2016 - A fearful year begins badly

Moving my home & other unforeseen events beyond my control effectively took control of my life in 2015 and at the start of 2016. I still can't be too specific about my future plans for a website & periodic commentaries.

I have produced an annual "Forecast Issue" at the start of every year since 1973, and where I had grander ambitions for the 2016 version, the attached has several chart views and commentaries in my old format of pictorial essays on assorted topics.

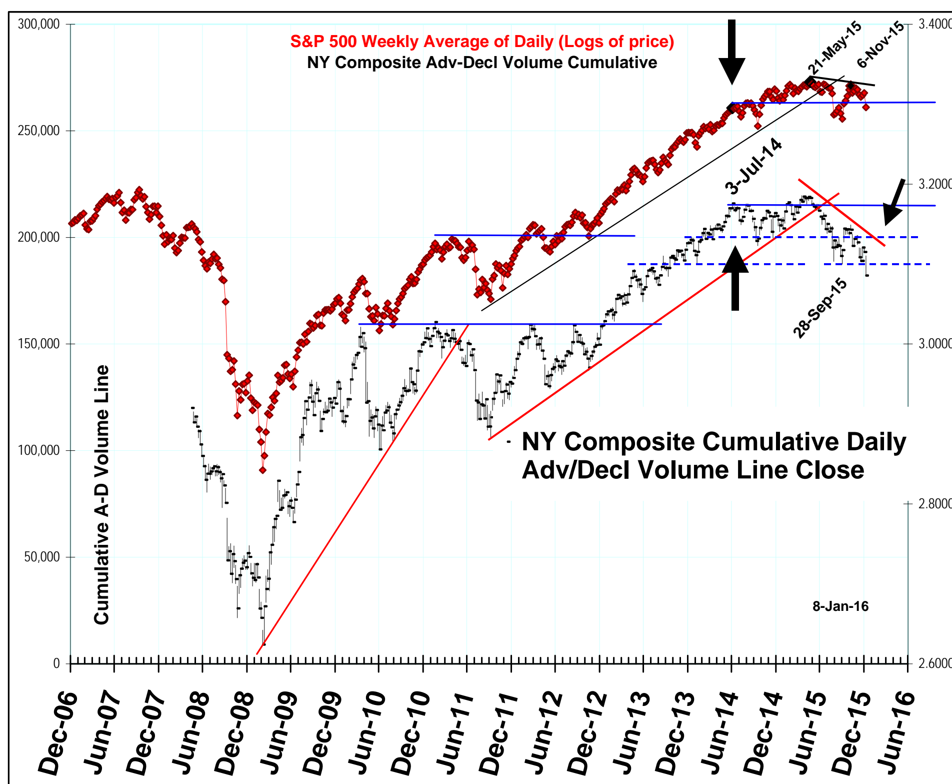
Overall, it may partly be the 'grumpy old man' function creeping in as I approach my 74th birthday but as I watch geo-political events unfold, I can't recall a time when I have been more uncomfortable about the prospects for the global economy, prospects for a peaceful world in the coming coming year.

The entire Middle East has become a series of proxy wars that has generated an invasion of Europe that is rekindling divisions that I fear have the potential to break many of the Euro institutions.

It's no longer just the debt/deficit problems posed by Portugal, Spain Italy & Greece… The European Central Bank (ECB) and the Euro currency have taken on an important global role, but the refugee invasion from North Africa & Syria combined with the Radical Islamic Terrorist attacks in Paris, and the bizarre US policy of shifting away from its long time ally Saudi Arabia to Iran is akin to Western policy makers throwing books of matches into a vast acreage of dried grass just looking for a single spark to ignite it all.

The prospect of a Hilary v Trump election in the US is troubling. The establishment of both parties ignore that Trump's key appeal is the anti-Washington establishment anger with both major parties on Main St.

The 'hanging chads' incident of 2000 in the Bush/Gore election and subsequent scandals in Ohio beg many questions about the legitimacy of the US voting process, which may be Hilary's hole card.



The Chinese market blowups in the opening days of 2016 set off panic in many totally unrelated markets, and resulted in a lot of bearish downturn confirmations that suggests to me that the FED's fueled QE3 bubble (as I've long labeled the run from 2013 into 2015 is over.

I fear the second half of what started in 2008/09 to dominate 2016/17 with global currency realignments, and a general deflation of inflated paper asset values. Amero-centric US commentators keep suggesting that somehow the US can continue to be an island of relative prosperity in spite of a global slump. I couldn't disagree more strongly.

US multi-national companies dominate the major stock market indices, and the strong US Dollar – mostly strong relative to others being so vulnerable (best looking horse in the glue factory syndrome) – will have an increasingly harmful impact on the Earnings that purportedly support the pricing model of the S&P and equity prices in general.

In that vein, I would note that any uptick in US rates, combined with a negative sentiment shift will also curtail the stock buyback programs that have driven so much of the recent US market advances. The smaller cap Russell 2000 - widely regarded to be 'less internationally exposed to FX risks' has also broek its 2009/11 uptrend lines…

I believe the FED & Central Bonkers of the world will be forced into some form of currency stabilization plan in 2016, as the US can't afford too much more US$ strength. But China marching increasingly to their own drum, the geo-political risks of the Euro & devastation of resource exporter currencies make that a challenge beyond the ability of the old Guard of the IMF/BIS/Fed/ECB/BoE who think they still run things.

