Market Update

From: Mike Sullivan
Date: August 12, 2015
Subject: 'Its All Priced In'

Wealth COACH Financial Services Inc.
(614) 734-9584

Maybe. But, probably not. Despite many talking heads expressing that an imminent increase in interest rates is 'priced in', we have reached a critical stage in many asset markets. After a long upward ride, lifted on the back of money printing, central banks across the globe have reached a potential inflection point. Not only do they now have to try to step away from their policies to see if things can hold together on their own (they're not), central banks are increasingly under the microscope for essentially ruining almost every 'free market' with interventions and manipulations.

For years we have written about the unavoidable Currency Wars that await the U.S., amidst disingenuous efforts of central banks to create current-day consumption on the back of credit (which is really just a claim against the future income of a country and its citizens). David Stockman recently shared the fact that in the past 30 years total credit outstanding in the U.S. has increased by $50 *Trillion*, while over the same period Gross Domestic Product has grown by only $13 Trillion.

On both Monday and Tuesday nights, the Chinese 'devalued' their currency, the yuan, by the largest amounts ever … back to back. They did so to disconnect it from the U.S. dollar. While the technical significance of this can be confusing to many, the political aspect really is not. The market climb since 2009 (after the crash that was caused by too much debt) has been built almost solely on *more debt*. It has worked only because the leaders of the major global powers have *cooperated with each other*. It is easy to understand that if you are a big-dog living large in any major country (and you are well connected and close to the money spigot that would be used to spit out money and artificially goose asset prices upward) you'd be happy to cooperate with the leaders of other countries in order to keep your place at the table. However, if your place at the table was in the future to be threatened by the actions of some of the other countries, you just might choose to go your own way … and that's when the money-printing game would almost surely enter its riskiest stage.

In our recent quarterly letter, we wrote about the insanity in China, where government leaders turned their government cronies into land barons of cities that sit empty, and turned their populace into stock market speculators. The real estate market has been crumbling for months now and the stock market cratered 30% in less than one month. Stocks were halted, government agencies were forbidden from selling stocks, short-sellers were threatened with jail time and the 'Knitting Nannies' who were lured into stock speculation sat mesmerized watching their trading accounts get wiped out.

Everyone has forgotten that stocks and real estate prices can go down, too, because the central planners have completely destroyed market cycles, free-market 'price discovery' and entire countries (Greece) for that matter. Their flaw now becoming visible as they try to unwind their manipulations may be that one can only steal from the future for so long before natural laws assert themselves. You cannot use the planet's resources to build cities that sit empty because there are not enough productive people to pay rent to use them. Such strategies logically are destined for failure.

While The Swiss Bank led the way into the Currency Wars in Europe by disconnecting from the Euro in Q1, China's devaluation versus the U.S. dollar this week may be the biggest bullet fired yet in what we see to be the inevitable global Currency War, and of no surprise, with China at the forefront.

The Fed is pretending it will raise interest rates while economic data weakens all around them. Their policies have left the middle class buried under rising expenses and declining real incomes and, as such, the citizenry is finding it harder and harder to prop up the S&P 500 companies that run things.

Perhaps more important, underneath the surface of the market, more companies than not are in bear-markets, having receded more than 20% from their recent highs. The indices, which have gone nowhere year-to-date, are doing a good job disguising things as they are being held up more and more by only a handful of stocks like Google, Netflix, Amazon, Apple, Facebook and Gilead Sciences. As we have indicated in our letters, the larger players in the market may well be selling off their shares in many companies while the markets are held aloft by the stocks just named. Of little surprise, many of the same talking heads who professed everything was great and all issues were 'priced in' are now revealing that they have brilliantly reduced their holdings in stocks. Go figure.

The chart below illustrates the S&P 500 (green and red candles) versus the number of its underlying stocks above their 200-day moving average. The 200-day moving average itself is a long term trend indicator. When the majority of stocks are above it, we are generally in a rising market. When they are below it, the broader segment of the market is declining. The index itself is at its 200-day moving average *today*, fighting a broad downtrend. But the number of components above *their* own 200-day (red zig-zagging line) has been declining steadily from mid-2014 throughout 2015 as more and more of those 500 stocks fall into downtrends. Recently, only a miniscule 36% sat above their 200-days. So, nearly two-thirds of S&P 500 stocks are now technically declining toward their own bear market.

It has been some time since we have sent out a 'Market Update' in between our regular quarterly letters. We only do so when we believe it to be an important time for investors to consider whether they need to take action. Obviously, with the technical state of the market as weak is pictured above, with the central banks trying to drag themselves out of the corner, and with Currency Wars rising, we advise investors to err on the side of caution here. Either the Fed is coordinating with China to give them cover when they announce they will not raise rates after all (which we have said for years), or, China is checking out of the global coordination effort, a hostile move that would not likely bode well.

If they are coordinating (which we would not put past them), markets may bounce here. If not, markets likely will not. As we concluded in our last letter: Stay vigilant! Err on the side of caution here. Hopefully all will go well and it will be a Summer of Smooth Sailing. If not, forewarned is fore-armed! As always, call us if we can be of assistance: (614) 734-WLTH (9584).