: In Historic First, Glencore Shuts Coal Mines For 3 Weeks

It is a Highly Levered Player, in a Highly Levered Industry, Tied to a Highly Levered China

It could however just as easily be the Vitol Group, Trafigura, Gunvor Group Ltd Mercuria Energy Group, Louis Dreyfus Commodities or Noble Agri… and there are more. This group alone has recently raised at least $125 billion of debt … Why?? What is the panic?

When these players bonds are rated as junk it will lead to numerous collateral shortfalls and margin call waterfalls, reminiscent of the ratings agency downgrade of AIG that culminated with the US bailout of the insurer.

(cont pg.16)

DEBT STORM.... (cont.)

Commodity traders have raised at least $125 billion of debt, of which about $75 billion is loans. In other words, there is about $75 billion in secured debt, collateralized by either inventory and/or receivables collateral whose value has cratered in the past year and as a result the LTV on the secured loans has soared. It is this that is prompting the panicked banks to be more eager to provide funds to the suddenly distressed energy-trading sector than even the borrowers themselves.

Goldman Sach's straw man for the next mega bailout goes roughly as laid out here:

1. Commodity prices drop another 5%

2. The rating agencies get a tap on their shoulder and downgrade Glencore to Junk.

3. Waterfall cascade of margin and collateral calls promptly liquidates Glencore's trading desk and depletes the company's cash, leaving trillions of derivative contracts in limbo. Always remember: the strongest collateral chain is only as strong as its weakest counterparty. If counterparty liquidates, net exposure becomes gross, and suddenly everyone starts wondering where all those "physical" commodities are.

4. Contagion spreads as self-reinforcing commodities collapse launches deflationary shock wave around the globe.

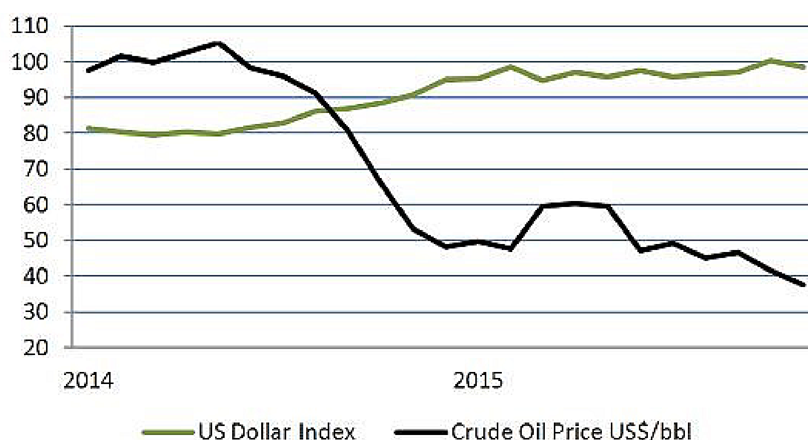
5. Fed and global central banks are called in to come up with a "more powerful" form of stimulus

6. The money para-drop scenario proposed by Citigroup , becomes reality

Stay tuned, things could get out of control fast!!

OIL COLLAPSE – *Crushing Energy Exporters' Current Accounts*

Everything I described also is true for players and countries involved in the energy sector. Industries cannot withstand sustained price drops from $105 to $37 or a 65% drop in revenue. Its fixed cost and debt simply kill it. This kind of drop takes countries with it. Look at Venezuela or even what is now occurring in economic "stalwarts" like Canada.

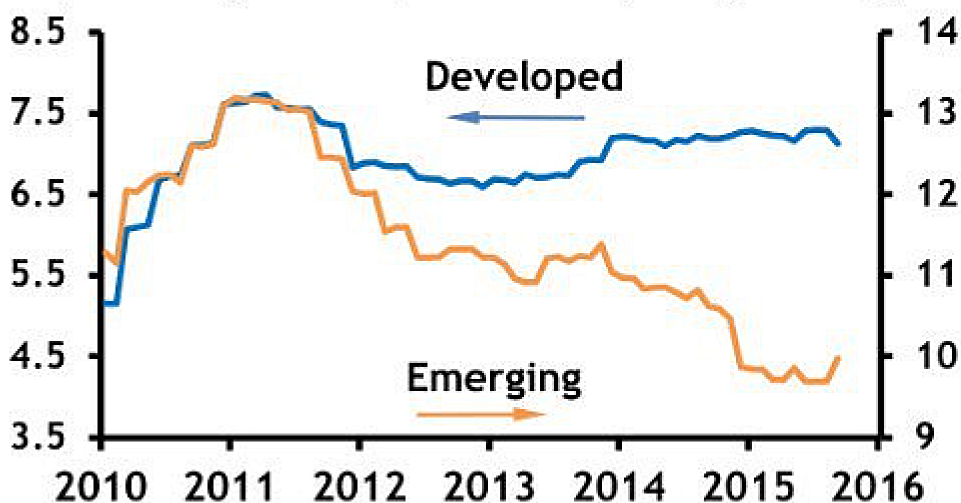


(cont pg.17)

DEBT STORM.... (cont.)

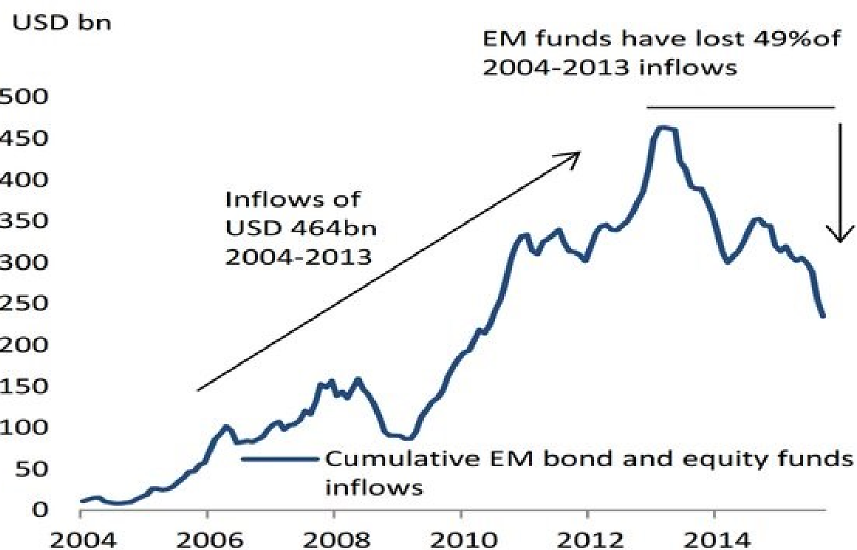
PROFIT MARGINS – *Raw Materials Supply*

Profits as a percentage of revenue is killing Emerging Markets and the $9 Trillion in debt obligations they have shouldered to keep up with the false signals and distortions that QE was giving regarding Demand.



EM FLOWS – *Hot Money Avoiding Falling Currency*

As the US Dollars continues to rise and make the debt overhang even worse, the hot money is escaping before Emerging Market currencies drop further. Brazil is now in a Depression – not a Recession. Investors don't wait for the government and the statisticians to make their always belated announcements.

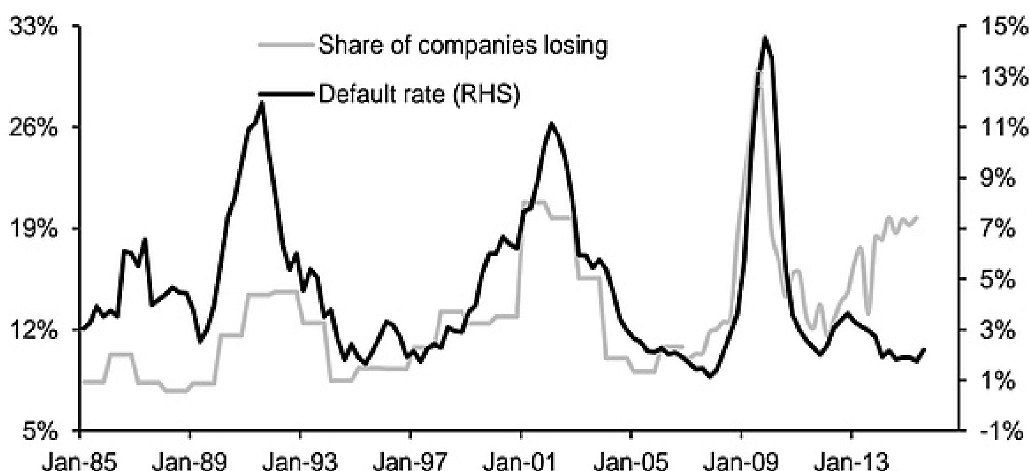


(cont pg.18)

DEBT STORM.... (cont.)

ZOMBIE COMPANIES – *Being Choked*

As more and more companies begin to default on their loan covenants and money becomes harder to get the problem accelerates.



US EQUITY MARKETS – *Only Thing Holding Up*

Most markets around the world are already adjusting. The only market that isn't is the US Equity market which is being held up by fewer and fewer companies, like the FANGS and NOSHs which we wrote about in November's edition of Triggers… and of course the stealth US Plunge Protection Team. Don't be fooled – this is exactly what is occurring. It will continue until the market simply becomes too heavy to be artificially held up and something breaks.

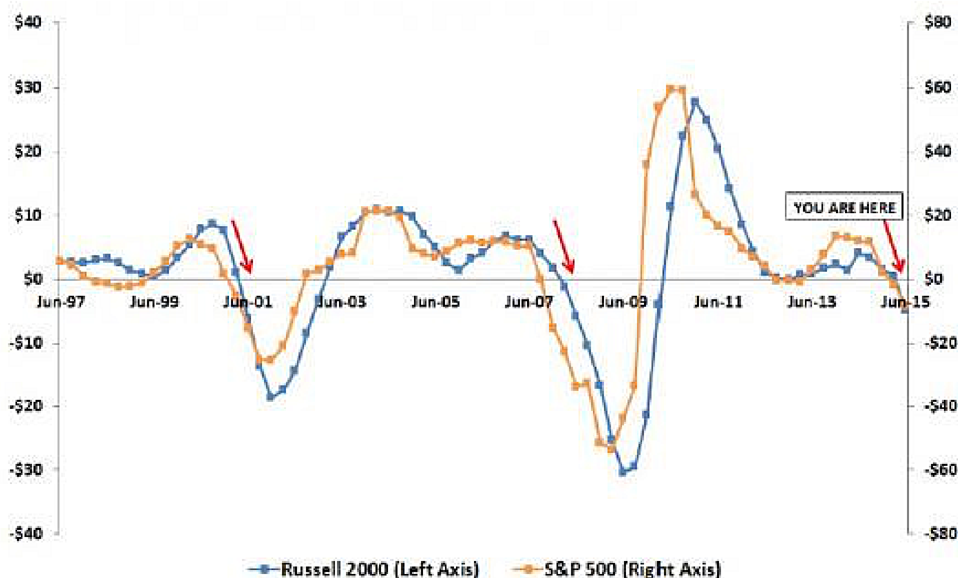
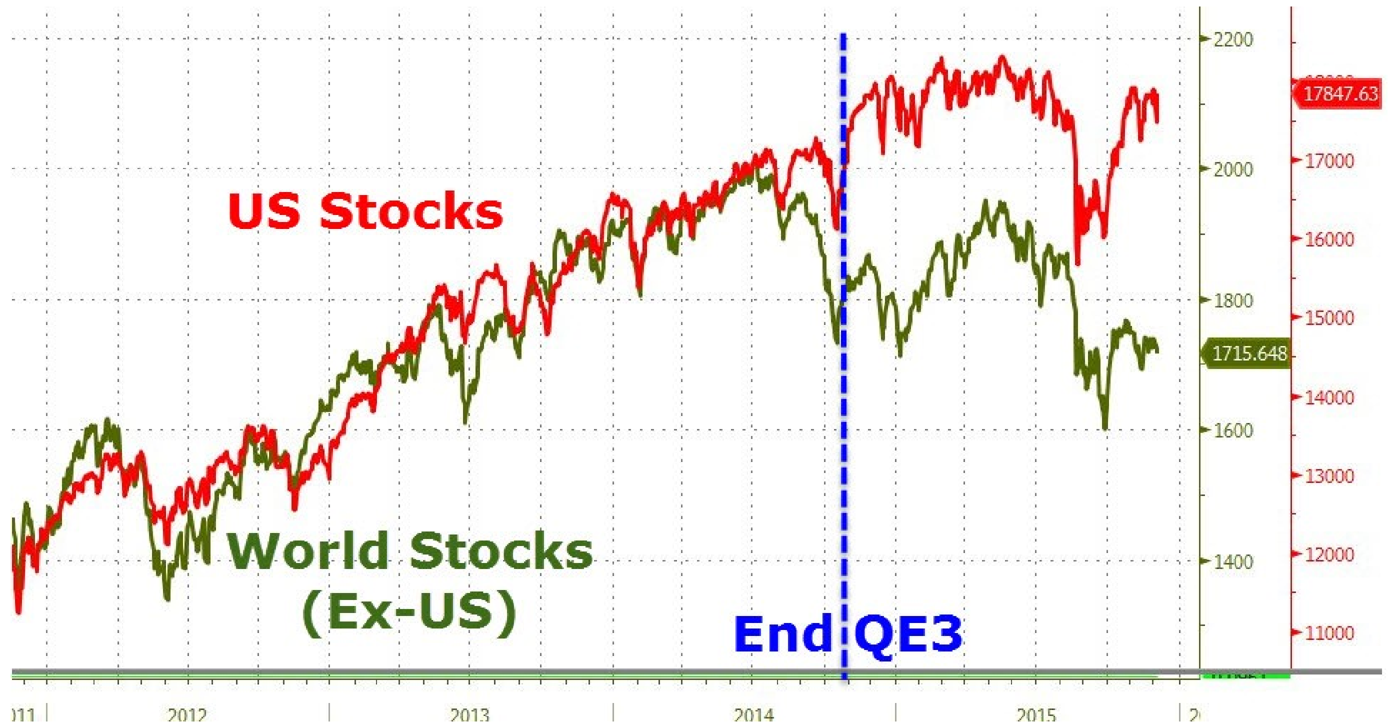


Figure 9: Year-over-Year Change in 12-Month Profits Per Share, S&P 500 Vs Russell 2000.
Source: S&P.

(cont pg.19)

DEBT STORM.... (cont.)