For 20 years the world was flood with US & Euro paper and it produced tremendous "Emerging Market/Economy Growth" that in turn has generated domestic skills, industry & independent, anti-colonial governments that are less influenced by the Old Guard. In Europe, the rise of separatist sentiments threatens the structure of much of the Brussels/Eurocrat dominated European Community.

Gold starts the year with flickers of promise, but I'll deal with that on page two… ***I will follow this up as 2016 unfolds, but not sure when. I.M.***

The World of Gold in 2016

The definition of a downtrend is lower peaks with subsequent lower lows… which has dominated the US$ gold chart since 2011.

The sequence of lower lows since the GLD ETF raid of early 2013 has certainly strengthened the hand of the 'conspiracy' crowd the establishment disparages, even while the Money Center banks continue to pay wrist-slapping fines for having been caught manipulating forex, various debt markets, and assorted other products they have flogged to an unsuspecting world. But somehow we're supposed to believe that gold & silver are the only unmanipulated markets is typical of the arrogance of a totally corrupted global financial system.

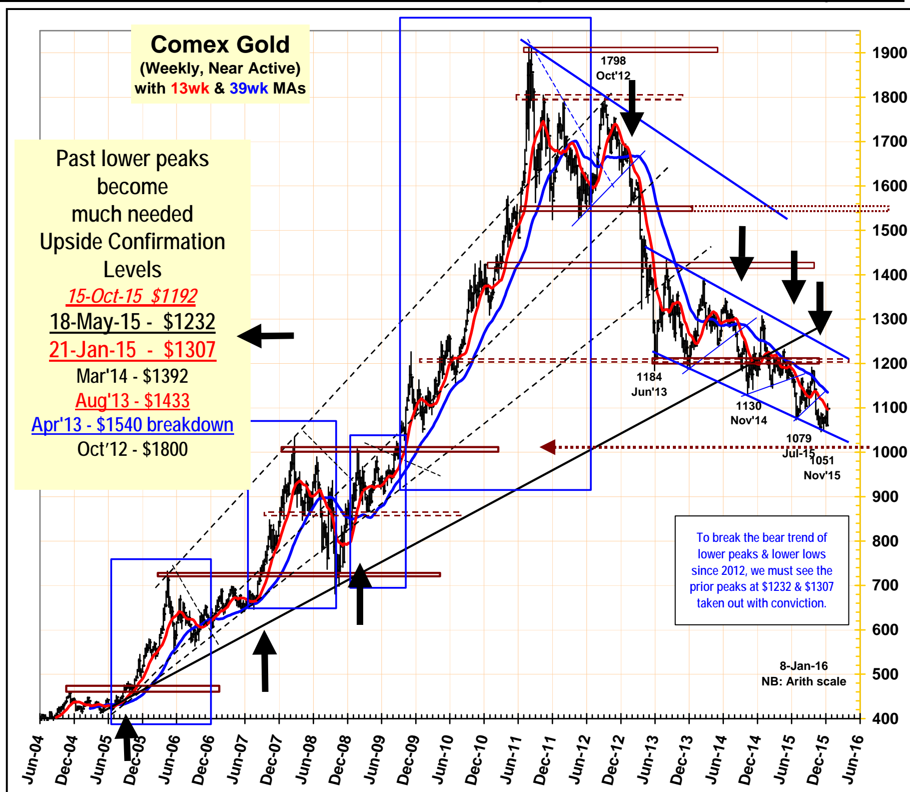
The Chinese, Russians, Indians and many former Soviet States have been steadily accumulating gold reserves to reduce their overall exposure to the YES Triangle (Yen/Euro/US$) that dominates the Old Boys club of Central Bonkers.

There is no question in my mind that in due course the YES currencies as well as many others are being deliberately devalued in purchasing power terms, and those chickens will ultimately come home to roost as the credibility of major country sovereign debt goes into the toilet.

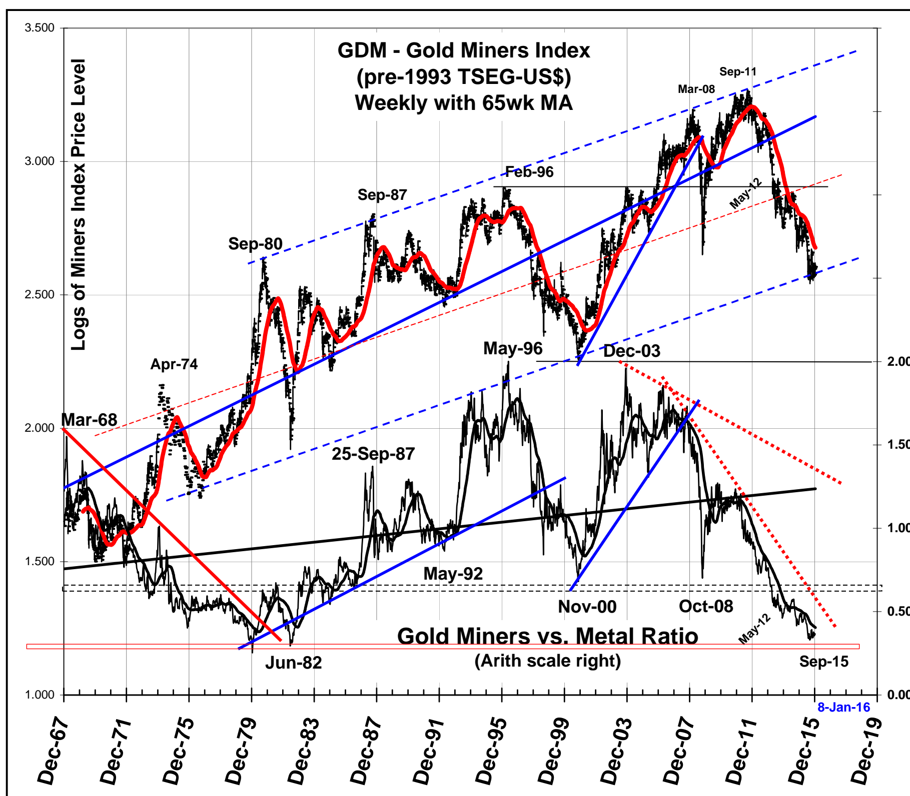
My major concern is that the enemies of gold have the ability to change the rules to perpetuate their control of the system by bankrupting future generations.

