Market Update

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From: Mike Sullivan
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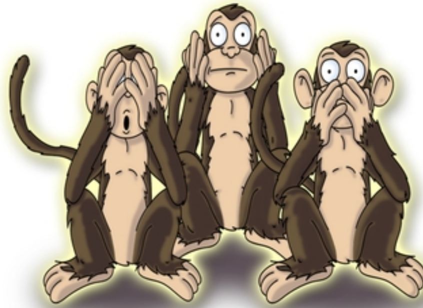
Subject: **'The Great Unwind' & 'See No Evil'**

Four major headwinds are now blowing across the globe, a consequence of the constant meddling by unelected academics at the Fed and other central banks that now control the world economy, mislabel their debt-bubbles as 'growth', and have virtually destroyed most free markets. The four:

1. The Fed's failure to continue their money-printing is hammering other countries worldwide;
2. China's deterioration of their own debt-funded bubble economy is crushing other countries;
3. The collapse in oil, caused by the strong-dollar (in turn caused by headwind #1), is causing countries to sell reserves (not buy them as they have for years), pressuring asset prices;
4. Wall Street has been trained to either pump assets or slam them based on whether the Fed feeds them new money from the never-ending Fed debt-bubbles. Presently, they're selling.

Yes, the rally out of the 'Great Recession' that began in 2009 has been praised endlessly by the mainstream Wall Street pro-money-printing money managers. On the other hand, it has also been decried by a camp of Fed critics who have argued that the rally is almost certainly just one more unsustainable one, built on false growth and funded by debt that cannot be repaid.

The rising asset prices that grace the headlines have mesmerized the public and discredited critics. In a world now trained to focus only on the positive, see only the light side of things, and dish out only 'put-ups', criticism is portrayed as negative and unnecessary and viewed with disdain. Many informed people, though fully capable of sifting through the mis-stated government economic data and discerning what may really be going on, have opted instead to buy the 'endless growth' happy-talk storyline pushed by the central banks and their big-bank syndicate. 'See no evil, hear no evil, speak no evil.' Thus, the theater has continued and 'wealth' continues to flow to only a few hands.



And so, here we sit, potentially on the cusp of a third major asset-bubble popping in just fifteen short years. These central banks have pumped new money all over the planet for six years. The corresponding rise in commodity prices, in particular oil, artificially drove up growth rates. In addition, they filled the coffers of oil producing countries which then used the oil proceeds to buy 'reserves', predominantly U.S. Treasury bonds, and to buy other goods, services and assets.

In now stating they are ready to raise interest rates, the Fed has turned the tide in the other direction. The Currency Wars have escalated. Reserves are pouring out of countries across the globe. As countries now need capital they are selling their U.S. Treasury bonds and selling other U.S. assets. In effect, as opposed to the 'Quantitative Easing' (Fed money-printing escapades) that lifted asset prices, there is now a 'Quantitative Tightening' underway: assets are being dumped.

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Is it any wonder that so many other countries now want the Reserve Currency power out of U.S. hands? The Fed *may* indeed raise rates, but as is usually the case with them from our experience, it will not be for reasons they state. More likely, they will raise rates to give the impression that they are still in control and want rates to rise. More likely, they will hike now so they can quickly turn around and lower them again if the economy rolls over under the pressure of global turmoil.

As you know, China now sits chock full of empty cities, having artificially goosed their 'growth' over the past decade well beyond what their society can naturally sustain. China's activity artificially ramped commodities production in Australia, causing Australia to blow its own massive housing bubble, upon which they now sit. Meanwhile, in the most recent U.S. chapter, the Fed funded Wall Street to goose the U.S. energy sector which subsequently became the backbone of our 'rally' from 2009. That same energy sector is now in shambles, strewn with companies about to go bust. (No worries exist for Wall Street though as they received their commissions for underwriting that junk-debt. The big energy companies will likely benefit too as they scoop the failures up for pennies on the dollar. Only the investors who bought the junk bonds will be harmed, of course.)

The uber-wealthy, led by the same Wall Street cast of characters that caused the disaster in 2008, have now eclipsed virtually all historical measures versus the middle and lower classes. Yet the middle class and the poor are in substantially worse circumstances than they were when the prior bubble burst in 2008. Artificially low-rate car loans now stretch out to seven year periods, student loans are at all-time highs with defaults rising, and real inflation is crushing the discretionary income of most Americans. The Fed meanwhile continues to fund the government and together they launder new money through the 47 million people on food-stamps into the revenues of Kroger and Walmart. In so doing they hide the bread lines and soup kitchens while simultaneously boosting the stocks of the corporate benefactors. Big companies borrow cheap money in the markets and use their debt to buy back their own stock. Corporate insiders prosper greatly as their stock climbs, despite the fact they are loading up their own companies with more debt.

Signs are *everywhere* that this is the same playbook used just six years ago, the one that *failed*.

This week's sell-off, despite being scape-goated to China, is largely attributable to the Fed's second-in-command, Stanley Fischer, who confirmed on Saturday that the Fed may well try to raise rates for the *first time* in September. As we have indicated previously, Fischer is a dual-citizen of the U.S. and Israel and former president of Israel's central bank. How a dual-citizen from any country can be next-in-line for the Chairman seat at the Federal Reserve, the most powerful entity on the planet, is mind-boggling. But that is a separate issue from the market turmoil at hand …

The recent market beat-down is yet one more full-fledged tantrum unleashed by Wall Street, as they have been trained to do, when they believe they won't be able to further exploit the Fed's policies. Wall Street seems to have taken all it can take for now, and may even be cashing out.

A prior Update of ours wished all of us a Summer of Smooth Sailing. It has been anything but smooth! We might expect another bounce here, if for no other reason than fear is high and everyone is leaning toward the same side of the boat expecting major declines. More importantly, a bounce is direly needed if the Fed is to be perceived as still 'in charge'! At the very least, we should expect more Fed meddling. But, bounce or not, we suggest investors re-read the paragraphs above and think about what more of the same Fed meddling might bring over the next year or two.

Yes, stocks have tended to go up in the long run. But the in-betweens have been brutal over the past fifteen bubble years. This time, not only is Fed credibility at stake, but so may be their very existence. Anyone involved with the markets over the past twenty years has witnessed that they can 'gap down' overnight, wiping out weeks, months, or even years of gains. (Three days in August just took us all the way back to May 2014!) This is no time to be overly aggressive in our view.

Please call us at (614) 734-WLTH (9584) if we can be of assistance.