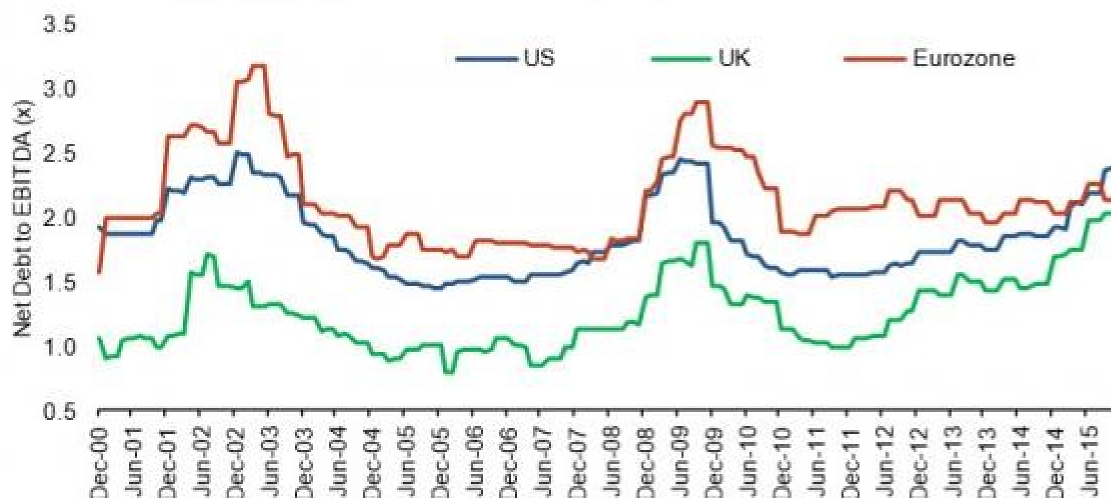


CREDIT CYCLE HAS TURNED
– Everything Resting on a Moving Floor (Cheap Money)

What everyone must realize is the Credit Cycle has reversed after 8 years. It reverses because corporate free cash flow shrinks and therefore credit risk increases. It is not a decision. It is about the realities of the numbers. Debt levels to EBITDA are critical to lenders. They react and everything else follows – eventually.

(cont pg.20)

DEBT STORM.... (cont.)



(cont pg.21)

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DEBT STORM.... (cont.)

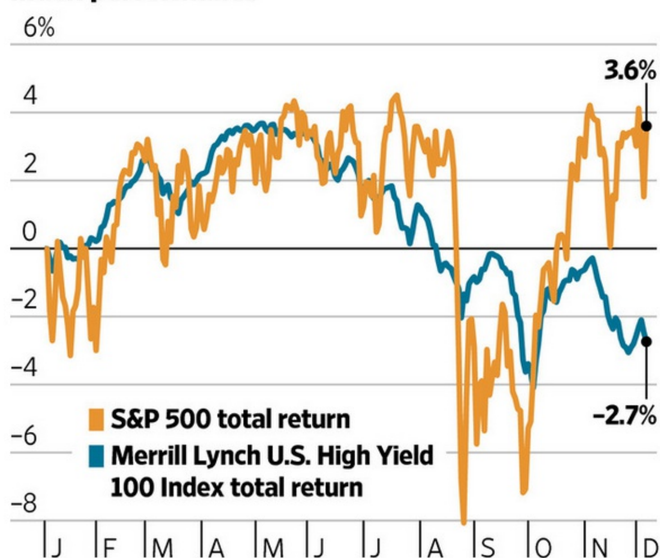
SOMETHING BROKEN SOMEWHERE?

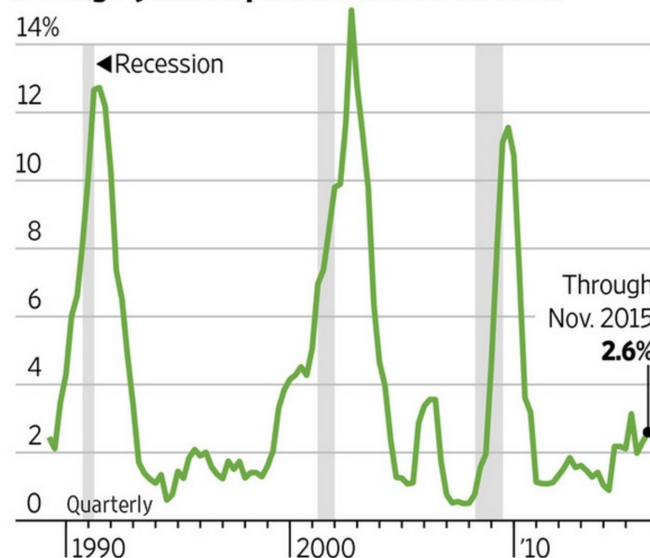
JUNK BONDS – *Default Rates*

This reaction has already begun to occur in the High Yield or Junk Bond market where risk is greater.

Tremors

Junk bonds face their first annual loss since 2008, renewing concerns that rising defaults could hit stocks and the economy.



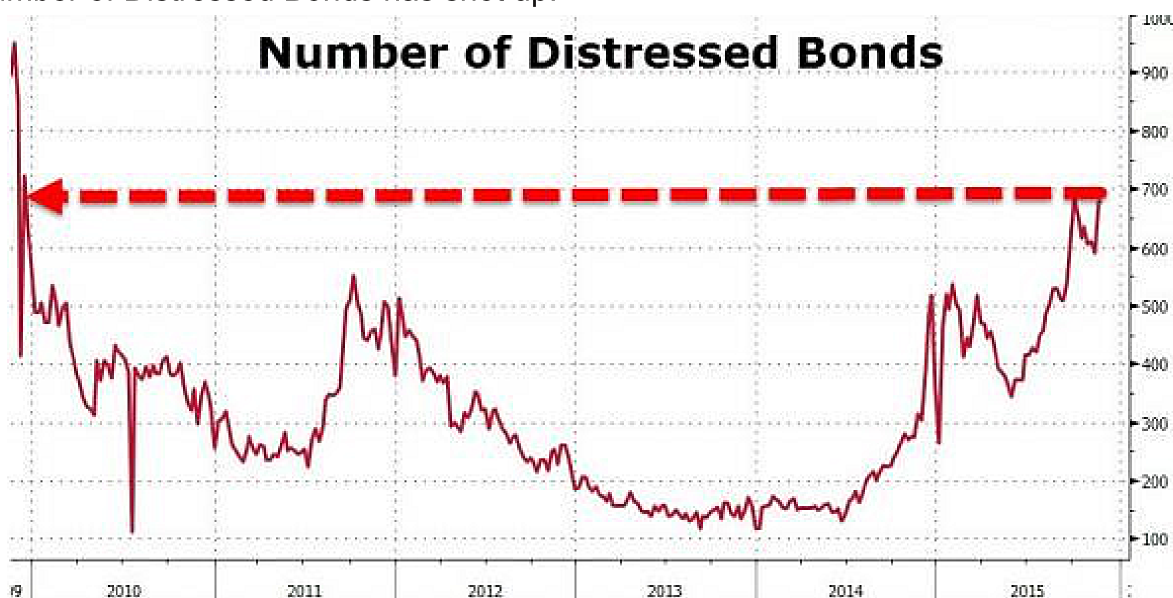


*12-month moving average

Sources: Merrill Lynch (high-yield index); FactSet (S&P 500); Altman/Kuehne-NYU Salomon Center (default rate) THE WALL STREET JOURNAL.

DISTRESSED BONDS

The number of Distressed Bonds has shot up.



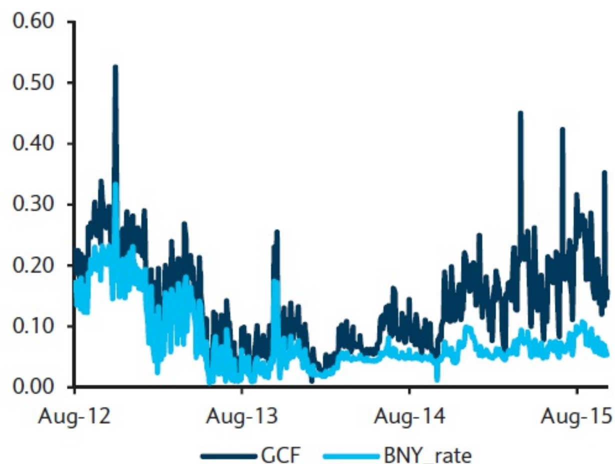
(cont pg.22)

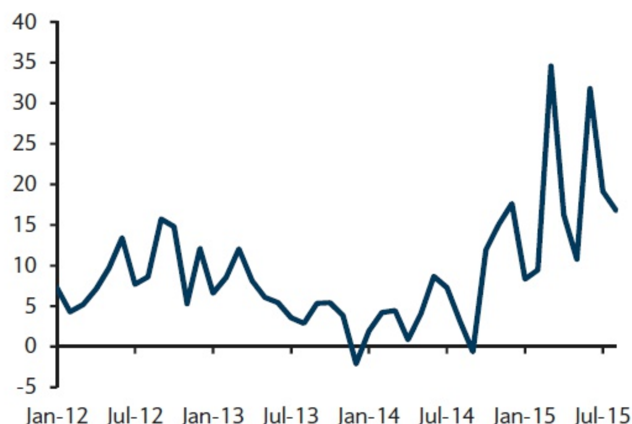
DEBT STORM.... (cont.)

But there is much more going on than just this. There are signals of distortions and dislocations to a degree I haven't seen before. I didn't see these in the market collapses of 2000 nor 2008. Here is a list:

1. NEGATIVE SWAP SPREADS

2. FRACTURED REPO RATES





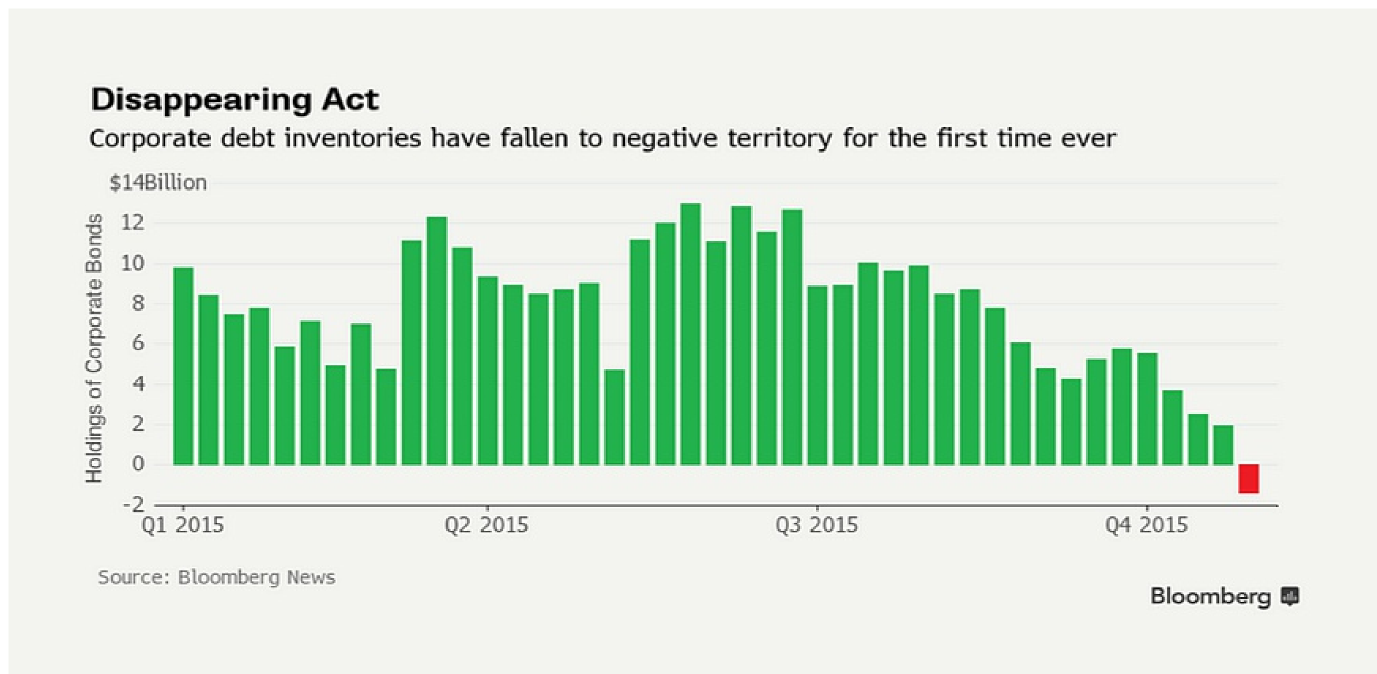
The difference between different repo rates has been widening.

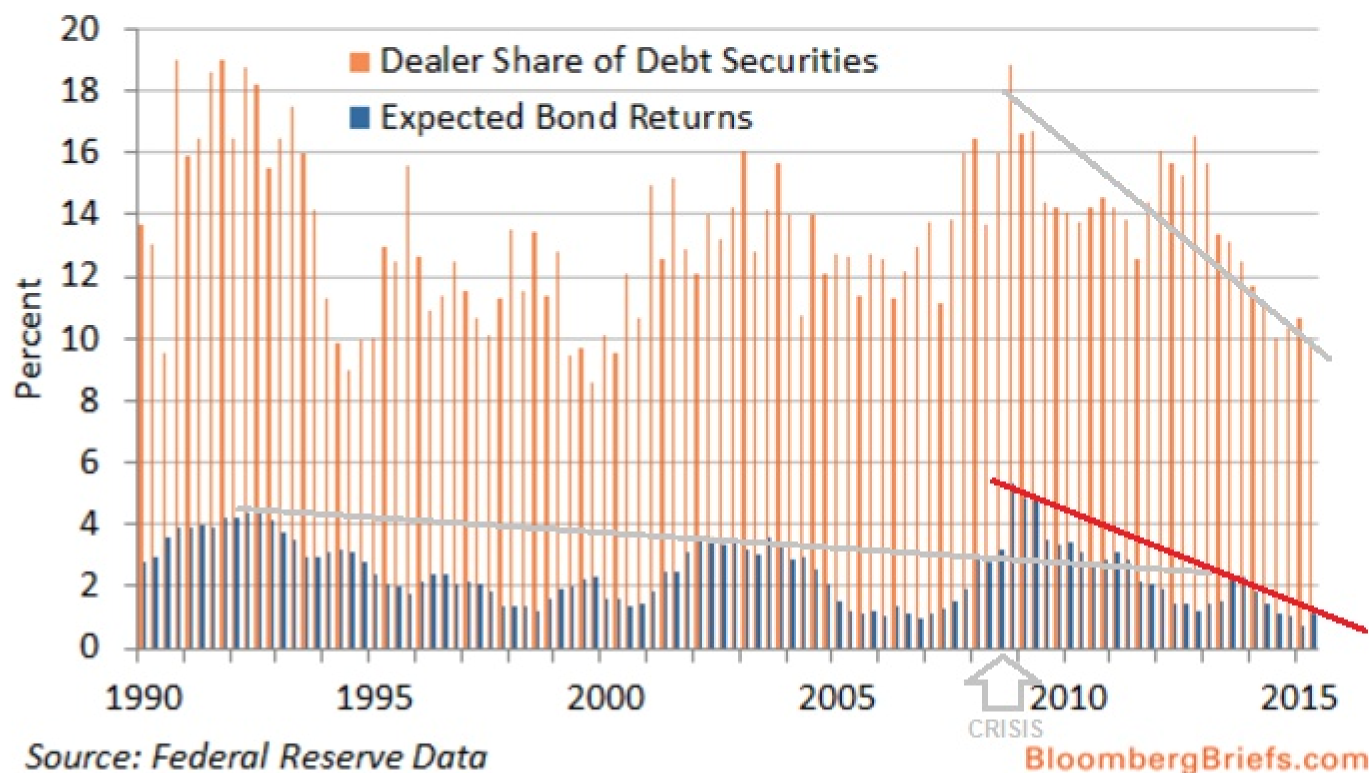
Source: Barclays

(cont pg.23)

DEBT STORM.... (cont.)