To confirm a reversal of the downtrend, the US$ gold price will have to show not just a test of a recent low, but then follow through with a material higher high. Many believe that manipulation renders such a simple technical analysis discipline as useless, but I continue to believe that a couple of higher highs will confirm that the wind has finally shifted. But it may take a lot of work to take out all those peaks below $1800 & $1500. BUT, history says IT WILL HAPPEN.

In a future update I'll have a lot more to say on Gold in other currency terms, ETFs and the Chinese.



The Miners are down to levels not seen relative to the gold price since the 1980/82 period. The bottoming process of 1997/2002 took a long time post Bre-X, as opposed to the "V-Turn" of 2008. The recent relative strength of the Miners vs. Metal is promising, but not yet definitive of THE TURN so many javelin catchers are hoping/praying for, in my view…



With the C$ likely headed to the mid-low 60 cent range, I would focus on smaller Canadian miners who pay most of their operating costs in diving Loonies… and keep other focus on geo-politically stable, relatively mine friendly jurisdictions... and be patient. 2016 may be very volatile.

2016: The Great Unwind Begins?

The Debt explosion in the US may now have completed the third major top of a secular trend process in the US and Global stock markets dating back to the 1998 Long Term Capital Management bailout of 1998.

The LTCM bailout began the era in which it became increasingly obvious that FED policy was not just focused on their self-imposed twin mandates of managing inflation and employment rates, but clearly included a wary eye on the S&P 500 and investment banker community.

In my view the most dangerous changes that set all this up was the elimination of the Glass-Steagall Act that opened the doors for Money Center banks to become full time casino operators with derivatives and principal trading creating frightening degrees of leverage that imploded in 2007/08.

Opening the floodgates of unprecedented money printing enabled a final March'09 bottom and was followed by a extraordinary debt creation and a bloated FED balance sheet above right.

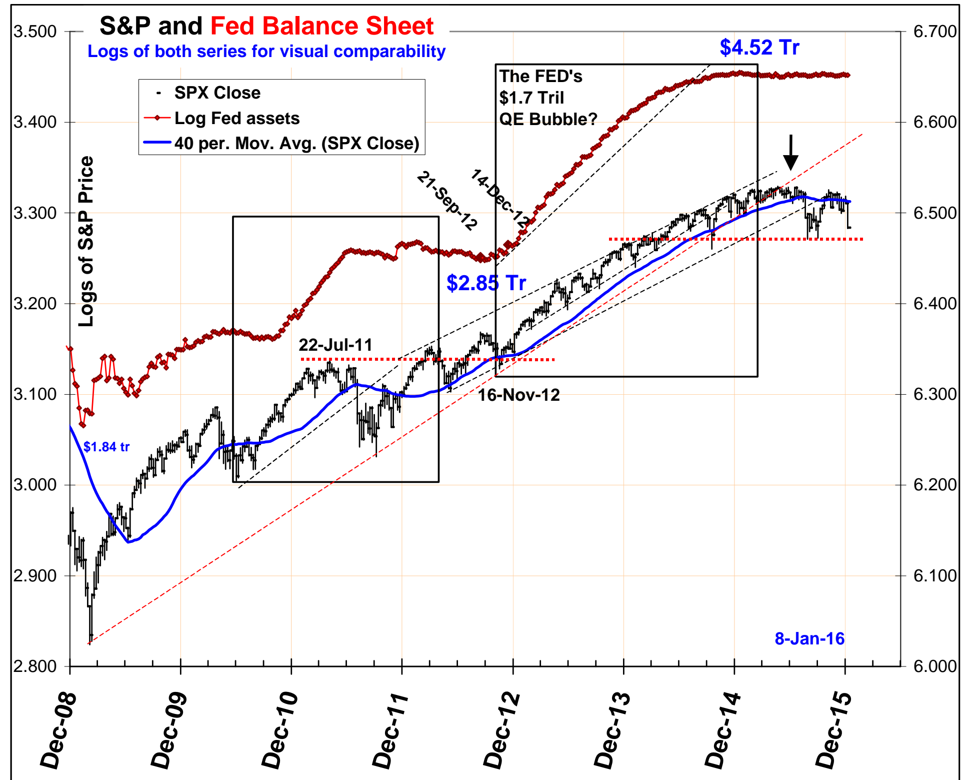
The 2008/09 bailouts were compounded by subsequent FED realization/fears that they just bought time rather than curing any structural flaws and it was clear they had no real idea on how to take the punch bowl away without killing the party.

The notion that a new burst of "wealth effect" and ZIRP (zero interest rate policy) would somehow restore a consumer over-borrowing & spending binge of 2004/07 was naïve at best - largely pushed by academic PhD's & mega bankers with 9-digit incomes who had long forgotten Math 101 that 2+2=4 no matter how you seasonally adjust it & fudge the inputs.

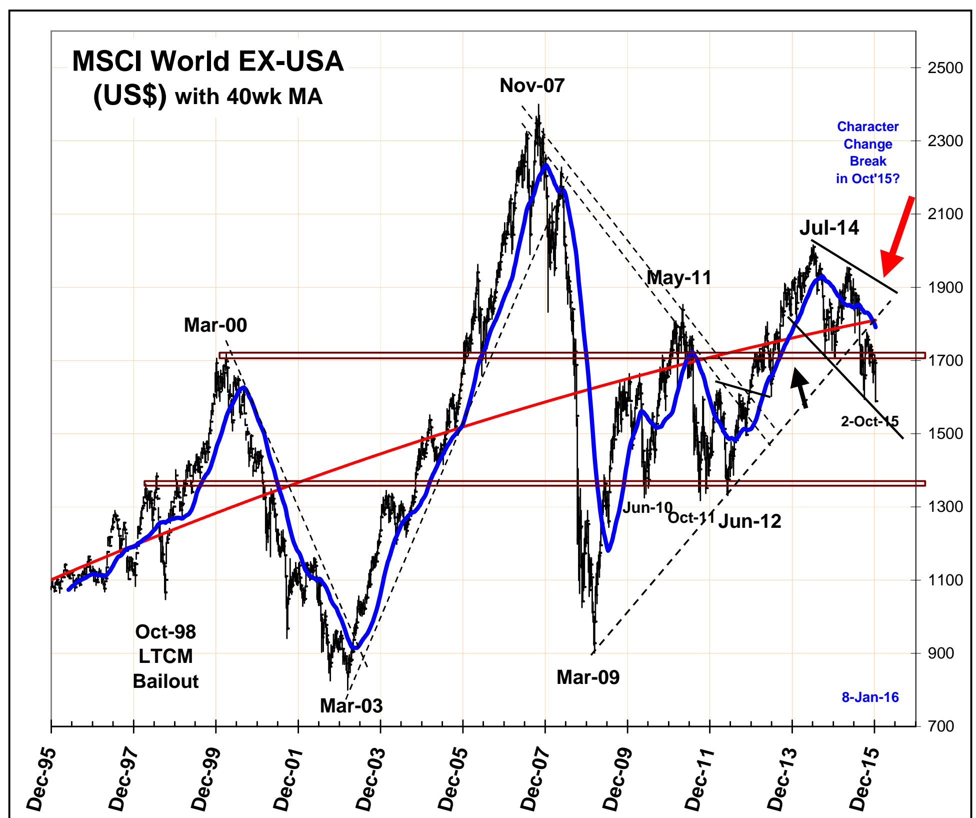
The meltdown of a globally small, largely domestic stock market in China in many ways brings to mind the analogy of a butterfly flapping its wings in one county that somehow alters the wind currents to set off a tornado several counties away…

I do think the deflationary wave underway in financial asset prices I've long feared may be underway in 2016.

The 2008/09 Bailout of the systemic was followed by Quantitative Easing 2 & 3 that in turn was picked up by other major central bonkers to effectively reflate asset prices in the hopes it would trickle down.



It saved the mega-Banks of Wall Street & the Hedge Funds but never reached Jane & Joe Six-Pack on Main Street where aging demographics & debt reduction became the hangover cure as Wall Street partied on at the expense of bankrupting the next generation who were too young to vote...



The Secular Trend Case from 2000 to date vs 1974-1999 is most readily portrayed by these 2 categories…

The FED and media continually talk about jobs, jobs, jobs as a major policy driver. And the stock market goes nuts every month when the data comes out despite the fact the Payrolls number is continually revised in the next two months.

And it's longer term history is not necessarily very legitimate given the multitude of fudge factors & constantly changing seasonal factors so well detailed by John Williams in his invaluable service, Shadow Government Statistics. (If you don't subscribe to it, you're missing a lot if any government reported data is a factor in your investment decision making. At $175/yr **shadowstats.com** is an invaluable bargain.