3. CORPORATE BOND INVENTORIES BELOW ZERO

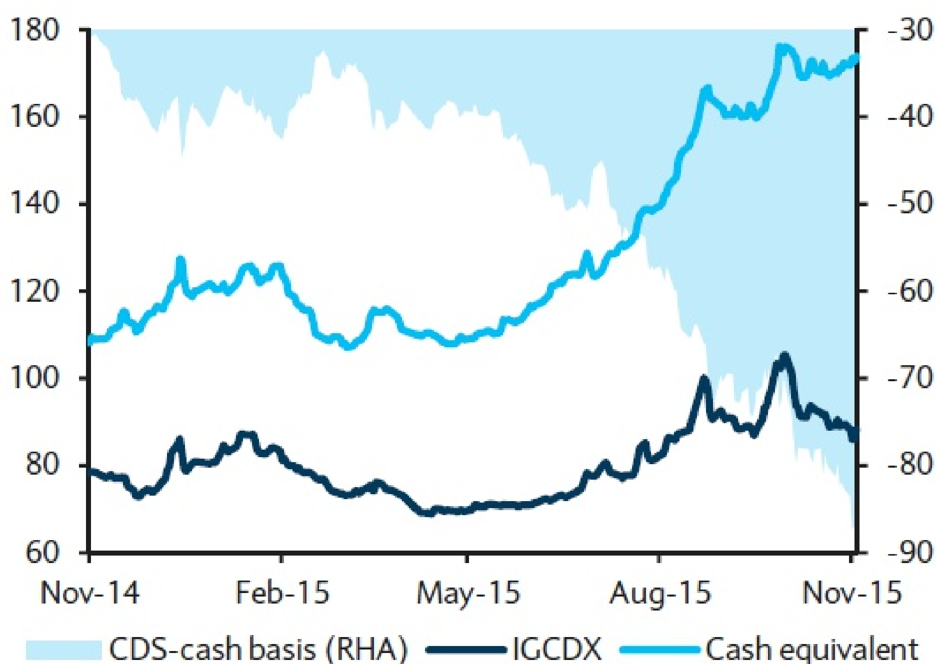




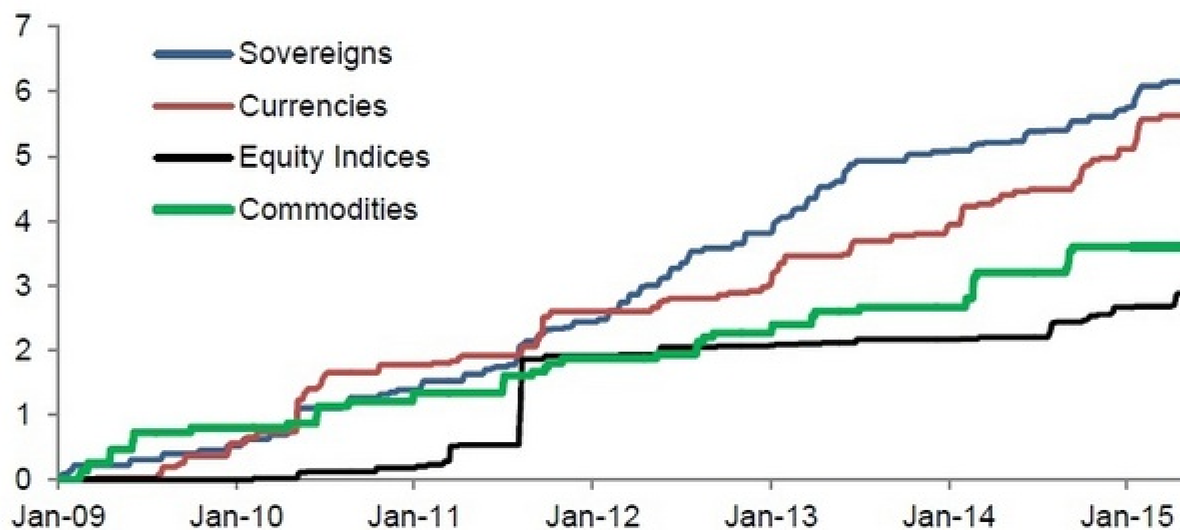
(cont pg.24)

DEBT STORM.... (cont.)

4. SYNTHETIC CREDIT IS TRADING TIGHTER THAN CASH CREDIT



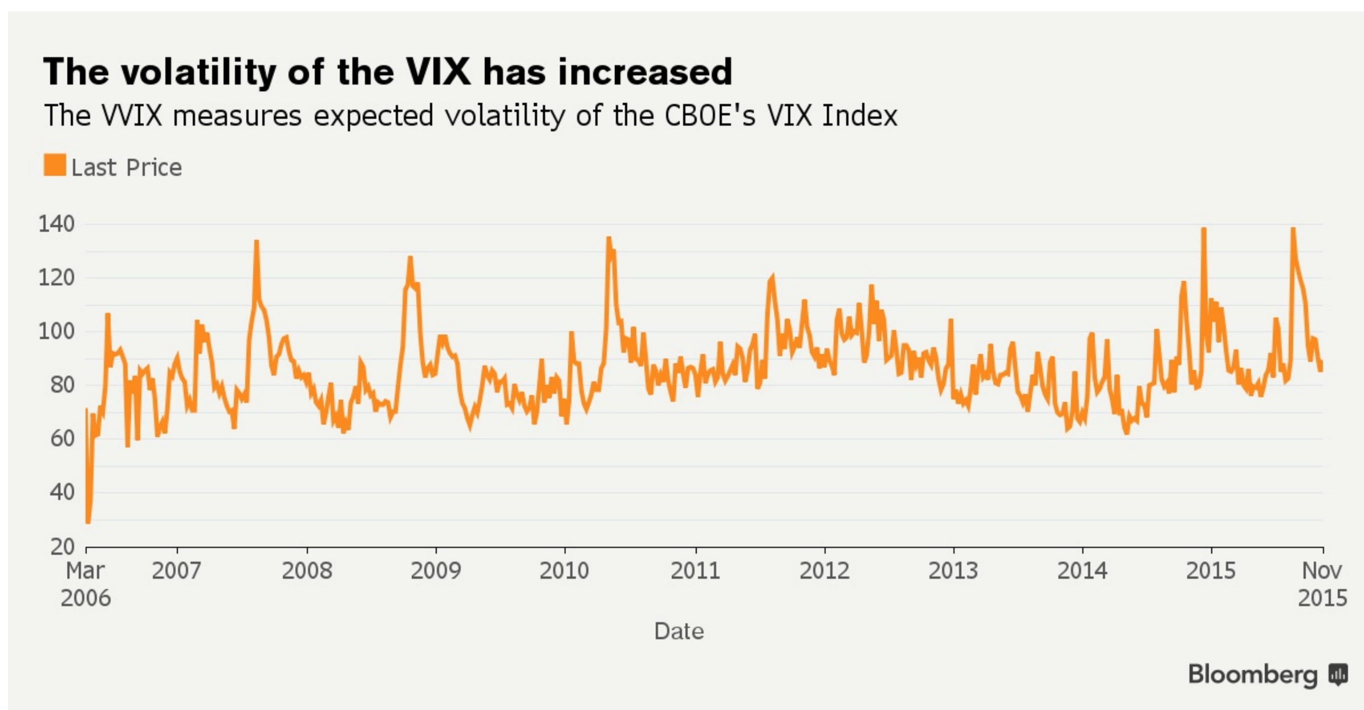
5. UNEXPECTED & WEIRD MARKET MOVEMENTS



(cont pg.25)

DEBT STORM.... (cont.)

6. VOLATILE VOLATILITY – XXXX



The list goes on, but that is enough for you to get the idea. Something is seriously broken somewhere.

Government interference by both central banks and regulators has created an **ever more fragile situation in both the global economy and the financial markets.**

Price **distortions and dislocations have been moving from one market segment to the next and they keep growing**, which indicates that there is considerable danger that a really big dislocation will eventually happen. With that we mean an event in which normally disparate market segments suddenly become highly correlated, as a scramble for liquidity starts in one sector. **The non-scientific name for such an event is "crash"** If you want a more scientific sounding term, Bob Bronson refers to it as a "mass-correlated, hyper-volatile illiquidity event". Sounds like the title on the charts we just reviewed

Extreme caution seems to be warranted, in spite of the fact that money supply growth in the euro area and the US ranges from "extremely brisk" in the former to "sagging, but still brisk" in the latter.

We simply don't know how much money supply growth is really needed to keep the wolf from the door in this brave new world of ZIRP, NIRP and QE.

Risk remains extremely high, that much is certain.

(cont pg.26)

DEBT STORM.... (cont.)

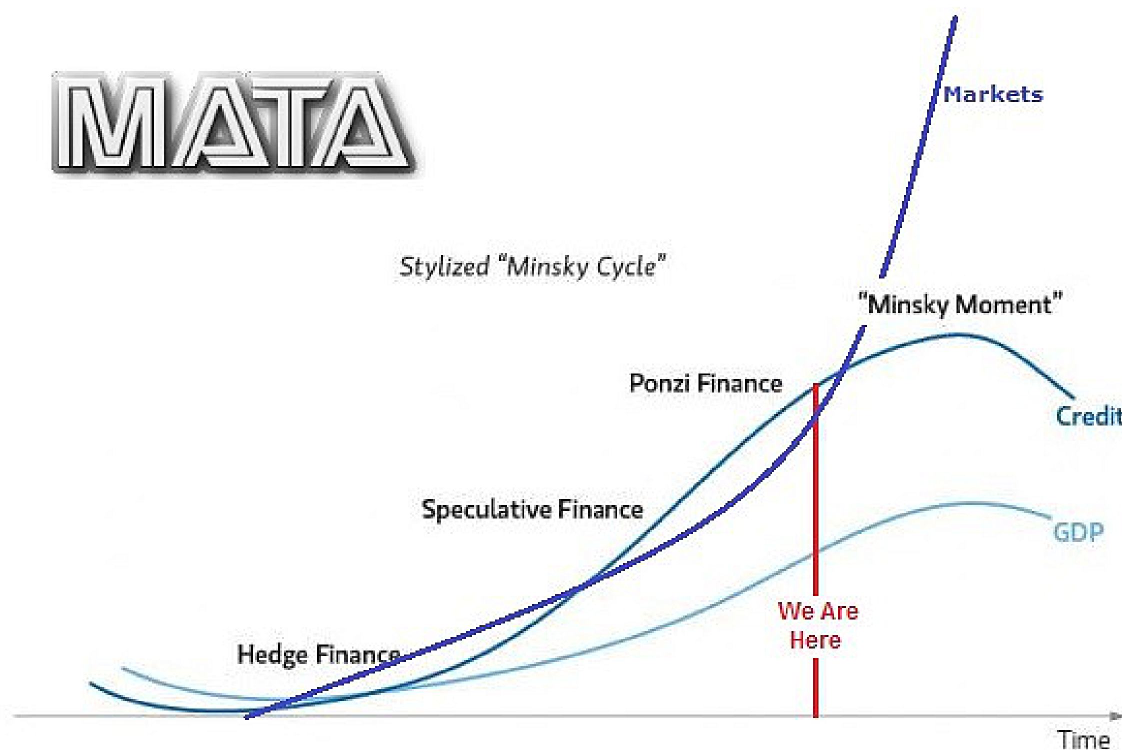
WHAT TO EXPECT

CRACKS IN THE DIKE – *A 1929 Type Trap*

In conclusion, let me reiterate, I continue to fully expect a Minsky Melt-up before all this ends very badly in mid 2016.

Eventually, it will be clear to all that central bank policies have been a failure.

The government's policy of Financial Repression are becoming too heavy handed as productivity falls, high paying jobs disappear and tapped out consumer demand steadily slows.



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Contents Page

METHODOLOGY

TRIGGER$, in collaboration with "Gordon T. Long - Market Research & Analytics", have thier own unique approach to Techni-Fundamental Analysis. The material found in TRIGGER$ are the conclusions of a multi-perspective methodology boiled down to its final essence. This methodology includes the following analytical approach:

Time Frame	Duration	Approach	Key Tools
short - term	less than 90 days	Technical Analysis	Elliott Wave Principal, WD Gann, JD Hurst, Bradley Model, Proprietary Mandelbrot Fractal Gen.
intermediate	12 months	Risk Analysis	Global-Macro Analysis Tipping Ponts - Pivots
longer term	18 months +	Fundamental Analysis	Financial Metrics

The Global-Macro Analysis which is so prevalent in our articles and on our Tipping Points site, plays the critical role of bridging our highly analytic Technical Analysis with our detailed Fundamental Analysis.

We have found that in the short term the markets are driven by emotion and sentiment. In the longer term, they are driven by financial fundamentals. As Warren Buffett is often quoted as saying: “In the short term the market is a slot machine but in the long term it is a weighing machine.” We have found that the transition shows a lagging correlation between changes in the Global Macro, followed by Corporate Earnings, then followed by the sell side analyst community estimates.

If you are looking for more detail than is provided in TRIGGER$, consider looking at our primary inspiration: "Gordon T. Long Research & Analytics". We do our best to summarize this information and deliver it in an easy to read format. This by its very nature doesn't allow us to include all the very detailed analysis that takes place in order to deliver us its conclusions.

All information and conclusions delivered in TRIGGER$ articles are a product of the methodology outlined above.

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FEATURE ARTICLE

A "WITCH'S BREW" BUBBLING IN BOND ETF'S

FLOWS - Liqudity, Credit & Debt

LIQUIDITY: Central Bank Liquidity Increases has slowed or Stopped

>> CREDIT: Cycle has turned

DEBT: Defaults/ Bankruptcies Will Emerge

We believe the Credit Cycle has turned and with it will come some massive unexpected shocks. One of these will be the fall out in the Bond Market, centered around the dramatic growth explosion in Bond ETFs coupled with the post financial crisis regulatory changes that effectively removed banks from making markets in corporate bonds. It is a 'Witch's Brew' with a flattening yield curve bringing it to a boil.

(cont pg.29)

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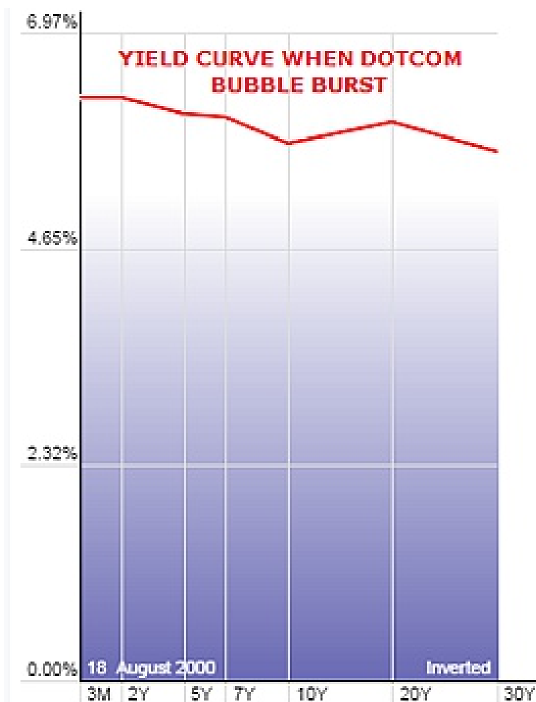
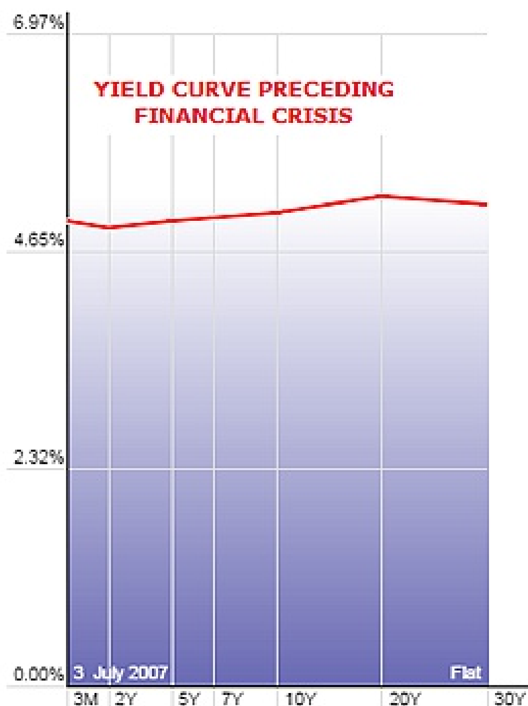
Witch's Brew.... (cont.)