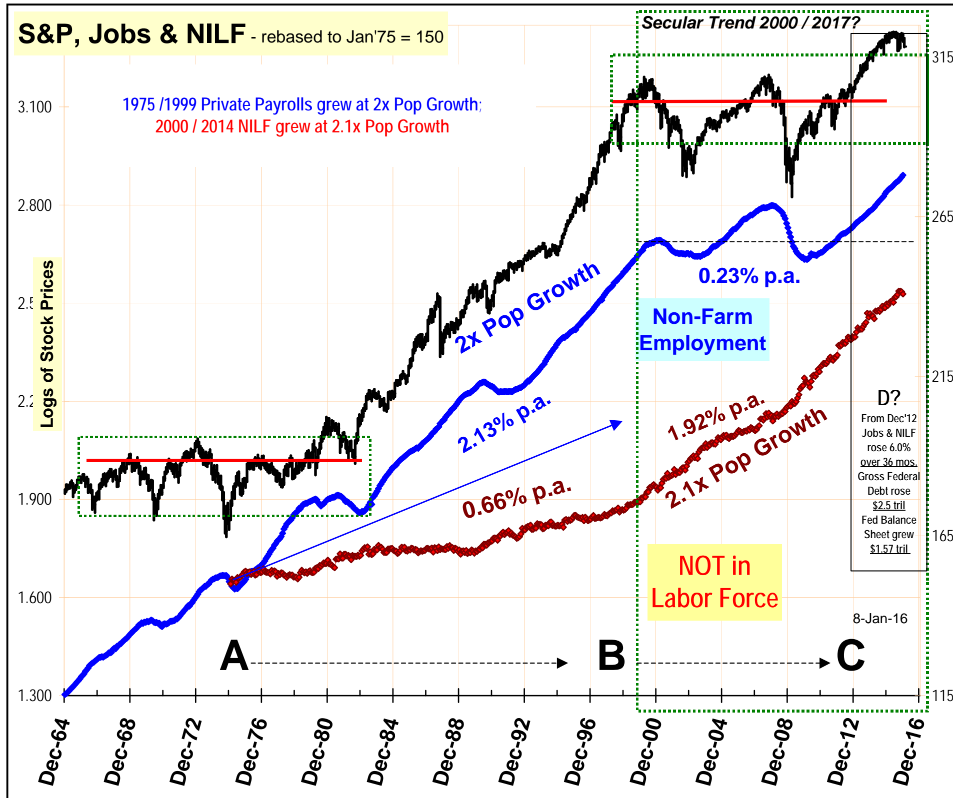
Given the data caveats, my key point is that Payroll Employment rose at a rate of 2x Population Growth from 1974 to 1999, while the category Not In The Labor Force (NILF) rose at 70% of the population growth.

As the aging baby boomers passed into their 60's and the economy got wobbly after the Tech Bubble burst in 2000, those trends reversed, with NILF surging to a trend growth rate of 2.1x Population Growth from 2000 through 2015, while Payroll Jobs have wobbled to less than half the Pop growth rate.

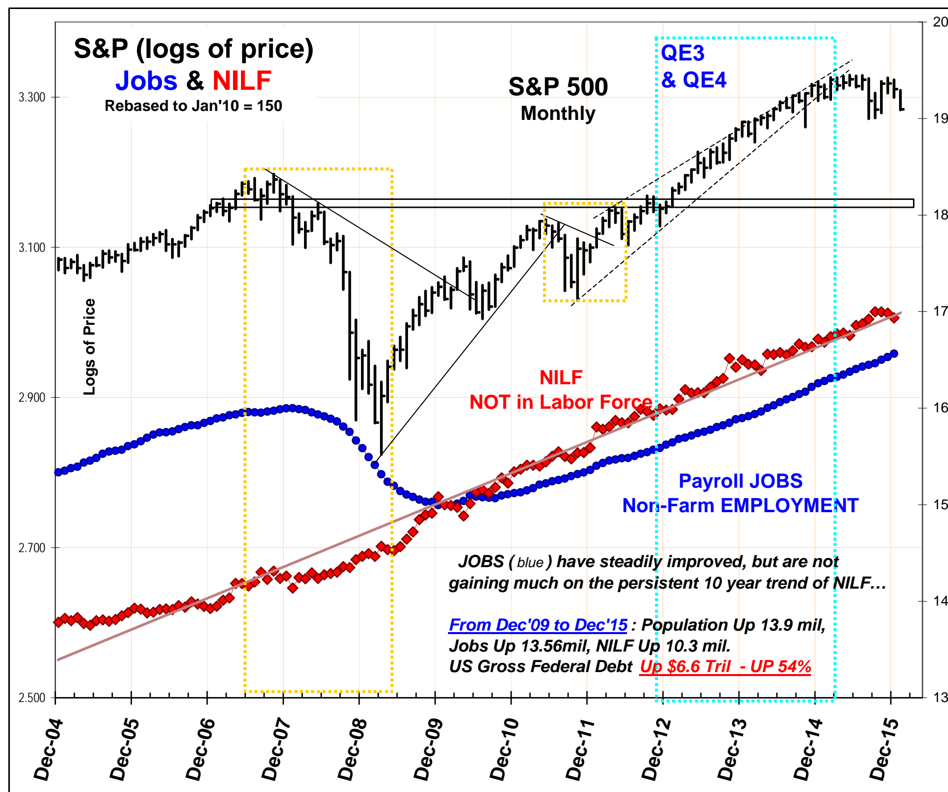
The lower chart shows a close-up on the period from 2005 to date in which the US Gross Federal Debt has surged by $xx trillions and the FED has printed money like a drunken sailor on shore leave.

Yes, all that free money thrown into the economy did create some recovery and did generate some jobs, but that blue line (Payrolls) has not been able to keep up with that continually rising red line (NILF) since the "recovery" post 2010 got going.

With progressively rising costs of Obamacare sneaking into employer payroll costs & paychecks at an accelerating rate, the ratio of part-time vs. full time jobs has been a growing factor in the past year and that will be continuing in 2016…



The great secular bull market in the S&P 500 from 1974 to 1999 (A to B) was fueled by legitimate economic growth. Since the Tech Bubble burst in 2000, we've had 3 major stock market bubble-like tops in which FED policy has played an ever-increasing role in fueling those runs.



The FED has stopped growing their balance sheet and is trying to raise rates away from ZIRP, but a very vulnerable economy and liquidity squeezed markets plus a deflationary global slump is likely to block them from further hikes. US$ strength is bad for US multinational profits with its best looking horse in the glue factory status pressuring the S&P…

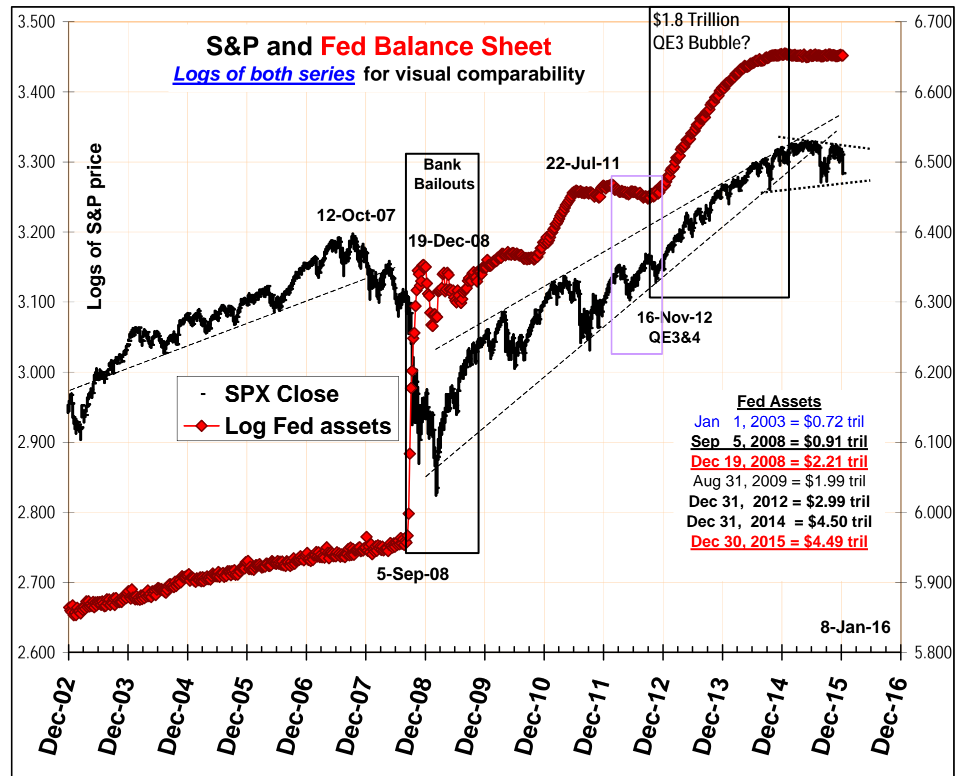
The Financial Crisis – Is Phase 2 of the 2008/09 Bailouts Looming?

The radical expansion of the FED balance sheet in 2008 clearly served its purpose in avoiding the risk of a systemic collapse.