2000 - Flat to Inverted Yield Curve



2007 - Flat Yield Curve



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Witch's Brew.... (cont.)

TODAY - Signalling a Flattening at Seriously Lower Bound!

PRESSURES FLATTENING THE YIELD CURVE

(cont pg.31)

Witch's Brew.... (cont.)

In the last six weeks, the spread between the Ten Year and the Two year treasuries has flattened exactly 25 basis points, which is EXACTLY the same amount that the Fed just moved the Fed Funds target rate this past Wednesday. With investors starved for yield many are being forced further out on the yield curve taking rates down further and pushing prices up.

Dan Norcini at http://traderdan.com lays it out pretty clearly:

> This horrific predicament, compliments of our masters at the Central Banks, is forcing money to chase yield meaning that it is going further out along the curve to the long end. The more money that enters any bond market, the LOWER yields go since bond prices move inversely to the yield. When demand for anything increases, its price rises. Bonds, bills, notes, are no exception. As the money flows increase into the long end of the curve, at a faster rate than the money flows might be increasing into the shorter end of the curve, the price of the longer dated bonds rises faster than the price of the shorter dated bonds (bills, notes,. etc). That means a flattening curve.
>
> Secondly, and something that is extremely relevant to what is going on here – FOREIGN INVESTORS are sending monies overseas to chase yield as well. Think of where interest rates are in both Japan and in the Eurozone compared to comparable dated government debt here in the US. Those foreign flows do two things. They boost the price of the longer dated Treasuries as well as boosting demand for US Dollars.
>
> This phenomenon tends to support both the Dollar’s value on the foreign exchange markets as well as keeping prices for those longer dated Treasuries well supported. Again, bond prices move inversely to yields thus the more money flows into the longer dated treasuries, the more those yields tend to move lower.
>
> Look at what the result of both of these above factors have done to the yield on the Ten Year Treasury. Its yield was 2.170% on the last day of 2014. Today, its yield is 2.19%. We are only a short two weeks away from ending this year and we are basically back to where we started this year. We have essentially gone nowhere on yields.
>
> What is perhaps even more alarming is that the curve is flattening further. The low point on this spread occurred in early February of this year when it reached 1.19%. Today, it closed at 1.22%. We are talking about a mere 3 basis points from the curve having flattened to a 2015 low!
>
> Clearly, this is NOT A VOTE FOR STRONG ECONOMIC GROWTH laying ahead.
>
> Perhaps this is the reason that the equity markets are beginning to show signs of wobbling.

(cont pg.32)

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Witch's Brew.... (cont.)

What some analysts have been saying is that once the Fed started to raise rates, the stock market would come under pressure because the move would be a signal that the Fed has begun the process to slowly drain the liquidity that has fueled its monster seven year rally. I personally take issue with that in the sense that the Fed has not made any move towards actually reducing liquidity that I am aware of. After all, while they did increase the short term target rate by 1/4%, one can hardly say that the interest rate environment is not accomodative. Furthermore, the size of its balance sheet remains the same as it has been in some time nor have I seen any talk coming from the Fed that it intends to reduce that balance sheet.

Here is a chart of the Fed Balance Sheet beginning in October of 2013 (I chose this month at random). Notice how constant the line has remained over the last year. As you can see, there has been no shrinking of the Balance sheet.

What I think appears to be causing concerns in the stock market is the fact that the yield curve is signaling that economic growth is not going to be increasing. That has gotten some stock investors nervous that perhaps stocks are overvalued. After all, it is hard to make the case that the equity markets should be hitting new lifetime highs when the yield curve is collapsing.

THE "WITCH'S BREW"

Many including Morningstar have hyped "The Great New Yield Opportunity"

Thanks yet again to innovation in the realm of exchange-traded funds, the walls have come down and individual investors now have efficient access to tools that enable them to implement a strategy that only the big boys on the block could implement. Without the benefit of such scale and low relative trading costs, the cost hurdle was far too high for most individual investors and advisors trying to implement this strategy using individual bonds.

Then came along a new breed of fixed-income fund that combines the diversification and accessibility of an ETF with the precision of an individual bond. While an index, for example, typically maintains a fairly stable maturity range, these ETFs have specified maturity dates upon which cash is distributed back to investors. That means, just like an individual bond, the duration of these ETFs will steadily decrease as it approaches maturity.

.....

These ETFs are typically pitched as a way to build bond ladders in order to match cash flows with future liabilities. But thanks to their precise exposure and individual bondlike characteristics, defined-maturity ETFs--which are relatively cheap to trade--are also great tools for executing customized "roll down" strategies to enhance fixed-income total returns.

(cont pg.33)

Witch's Brew.... (cont.)

Even for relatively large investors, the wide bid-ask spreads and dealer mark-ups or commissions incurred when buying and selling individual bonds present a high hurdle. Moreover, the minimum investment that would be required could be another barrier to entry. Often, investors will be dealing in "odd lots," which typically trade at wider spreads, as they are considered less liquid.

One of the attractive traits of an individual bond is the visibility of its cash flows and knowing exactly how much principal is due to you at maturity. Contrast that against a bond index, which does not mature and will see slight variations in its cash flows as it rebalances or reconstitutes over time. In the case of an actively managed portfolio, the payout will fluctuate as the portfolio manager buys and sells bonds. While there are several ETFs that target a relatively narrow portion of the yield curve, they still lack the precision and flexibility of defined-maturity bond ETFs.

This is another example of ETFs democratizing the investment landscape. Armed with these innovative solutions, investors have yet another arrow in their quivers to manage their fixed-income allocation amid a low-interest-rate environment. Be sure to monitor the steepness of the yield curve when executing the strategy, and keep in mind that **the "roll down" strategy will lose a lot of steam if the yield curve flattens more than expected**. As great as it sounds on paper, this strategy is still not a free lunch. The buy-and-hold investor sees price volatility steadily decease as his bond nears maturity. However, the price volatility in the "roll down" strategy stays relatively high, given that it reinvests in longer maturities, which tend to experience larger price fluctuations. The premium earned via the strategy can be considered compensation for assuming slightly longer duration and higher levels of volatility.

What has been sold to many investors, speculators and even desperate Fund Managers is using Bond ETF's to play the old "Roll Down the Yield Curve" Strategy. Here is how it works in case you are not familiar with the strategy.

ROLLING DOWN THE YIELD CURVE

The strategy of "rolling down the yield curve" targets investing in bonds at the steepest part of the curve. After a year or two, the bond is sold and the proceeds are reinvested back up the curve into higher-yielding, longer-maturity bonds. By selling the position well ahead of the actual maturity date, the strategy aims to capture the price increase that results when a bond's yield drops as it "rolls down" the curve (that is, it moves closer to maturity). From there, the process repeats.

To illustrate, we can look at an example based on the yield curve in Exhibit 1. Consider an investor who buys a five-year Treasury paying a 1.5% coupon rate at par value. Fast forward two years, and that original five-year Treasury still yields 1.5%, but at that point it would have three years left to maturity. As can be seen in the yield-curve chart, the Treasury yield at a three-year maturity is 1.05%. Therefore, the price of the originally

(cont pg.34)

Witch's Brew.... (cont.)

purchased five-year Treasury (which now also has a maturity of three years) would increase in order to ensure that its yield to maturity aligns with the current yield curve. (Note that, for the sake of simplicity, this example assumes that the yield curve remains stable over the observation period.)

If the Treasury paid a 1.5% coupon at a face value of $100, then after two years the price would have actually risen to $101.35 so that its yield to maturity matches the prevailing market. Recall that the three-year Treasury has a coupon yield of 1.05%. The original five-year Treasury in this example maintains its annual coupon yield of 1.5%, but then faces annual price declines of about $0.45 over the remaining three years until it matures. The yield to maturity balances out to 1.05% after factoring in those future price declines, which of course is equivalent to the yield to maturity that an investor could earn at that time from buying a newly issued three-year Treasury at par.

A buy-and-hold investor who bought at $100 would collect 1.5% per year in coupon payments and receive $100 at maturity. That comes out to a total of $7.50 in interest payments. The "roll down" strategy described in our example, on the other hand, could generate $10.90 in total returns during the same period thanks to locking in price gains and reinvesting into higher-yielding bonds.

YRA HARRIS WARNS "ALL HELL MAY BREAK LOOSE!"

Legendary trader Yra Harris who we recently interviewed at the Financial Repression Authority has been pounding the table for some time but just issued this warning:

> The flattening of the yield curves in 2016 may lead to all hell breaking loose. WHAT DID I MEAN BY THIS? Grab a glass of scotch or Chuckie B., or some medicinal California and think about what I am going to say. (And, to paraphrase Danny Devito in the War of the Roses, when a person who charges $5,000 an hour offers free advice you might want to listen [humor intended].) In July 2012–the 24th to be exact–the U.S. 2/10 curve was flattening when it appeared that Europe was in a deep crisis. The two-year yields on EU sovereign debt were rapidly rising as the market feared about the viability of the EU and the EURO currency.
>
> The European 2/10 curves were also flattening and when ECB President Mario Draghi issued his famous, NO TABOOS AND WE WILL DO WHATEVER IT TAKES to preserve the EU and the euro, the two-year yields began dropping and the 2/10 curves reversed course and began to steepen. The July 24 low was 117.25 positive slope. This was also the low made in January 2015 when the ECB and the SNB were busy revealing their plans about the EUR/CHF peg and the ECB's new QE policy (again, 117.25). As the year comes to an end, the flattening of the U.S. 2/10 curve continues and today we made an intraday low of 119.80. Now I will warn again that because of the lack of liquidity the last few weeks of the year prices can be easily manipulated and/or distorted.

(cont pg.35)

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Witch's Brew.... (cont.)

BUT IF THE MARKETS RESUME FLATTENING IN RESPONSE TO GLOBAL ECONOMIC WEAKNESS AMID CHINESE SLOWING OR SOME GEO-POLITICAL EVENT ALL HELL WILL BREAK LOOSE. WHY? Last time the yield curves dramatically flattened in 2007 or 2012 in Europe the central banks, like John Mayall, HAD ROOM TO MOVE. When the U.S. curve inverted in early 2007, the FED FUNDSrate was at 5.25% so the FED could swiftly cut rates in response to an incipient crisis. In Europe,the yields on the two-year notes of the so-called PIIGS were more than 7.0% and thus a dramatic drop in rates could be a positive signal to the markets.

WITH INTEREST RATES AT ZERO IN ALL THE DEVELOPED ECONOMIES WHAT WILL THE KEY POLICY MAKERS DO? A FLATTENING CURVE AT THIS JUNCTURE WOULD PUSH THE FED INTO NEW TERRITORY AND PUT FEAR INTO THE MARKETS.Thus, “ALL HELL WILL BREAK LOOSE” is an inference that the flattening of the curve at the zero bound will signal that the central banks have lost “control.” Will it be on the first close below 117.25? Most probably not but it is certainly an area for investors and traders to be very aware of. That was my point and it needed explanation beyond the alloted time of the Santelli spot. I await any questions or responses.

CONCLUSION

What Yra doesn't say is we now have $2.2 Trillion of troubled High Yield bonds peddled to yield starved investors since the financial crisis which matches 2/3’s of the $3.5 Trillion increase in the Federal Reserves balance sheet during the same period. Additionally, there are well north of $60 Trillion of Bond ETFs out there with anyone guess on how many are playing the "Rolling Down the Yield Curve" Strategy now up against the warning Morningstar so clearly disclaimed: " the "roll down" strategy will lose a lot of steam if the yield curve flattens more than expected."

With serious liquidity issues evident it should be interesting as a potential positioning scramble ensues. It somewhat reminds me of someone shouting "FIRE" in a theater, except this times the theater doors will be barred and the only way out will be to have someone outside take your seat inside! ETF holders may find it easier to sell that old bridge over the East River in Brooklyn than get their money out of their ETFs.

Maybe we will soon hear someone shout "CUSTODIAL RISK!"

Gordon T Long

HIGH PROBABILITY TARGET ZONES TRADING

What is HPTZ TRADING?

A purely Technical Trading Methodology *(no bias)* that can be used as the backbone for any trading plan or strategy, for all styles of trading and investment objectives.

How does it work?

MULTIPLE TECHNICAL ANALYSIS TECHNIQUES are overlapped and integrated. Where they tell a similar story (confluence) is where we identify places of interest (targets) that the market is likely to move to.

SEVERAL TARGETS are usually identified, above and below the market. Identifying targets above and below the market gives targets for a move in either direction. No bias.

THE TECHNICAL TOOLS used to locate the target areas are now the trigger considerations as the market moves through them, towards a target.

USING THE TECHNICAL TRIGGERS no bias is established and the participant can follow along with what the market actually does, as opposed to guessing what it might do.

INITIAL SET-UP of the tools to find HPTZ's establishes the significant market levels, trends, and supports & resistances. They give a road map of the market: the next likely destination and any stops along the way. This can be followed as the market moves from one technical to the next, on its way to a HPTZ.

HIGH PROBABILITY TARGET ZONES TRADING

TECHNICAL ANALYSIS PERFORMANCE OVERVIEW

November 2015 Issue (previous months calls).

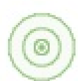
A quick overview to compare what was published for last month's analysis with what actually occurred. The left hand chart shows the daily analysis given, and the right hand chart is an updated image.

These are given here to offer a consolidated review and to get a general overall sense of success or failure for the analysis across several markets. You be the judge.

Current analysis for each market can be found in their respective sections as usual.

HPTZ TARGETS

Several technical tools, techniques and methods are integrated and overlapped; where these tell a similar story, or ***places of technical confluence***, through both passive and active analysis, is where we have areas of interest or ***High Probability Target Zones***.

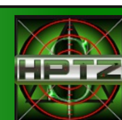


Green targets are from the Daily time frame

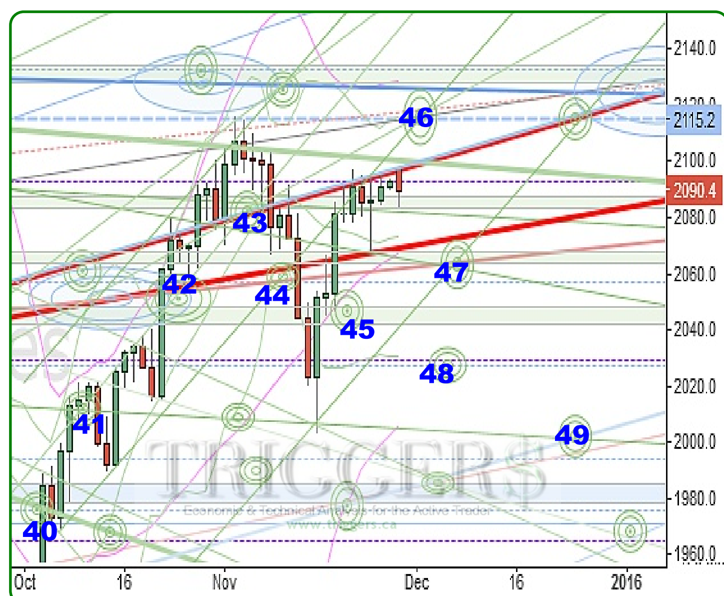
Blue targets are from the Weekly time frame.