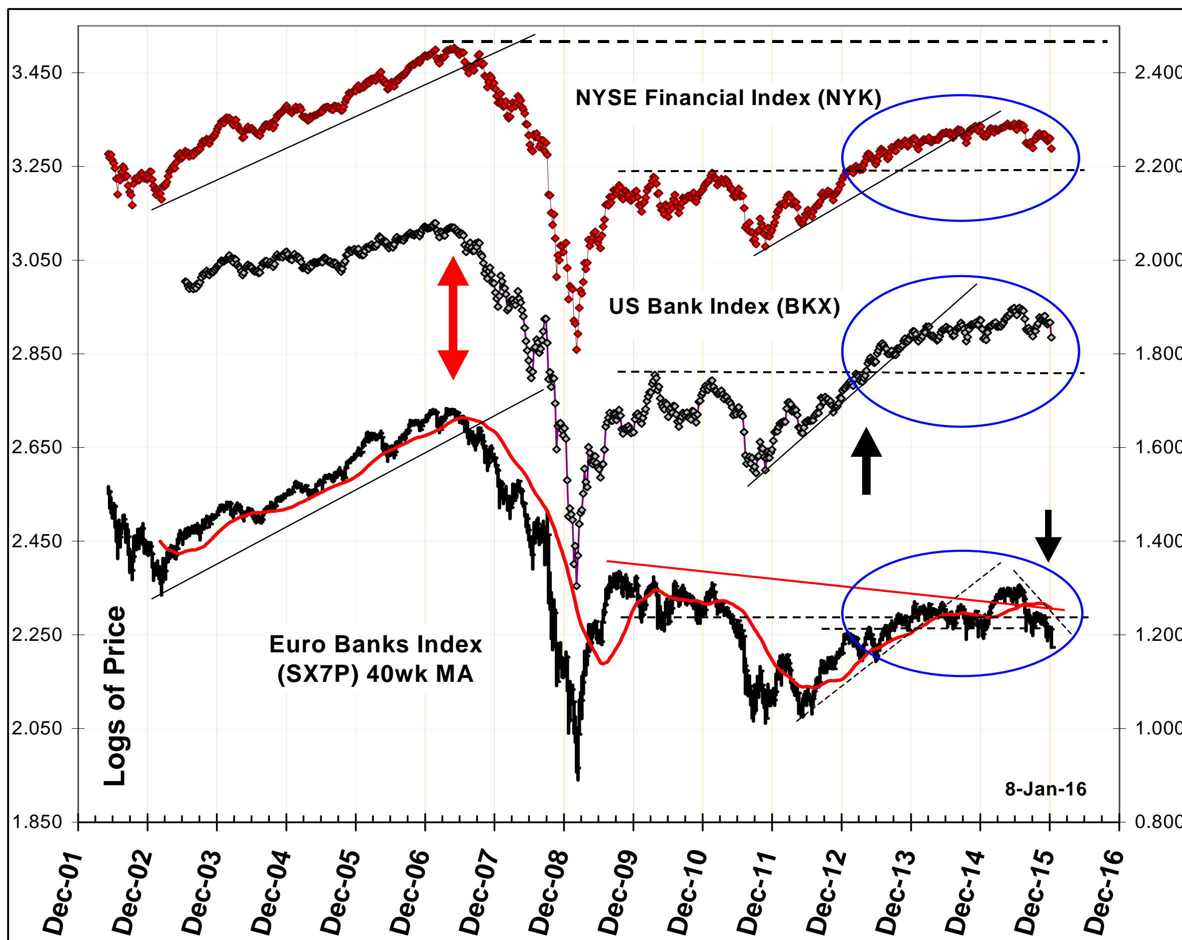
Three major Indices of Financial stocks are shown in the lower chart, and their action of recent months is getting me very nervous.

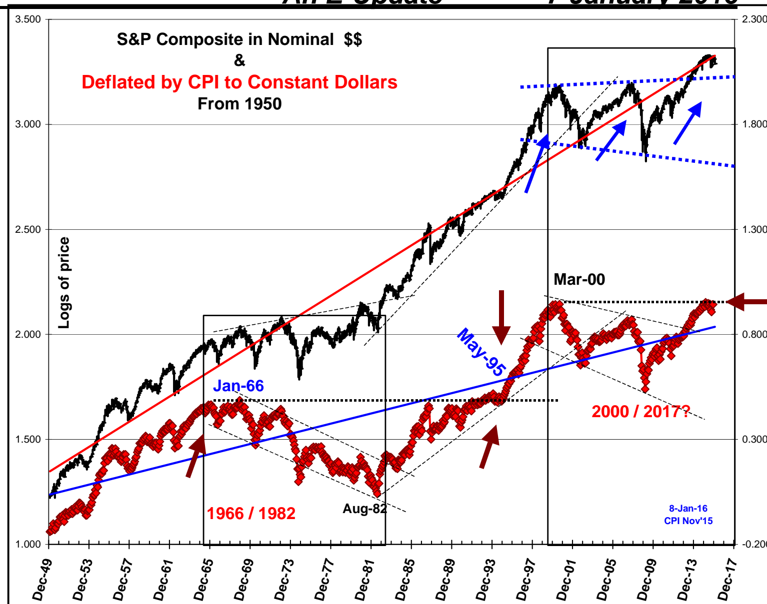
Particularly the Eurostoxx Bank Index (symbol SX7P), which has broken down to a level not seen since 2013. The prices shown here for NYK and BKX, two broad US measures are weekly averages of the daily close.

NYK shows the same breakdown as SX7P in its bar chart format (not included here) reflecting the Friday lows, and on an arithmetic scale that break also took out the uptrend line connecting the Mar'09 & 2011 lows, and it closed well below a big round number (6000) that has produced rebounds in 2014/15. BKX got within $1 of a similar breakdown.



In my view, the 2008/09 Banking Crisis was deferred – NOT resolved for so long as they sport trillions of gross derivatives exposure that nobody really knows how to evaluate, and they continue to manipulate assorted markets and just pay slap on the wrist fines when caught… The repeal of Glass-Steagall that enabled banks to become casino operators was the biggest single policy error of the past 40 years in my view.





The Secular Top that capped the great run from 1982 to 1999 occurred in March 2000 with the Tech Bubble consummating its mating dance with the inevitable pin.