Charts below are all Daily time frames. Blue targets appear larger as they have been carried down from the weekly time frame. *(Red are older targets)*

S&P

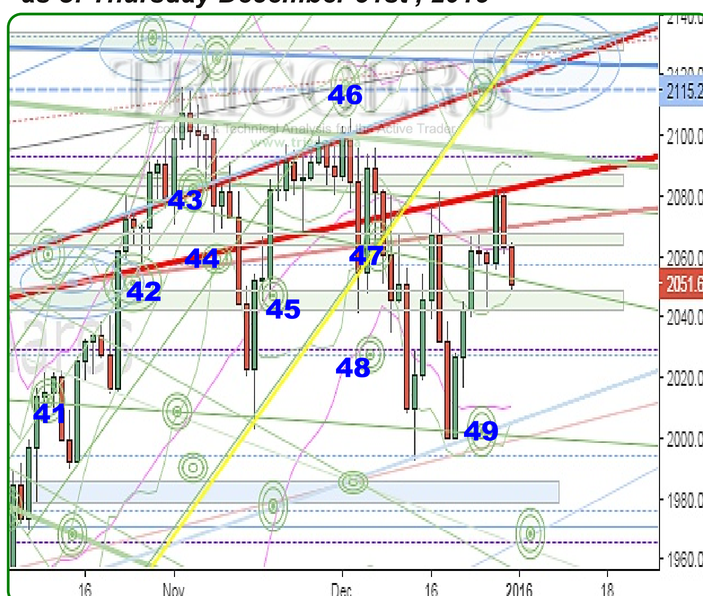


Published in December Issue



Market lifting back to previous highs, consolidation pattern, another potential down to go.

as of Thursday December 31st , 2015



Market lifts just short of previous highs and HPTZ(46), drops off through HPTZ(47) and beside HPTZ(48), bounces and lands by HPTZ(49); lifts back to significant technicals.

(cont pg.38)

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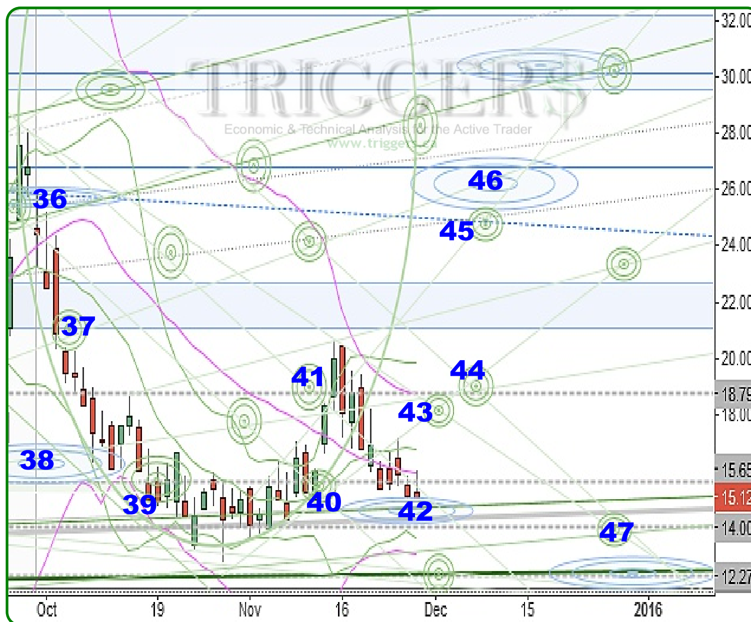
HPTZ Trading (cont)

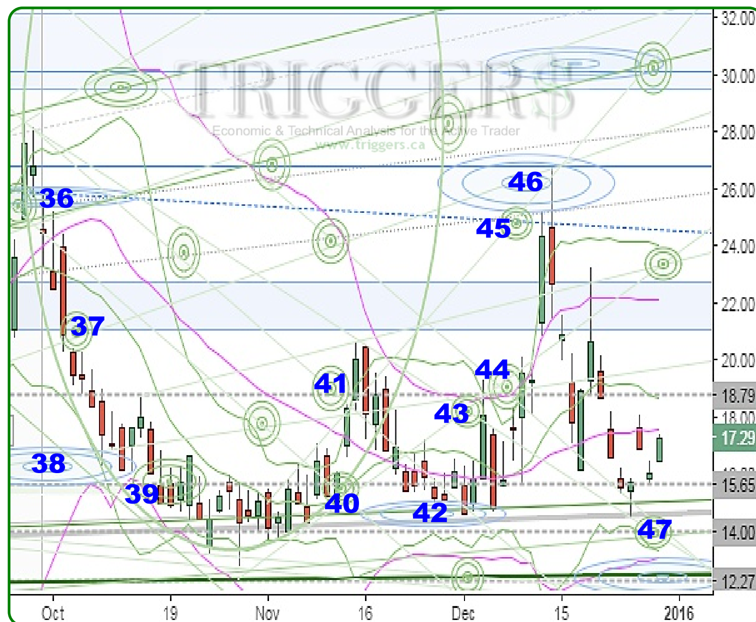
VIX

Published in December Issue



Falls out of ellipse patter moves back to previous lows at long term blue weekly HPTZ(42)

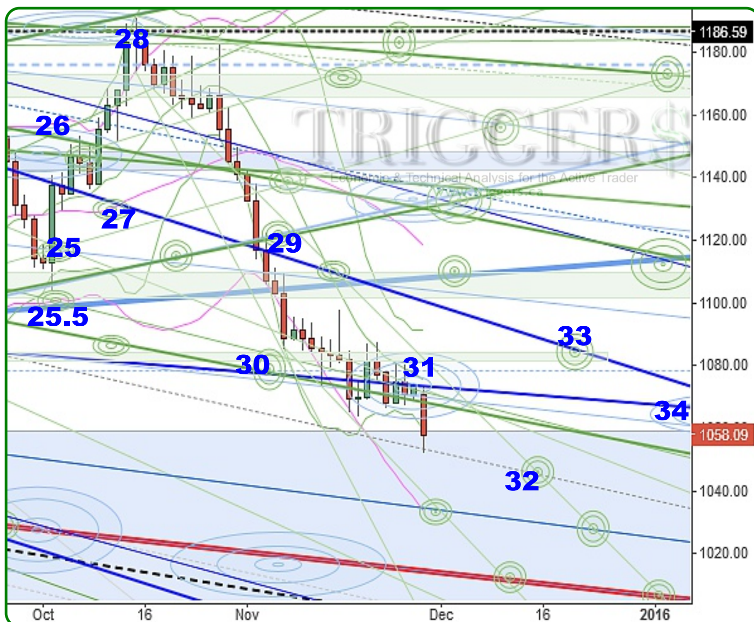
as of Thursday December 31st, 2015



Lifts through HPTZ(43)(44); misses HPTZ(45) by a day as it continues to lift in to the blue long term weekly HPTZ(46). Drops in a zig-zag moving back to previous lows at HPTZ(47).

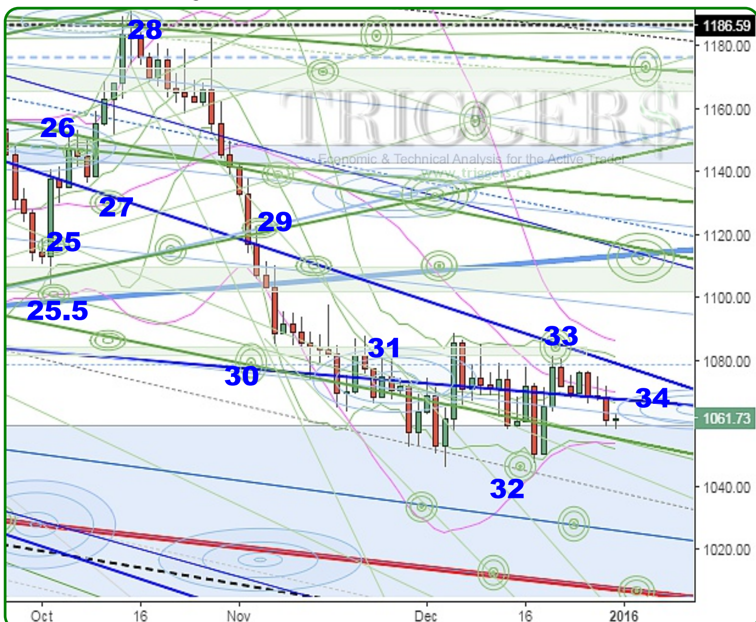
GOLD

Published in December Issue



Gold consolidating after significant drop to blue long term weekly HPTZ(31).

as of Thursday Decmber 31st, 2015



Moves sideways hitting HPTZ(32)(33); near blue long term weekly HPTZ(34)

(cont pg.39)

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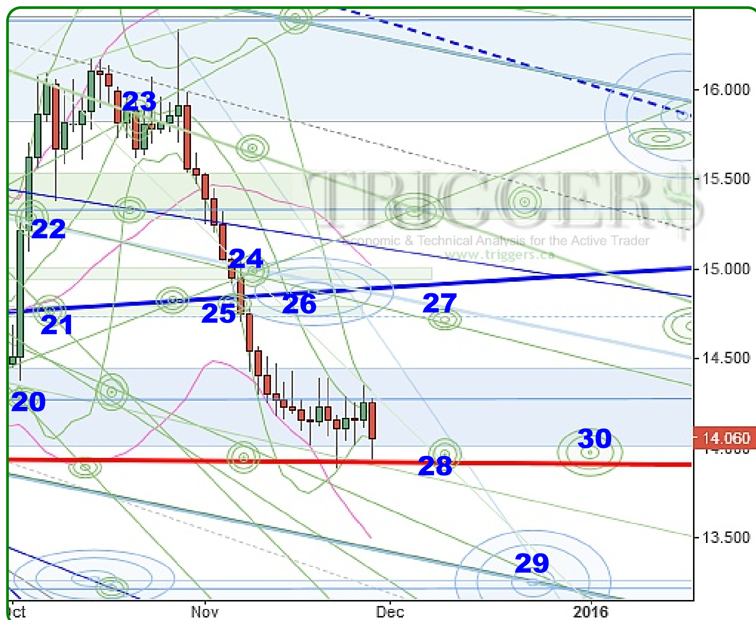
HPTZ Trading (cont)

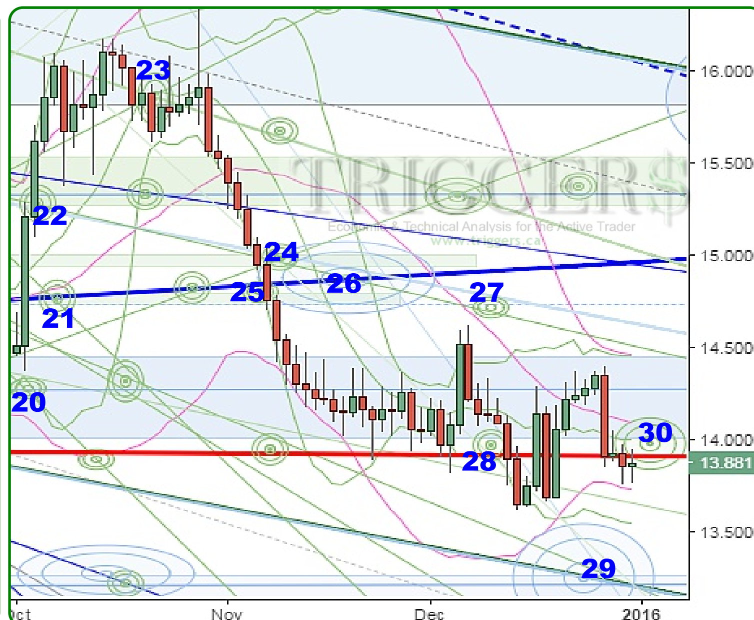
SILVER

Published in December Issue



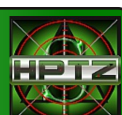
Drop finding support at significant technicals.

as of Thursday December 31st, 2015

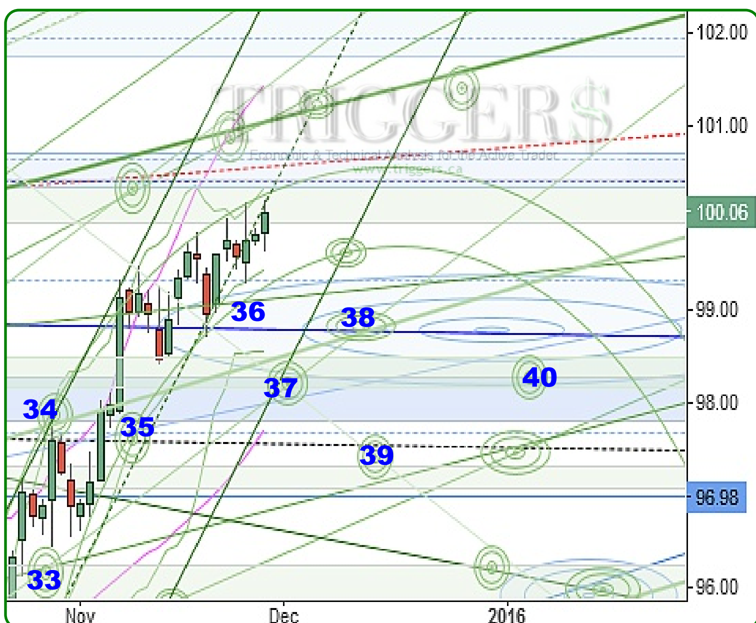


Market moves sideway & just short of HPTZ(27), moves through HPTZ(28), stops above blue long term weekly HPTZ(29) and moves in to HPTZ(30)

US$

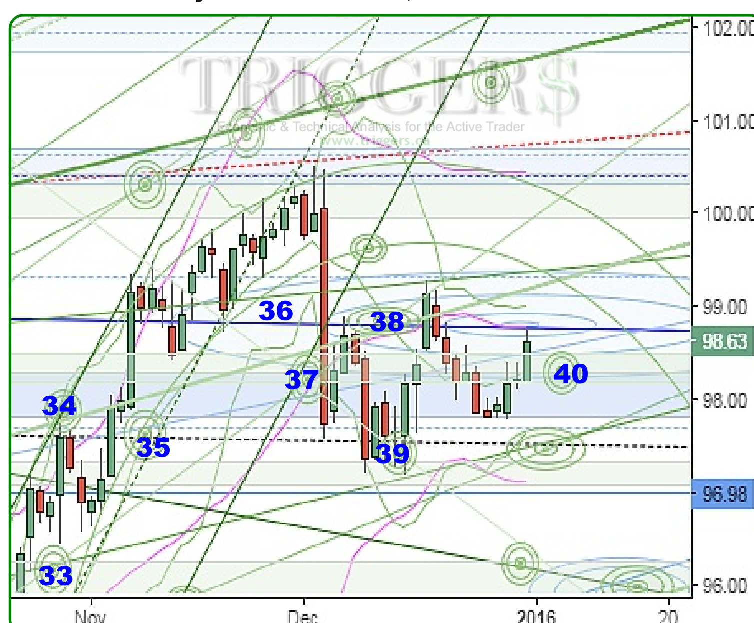


Published in December Issue



USD had been lifting within curved s/r's.

as of Thursday December 31st, 2015



Support fails, marker drops to HPTZ(37); bounces to HPTZ(38); drops to HPTZ(39), lifts to other side of HPTZ(38); moves sideways to HPTZ(40) (almost).

(cont pg.40)

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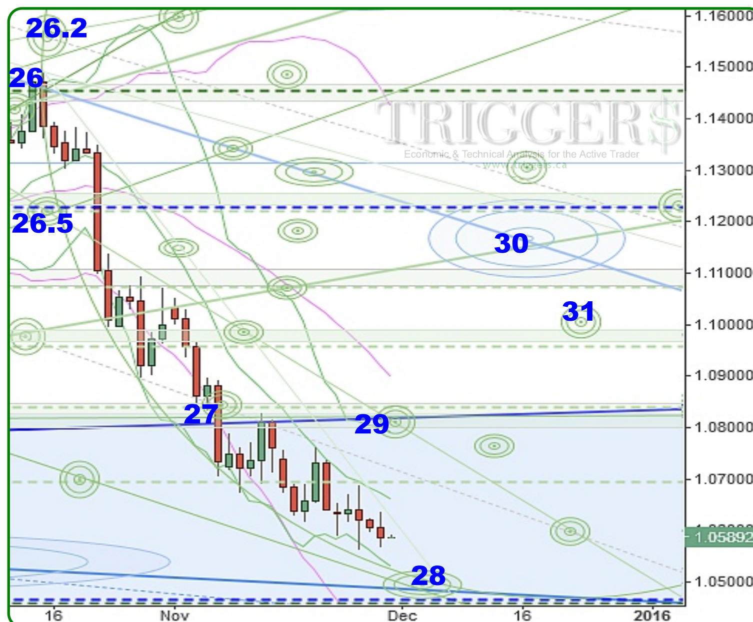
HPTZ Trading (cont)

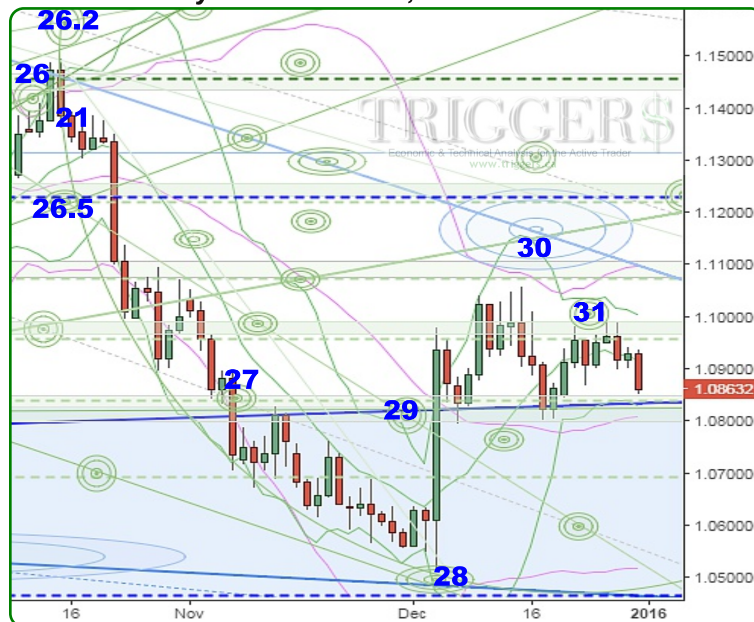
EUR/US$

Published in December Issue



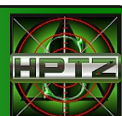
EURUSD drop occurring with curve,

as of Thursday December 31st, 2015

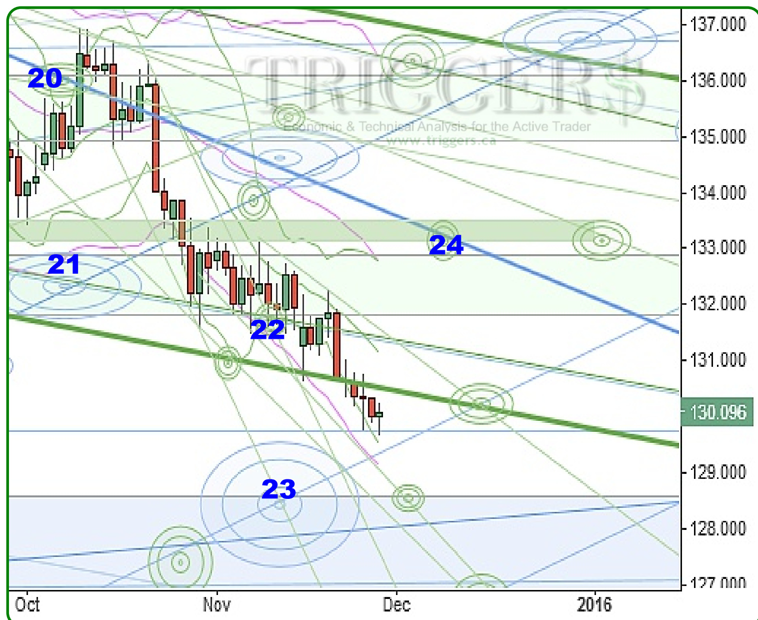


Drops to HPTZ(28); lifts through HPTZ(29); finds resistance at s/r, just shy of long term HPTZ(30); consolidates through HPTZ(31).

EUR/JPY

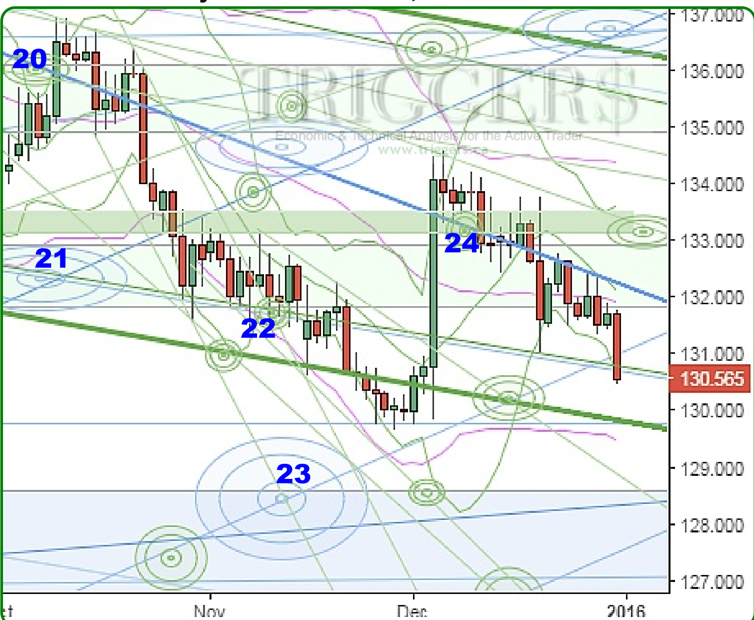


Published in December Issue



Has dropped slightly through channel support.

as of Thursday December 31st, 2015



Support found at next technical, market spikes to HPTZ(24)

END

FEATURE ARTICLE

"FANG & NOSH" *now the* **"NIFTY NINE"!**

FANG & NOSH BECOME THE "NIFTY NINE"

FANG STOCKS

1. Facebook,
2. Amazon,
3. Netflix and
4. Google

Ned Davis Research refers to the ***NIFTY NINE***, which adds:

5. Priceline,
6. Ebay,
7. Starbucks,
8. Microsoft and
9. Salesforce.

Note that Apple appears on neither list which until recently was THE MARKET and accounted for 20% of the underlying Margin Expansion since 2010.

(cont pg.42)

NIFTY 9 (cont)

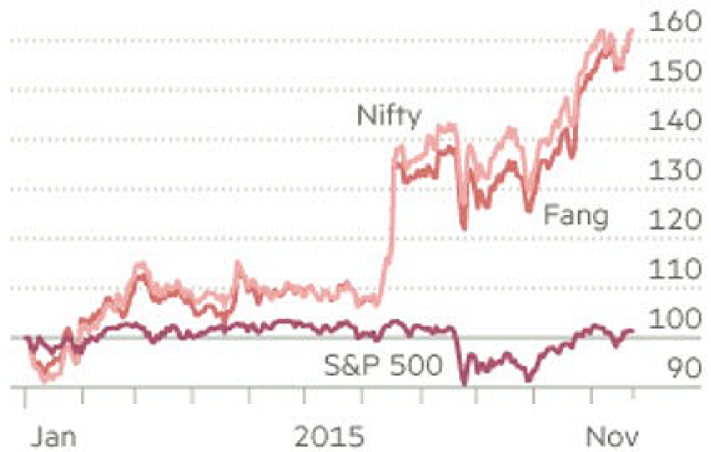
While the S&P languishes unchanged in 2015, these small groups of overwhelmingly propagandized stocks are up on average over 60%, but with a collective P/E of 45, they are not cheap.

WHAT WE HAVE IS EUPHORIA CENTERED ON 9 STOCKS

This is the same as we have at all bubble tops. Only the names change (the 4 Horsemen in the Dotcomm Bubble run-up: Cisco, Intel, Microsoft & Qualcomm) and the rationalization hype (2000: "***new economic paradigm***")

Nifty and the Fangs in 2015: cap-weighted

Market cap weighted indices (rebased)



Source: Thomson Reuters Datastream

Net Equity Inflows vs. S&P 500

STREETTALKLIVE.COM

Net Equity Inflows: 60000, 40000, 20000, 0, -20000, -40000, -60000

S&P 500: 1900.0, 1700.0, 1500.0, 1300.0, 1100.0, 900.0, 700.0

2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014

Despondency, Hope, Relief, Optimisim, Excitement, Thrill, Euphoria, Depression, Anxiety, Denial, Fear, Desperation, Panic, Capitulation, Despondency, Hope, Relief, Optimisim, Depression, Excitement, Thrill, Euphoria

3-Mo Avg Of Net Equity Inflows — S&P 500 Index

(cont pg.43)

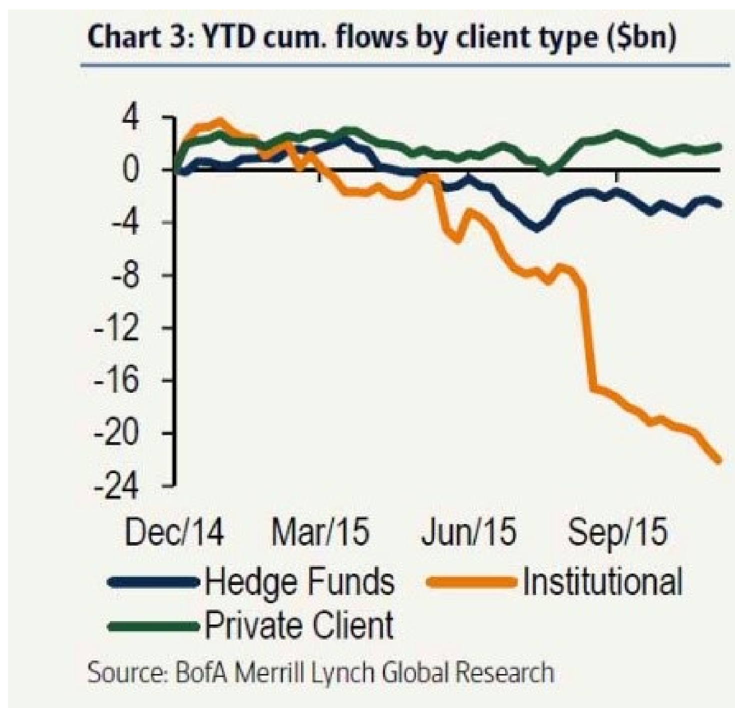
NIFTY 9 (cont)

While the overall market breadth collapses:

(cont pg.44)

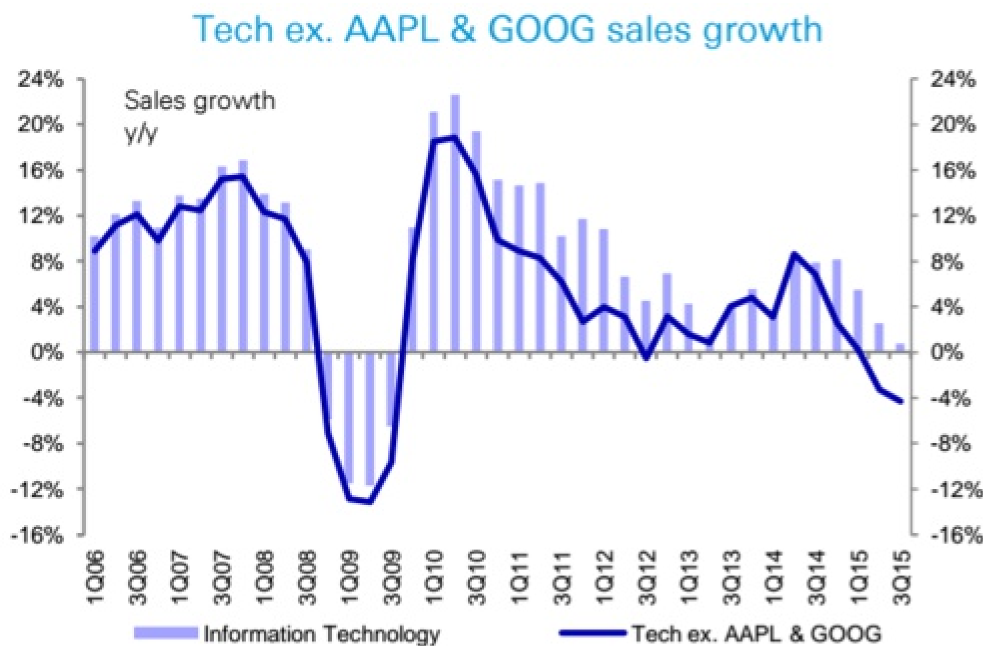
NIFTY 9 (cont)

INSTITUTIONS HAVE LEFT THE PARTY



Institutions see the following

1. Sales Growth is no longer there



(cont pg.45)

NIFTY 9 (cont)

2. Earnings are steadily falling

3. Companies are spending more on Buybacks and Dividends than they are earning

• Almost 60 percent of the 3,297 publicly traded non-financial U.S. have bought back their shares since 2010.

• In fiscal 2014, spending on buybacks and dividends surpassed the companies' combined net income for the first time outside of a recessionary period, and continued to climb for the 613 companies that have already reported for fiscal 2015.

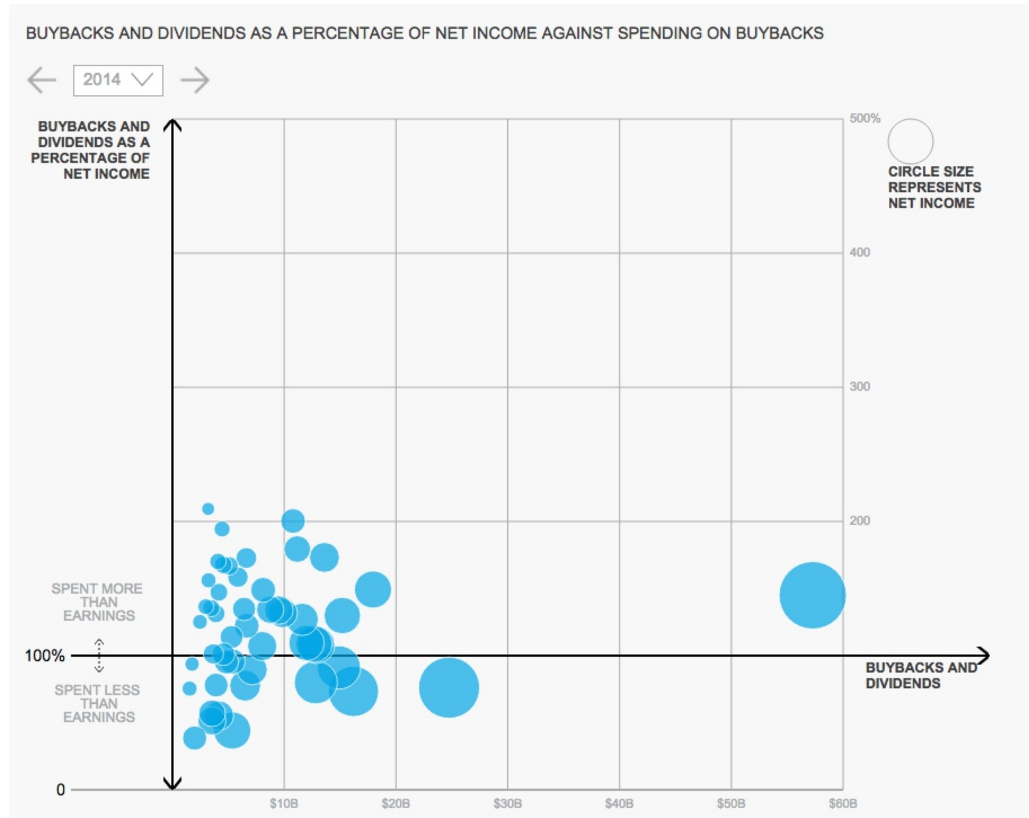
• In the most recent reporting year, share purchases reached a record $520 billion. Throw in the most recent year's $365 billion in dividends, and the total amount returned to shareholders reaches $885 billion, more than the companies' combined net income of $847 billion.

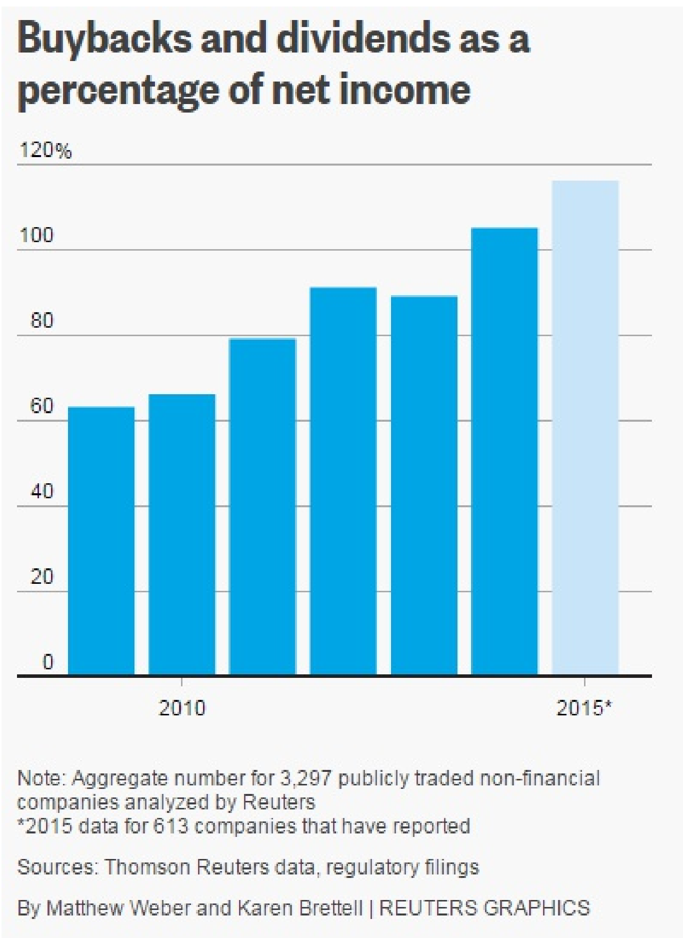
• Spending on buybacks and dividends has surged relative to investment in the business. Among the 1,900 companies that have repurchased their shares since 2010, buybacks and dividends amounted to 113 percent of their capital spending, compared with 60 percent in 2000 and 38 percent in 1990.

(cont pg.46)

NIFTY 9 (cont)

• Among approximately 1,000 firms that buy back shares and report R&D spending, the proportion of net income spent on innovation has averaged less than 50 percent since 2009, increasing to 56 percent only in the most recent year as net income fell. It had been over 60 percent during the 1990s.





(cont pg.47)

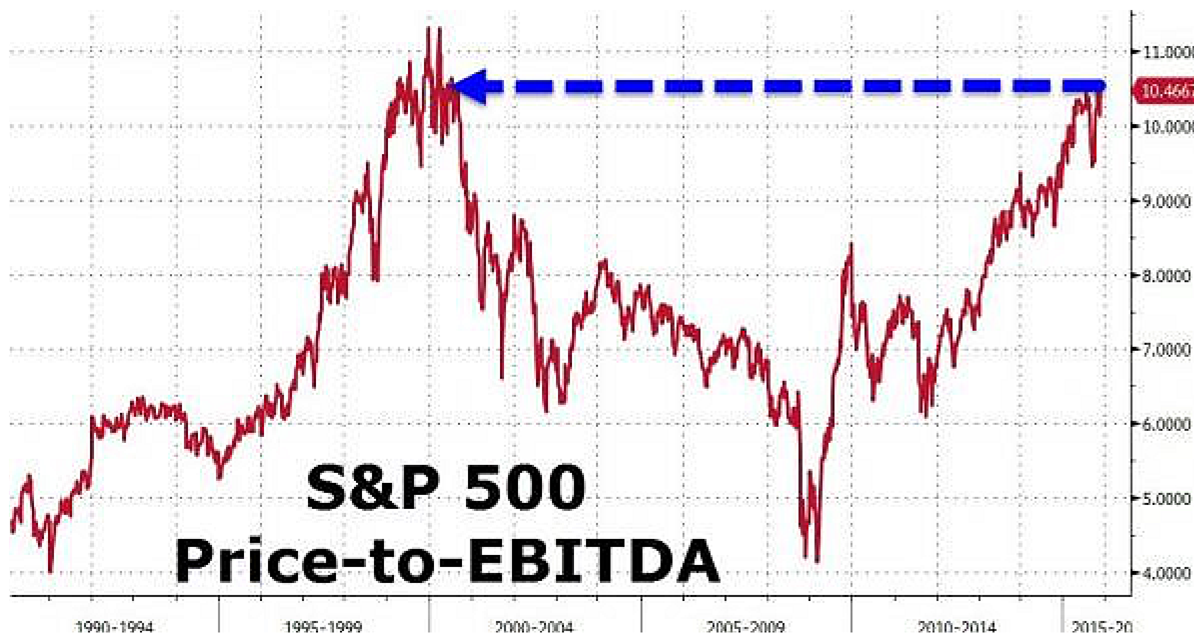
NIFTY 9 (cont)

CREDIT CYCLE HAS TURNED – *Earnings Now Surfacing as a Problem*

But the big factor is falling free cash flow and EBITDA. This will crimp borrowing money (issuing bonds) to finance buybacks and shareholder dividends.

In the December Triggers we outlined that the Credit Cycle had turned because Cash Flows or EBITDA was falling.

Price to EBITDA for the overall S&P 500 only continues to deteriorate and now approaches the 2000 Dotcom Bubble levels!



The market and Nifty Nine will soon all feel the impact of a turning credit cycle and tighter lending standards needed to keep asset prices elevated.

Gordon T Long

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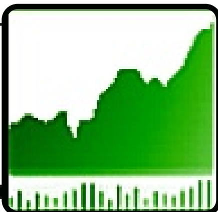

Need To Know
Technical Analysis

S&P Long Term Views;
Targets; A Closer Look;
MATA TRIGGER$ & DRIVER$

Contents Page

S&P Long-Term View : Controlling Channels & S/R's

S&P Long-Term View : Boundary Conditions

S&P Long-Term View : Closer Look

S&P Target Levels: FIB Extensions

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S&P - A Closer Look *Daily View*

On the daily we can again see the blue significant long term s/r's that have been holding the market. Significant long term weekly targets can be seen at 1,2,3 & 4: these correspond to the targets on the previous long term weekly chart. More targets at the next significant technicals can also be seen.

There is potential for a strong move in either direction once the current consolidation breaks. Up past previous highs; or back to previous lows (potentially lower).

W%R has been oscillating from one extreme to the other throughout the current sideways move. We will need to see the indicator move to either extreme level for an extended period of time as well as the market breaking current s/r's for the next market move.

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VIX - Weekly & Daily

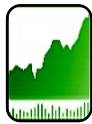
as of Thursday December 31st, 2015

Weekly

Potential can be seen for another extreme move / or spike to occur in the first two weeks of Jan. (Target A)

Daily

Wedge pattern unfolding – suggests increased volatility. Lifting W%R also supports this. Lower potential targets can be seen if the pattern fails and the market breaks down further.



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Market Drivers (Macro)

The current Market Drivers are show to the right.

They are shown in order of importance, top down, and are what we believe to be currently driving market movements.

Note that the SPX is the tail on the dog. As shown on the graph, a move in the US$ will currently cause an opposite reaction in the SPX.

Please note that these relationships are not 'tick for tick' but show a general relationship between markets.

MATA TRIGGER$ ZONES *Key Dates to Watch*

MACRO TRIGGER$ Zones are supplied to better give subscribers a clearer warning of potential MACROECONOMIC shifts by large Institutional money.

The Zones represent times when a reversal may occur in the BIA$ towards institutional players placing margin & leverage (RISK-ON) or reducing their margin and leverage (RISK-OFF). Additionally it reflects their potential Bia$ towards cross-market / multi-market hedging.

These flow changes are often correlated across markets globally and are most easily recognized from the weekly charts which institutions focus on due to the size of their portfolio repositioning requirements.

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MATA DRIVER$ & BIA$

MARKET ANALYTICS
MATA
TECHNICAL ANALYSIS

REVERSAL ZONE H
REVERSAL ZONE I
REVERSAL ZONE J
REVERSAL ZONE K

WEALTH
HARD CURRENCY
GOLD
SILVER
OIL
COMMODITES

RISK ON
ACTUAL: CONSOLIDATION – FLAT PRICING
SLIGHT RISE TILL JAN 1
RISK OFF
RISK ON

EXCHANGE
FIAT CURRENCY
USD INDEX
YEN INDEX
USD:JPY
EUR:JPY
EUR:USD

06/22/15
JUNE QUADRUPLE WITCH
LIDATION WITH DOWNWARD BIAS
RISK ON
RISK OFF
CONSOLIDATION
RISK OFF
WEAKENING YEN
06/22/15
JUNE QUADRUPLE WITCH
CONSOLIDATION
CONSOLIDATION
WEAKENING YEN
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STRENGTHENING DOLLAR

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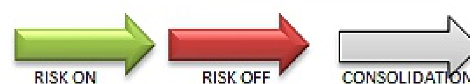
PRICE RISES – YIELDS FALL
PRICE FALL – YIELDS RISE
RISK OFF

CLAIMS
MSCI
S&P 500
Russell 2000

06/22/15
JUNE QUADRUPLE WITCH
D BIAS
FED NDEFERS RATE INCREASES
D BIAS
FED NDEFERS RATE INCREASES

VOLATILITY
INCREASING VOLATILITY

Revision Date: 10/10/15



MACRO TRIGGER$ ZONE$

Macro Trigger$ Zone$ identify transitions in risk behavior often labeled Risk-On, Risk-Off. Like water turning to ice or steam, this action is slow at first then abrupt. The exact timing appears random. Global interconnected market relationships adjust at various speeds often leaving the low capitalization, low volume equity markets as the last to shift compared to the massive debt market and even larger currency markets.

Macro Trigger$ Zone$ attempt to capture these potential macro shifts in trading bands or zones. It must be understood that equity markets are influenced in the short term by sentiment, in the intermediate term by risk and only in the longer term by the macro and valuation fundamentals.

However, Macro Trigger$ Zone$ transitions are often: 1.The largest moves, 2.Most predictable, 3.Identified on Weekly and Monthly technical chart, 4.Institutional and Fund adjustments, 5.The most profitable.

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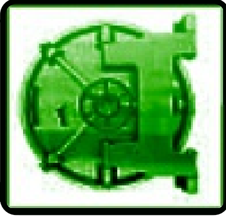


THE VAULT
Currencies & Metals

Silver, Gold
EUR/JPY
US$, EUR/USD

select the LIVE CHART button for current market data

Contents Page

SILVER

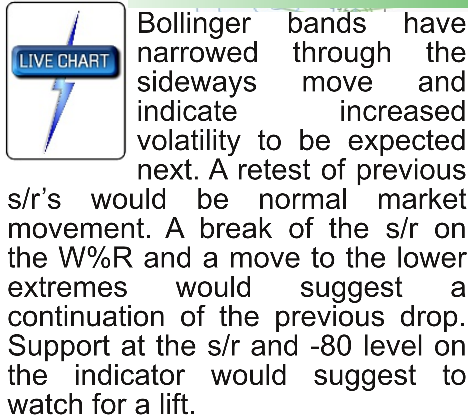
as of Thursday December 31st, 2015

Long-Term View - *Monthly*

Market has drifted sideways since last month. Blue long term s/r has just been moved through. Retest of the s/r possible. Next lower support can be seen around the $11-$12 range.

W%R at lower extremes indicating negative pressure and more down potential.

Near-Term View - *Daily*



Bollinger bands have narrowed through the sideways move and indicate increased volatility to be expected next. A retest of previous s/r's would be normal market movement. A break of the s/r on the W%R and a move to the lower extremes would suggest a continuation of the previous drop. Support at the s/r and -80 level on the indicator would suggest to watch for a lift.

GOLD as of Friday November 27th, 2015

Long-Term View - *Monthly*

Near-Term View - *Daily*

EUR:JPY as of Friday November 27th, 2015

Long-Term View - *Monthly*

Near-Term View - *Daily*

US$ as of Friday November 27th, 2015

Long-Term View - *Monthly*

Near-Term View - *Daily*

EUR:US$ as of Friday November 27th, 2015

Long-Term View - *Monthly*

Near-Term View - *Daily*

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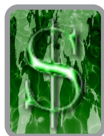

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FEATURE ARTICLE

SOMETHING IS BURNING IN HIGH YIELD CORPORATES?
Junk Bond Crisis Starts to Metastasize

A HUGE POTENTIAL PROBLEM

Since the Financial Crisis the US Federal Reserve has increased its balance sheet by approximately $3.5 Trillion. In this same period the Junk Bond (HY) issuers have issued $2.2T of debt which the markets have 'gobbled' up to achieve yield. The question is what happens if they start selling some of that debt to avoid capital losses. This problem is further compounded by regulations since the financial crisis has significantly curtailed banks making markets in these instruments. Many worry that Investment Grade (IG) bonds also issued over the same period will be "infected", especially with a historic $1.3T being sold for the first time in 2015 to significantly fund stock buybacks and dividend payouts. This is a “witch’s brew” for a potential disaster.

CORPORATE LEVERAGE

With Corporate Leverage back to the point at which past default cycles started kicking in, there are more reasons to worry as corporate cash flow and EBITDA fall while the Federal Reserve raises rates.

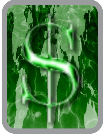
Worsening cash flow to debt ratios normally force credit downgrades making credit more expensive and harder to get. This is coming at a time when major Junk Bond issuers in the Energy and Commodity sector are being hardest hit by falling pricing. They are trapped and investors know this and are now worried about junk bond liquidity.

Source: Bloomberg Finance LP, Datastream, Deutsche Bank

A SLOWING GLOBAL ECONOMY

It gets worse with a steadily deteriorating global economy which will bring further pressures to already troubling situation.

(cont.pg.56)

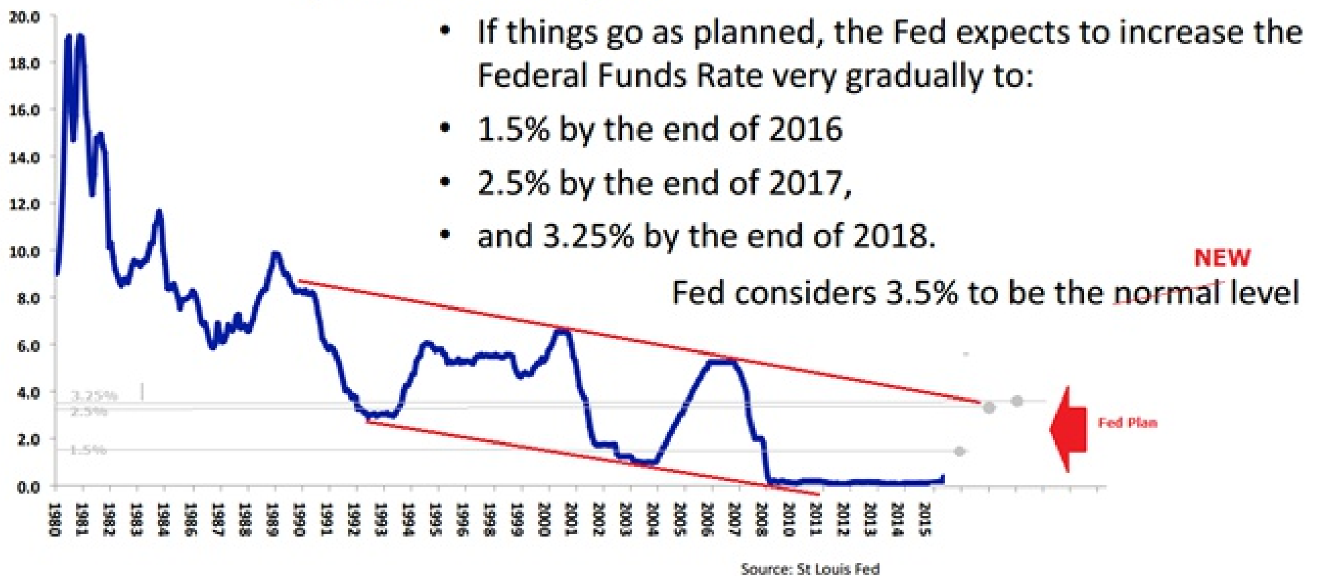


Shifting Confidence & Sentiment (cont.)

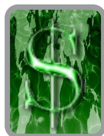
We have experienced a torrent of bad news coming as the Fed begins raising rates:

Oil slump resumes on U.S. supply build, expected Fed rate hike
Why the current credit crisis might be 35 times worse than you thought
Freight Shipments Hammered by Inventory Glut, Weak Demand
Baltic Dry Crashes To New Record Low As China "Demand Is Collapsing"
US Markit flash manufacturing PMI slips to three-year low in December
US industrial output falls as manufacturing stays flat
Brazil's currency sinks after Fitch cuts rating to junk status

The question is whether the Fed will be able to follow through with its stated policy direction.



(cont.pg.57)



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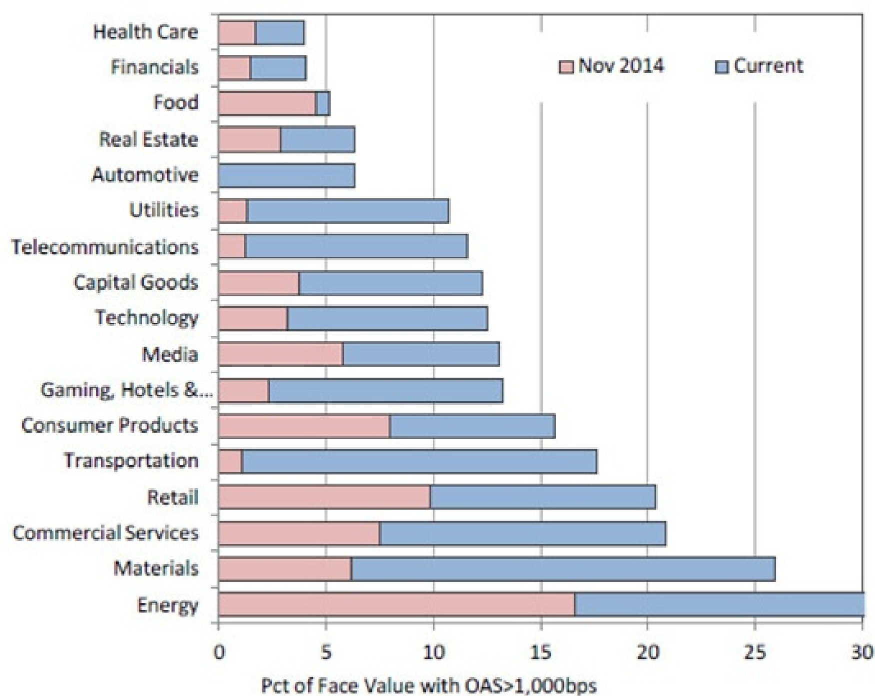
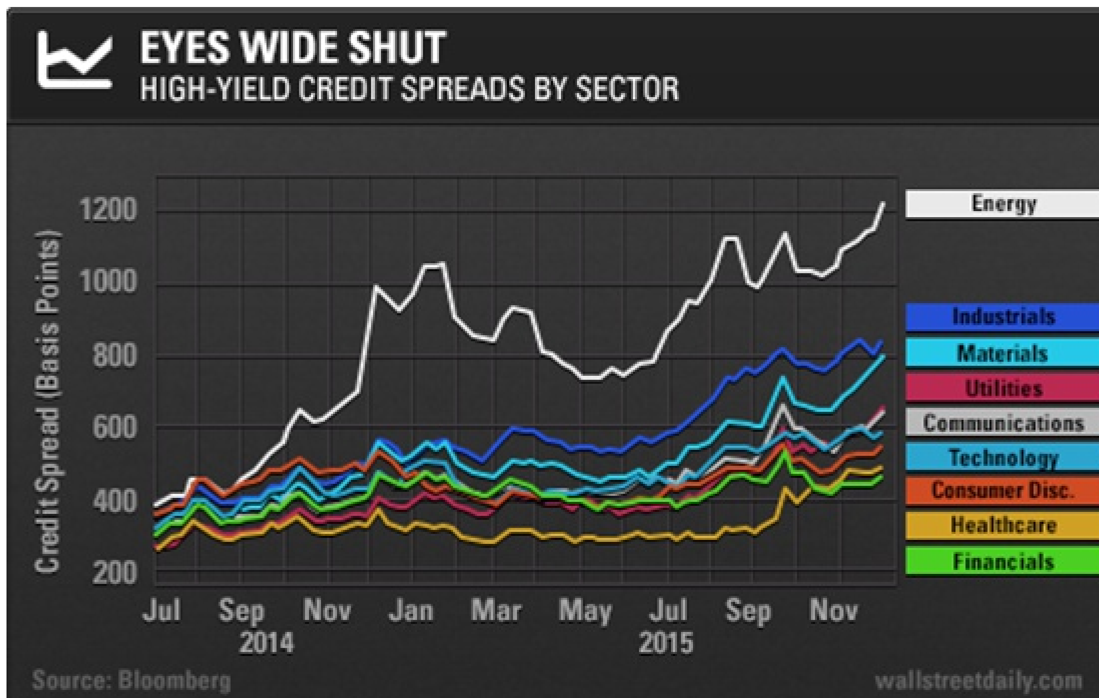
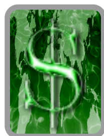
WORRY OF CONTAGION

The problems in the Junk Bond market are not isolated to just the hard hit commodity and energy sectors. The protracted period of "easy money" created by Fed policy has sowed its seeds across all economic sectors.





(cont.pg.58)

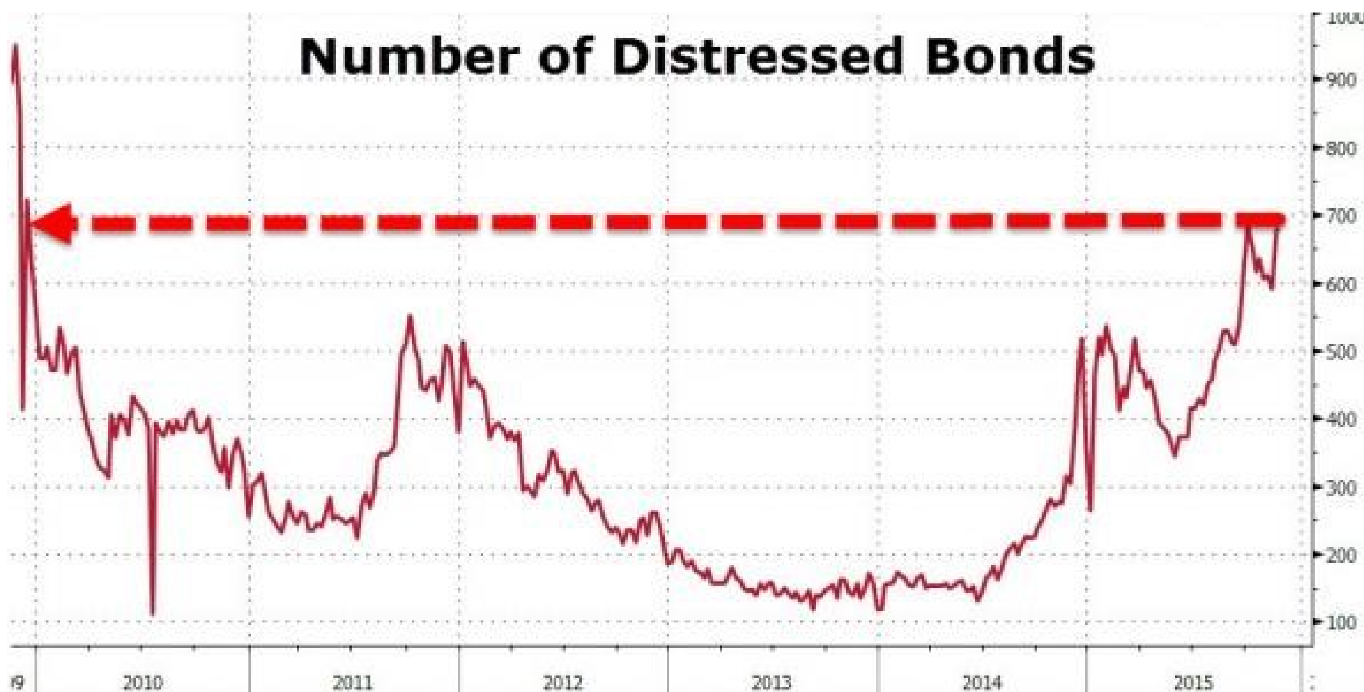


Shifting Confidence & Sentiment (cont.)

LEVERAGED LOANS

And now we see problems in growing in the Leveraged Loans (CLOs) market:

DISTRESSED BONDS



(cont.pg.65)

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A CRITICAL 90 DAY WINDOW

The next 90 days are going to be both quite worrying to investors and highly volatile for the financial markets, as the Credit Cycle, Rate Cycle and Business Cycle all send confusing signals before the future economic direction becomes clear.

Let's all hope that is not spelled: "Recession".

There is comprehensive 31 minute video discussion by Gordon T Long and John Rubino available on YouTube: LINK https://youtu.be/tQ96JVERdu0

Gordon T Long
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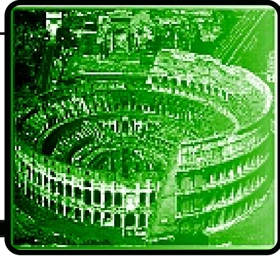

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Portfolios & Watch Lists!
- actionable technical trading plans!

NEW Website! ***Gordon T Long Market Research & Analytics*** **and** ***TRIGGER$*** **are merging... more to come....**

Take Care
& Good Trading
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Market interest started at an early age, and I can recall having P/E ratios explained to me at 14. Interest in Technical Analysis starting taking shape in university and for the past 20 years it has been my primary focus. My experiences vary and include working for a private fund researching and developing proprietary technical analysis methods. Researching and trying to understand the markets has been a life-long pursuit & journey.

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Gordon T. Long has been publically offering his financial and economic writing since 2010, following a career internationally in technology, senior management & investment finance. He brings a unique perspective to macroeconomic analysis because of his broad background, which is not typically found or available to the public.

Mr. Long was a senior group executive with IBM and Motorola for over 20 years. Earlier in his career he was involved in Sales, Marketing & Service of computing and network communications solutions across an extensive array of industries. He subsequently held senior positions, which included: VP & General Manager, Four Phase (Canada); Vice President Operations, Motorola (MISL - Canada); Vice President Engineering & Officer, Motorola (Codex - USA).

After a career with Fortune 500 corporations, he became a senior officer of Cambex, a highly successful high tech start-up and public company (Nasdaq: CBEX), where he spearheaded global expansion as Executive VP & General Manager.

In 1995, he founded the LCM Groupe in Paris, France to specialize in the rapidly emerging Internet Venture Capital and Private Equity industry. A focus in the technology research field of Chaos Theory and Mandelbrot Generators lead in the early 2000's to the development of advanced Technical Analysis and Market Analytics platforms. The LCM Groupe is a recognized source for the most advanced technical analysis techniques employed in market trading pattern recognition.

Mr. Long presently resides in Boston, Massachusetts, continuing the expansion of the LCM Groupe's International Private Equity opportunities in addition to their core financial market trading platforms expertise. GordonTLong.com is a wholly owned operating unit of the LCM Groupe.

Gordon T. Long is a graduate Engineer, University of Waterloo (Canada) in Thermodynamics-Fluid Mechanics (Aerodynamics). On graduation from an intensive 5 year specialized Co-operative Engineering program he pursued graduate business studies at the prestigious Ivy Business School, University of Western Ontario (Canada) on a Northern & Central Gas Corporation Scholarship. He was subsequently selected to attend advanced one year training with the IBM Corporation in New York prior to starting his career with IBM.