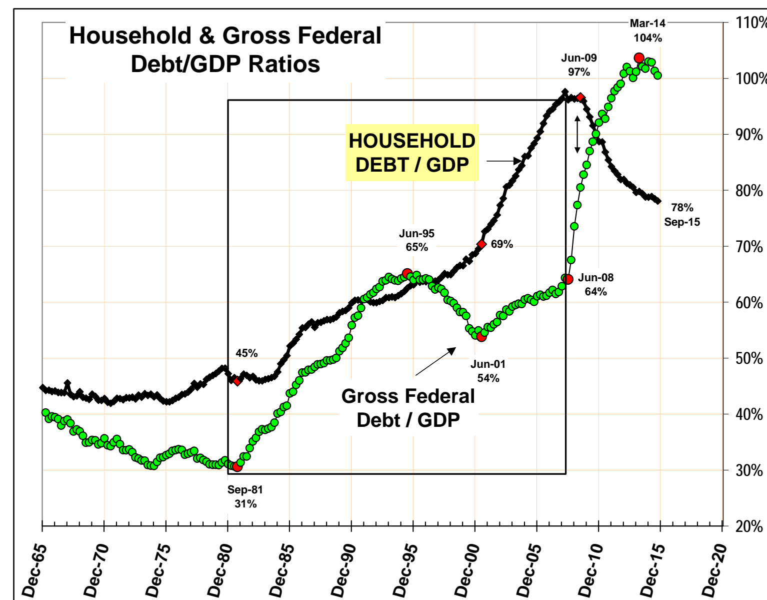
Adjusting the S&P by removing inflation by the All Urban Consumers Price Index is the lower line at right. It illustrates that even with the higher nominal S&P highs in 2014/16, the 'deflated' S&P has not made a really meaningful gain above that March 2000 peak. This is a major point in my thesis of the current top being the third major cyclical peak in this secular phase dating from 2000.

James Dines published "The Invisible Crash" in the 1970's warning of the decline from 1966 to that final bottom in 1982 in deflated terms.

Some may argue that this cycle was compressed and reversed by the great bailouts in 2009, to shorten the cycle to just 9 years vs. the prior phase that ran 17 years.

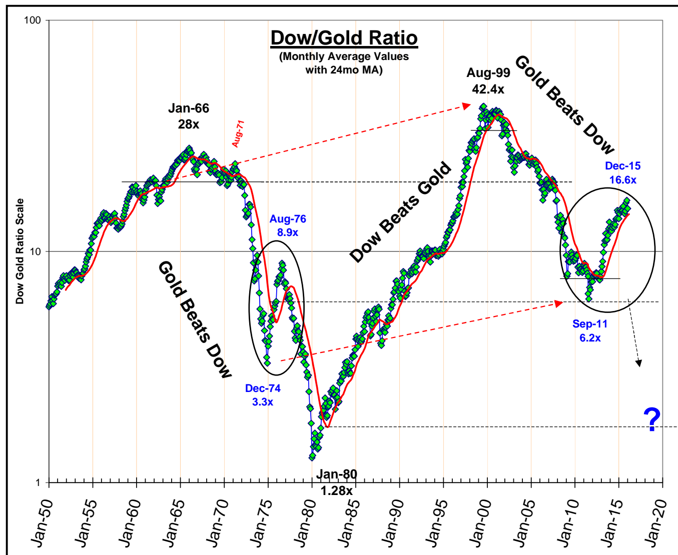
In that 17 year span there were four major cycle lows (1966, 70, 74 & 82). Since 2000 we've only had two (2002, 2009). In 2011/12 we had the start of another that panicked the FED into their massive QE3 & QE4 money printing. Rather than raising rates several times in 2016, I will not be surprised if the global slump and a break down in the S&P in 2016 doesn't have them back with QE4 or QE% pretty quickly.

They call themselves 'data dependant' but never really acknowledge that the S&P 500 is one of their most important emotional drivers…



Two other charts to contemplate…

We hear about a Consumer Recovery but when comparing Household Debt versus Gross Federal Debt to US GDP it is quite clear that the 'shop 'til you drop' mania of the prior decade has not returned and that households are still focused on debt reduction and savings.



The Dow/Gold Ratio from 1950 has continued the phase of Dow outperforming Gold since the 2011 reversal. I continue to view this as a corrective phase not unlike the shorter correction that dominated in 1975/76… just a little longer and a lot more painful.

Historically, the Dow/Gold Ratio traded below 2:1 at crisis extremes in 1896 and 1932, and I continue to believe that the mountains of debt and money printing of recent years can not possibly have a happy ending that doesn't at least rival or exceed any other such monetary crisis in history.

The arrogance of the academics behind the global bodies in their belief that they can tweak rules to enable the game to continue frightens me, and in due course it may yet be a crime for me to even say that.

I've always called gold the ultimate inter-generational wealth preservation tool. Looking back with 20/20 hindsight from 2020 or perhaps 2025, there is no doubt in my mind that we will once again see a Dow/Gold ratio that would enable a younger generation to swap back 1 ounce of gold for 2 units of the Dow rather than the over-priced 15 units of FED QE-elevated Dow currently on offer for that ounce of gold.

Great Growth: Perpetual or in Spurts?

What can AAPL do for an encore now that it's a $235 bil/yr revenue entity with a $540 bil market cap, and cash holdings in excess of $40 bil?

There's no question about the spectacular success of Apple Inc since 2003, but looking back to 2005 when they had their first great surge, Revenues that year were $14 bil. And in 2010 they were $65 bil.

What new products can they create to generate another 5-fold rise in revenues over the next 5 years?

It reminds me of the extraordinary growth phases of IBM, unquestionably one of the great growth companies of the past 100 years.

The lower chart raises a point that I don't think many investors consider today. IBM has repeatedly reinvented itself since they got started more than a century ago, and just looking at the 65 year history below, note that the four great surges to Jun'68, Aug'87, Jul'99 and Mar'13 put in major peaks that subsequently took 11 to 13 years to surpass.

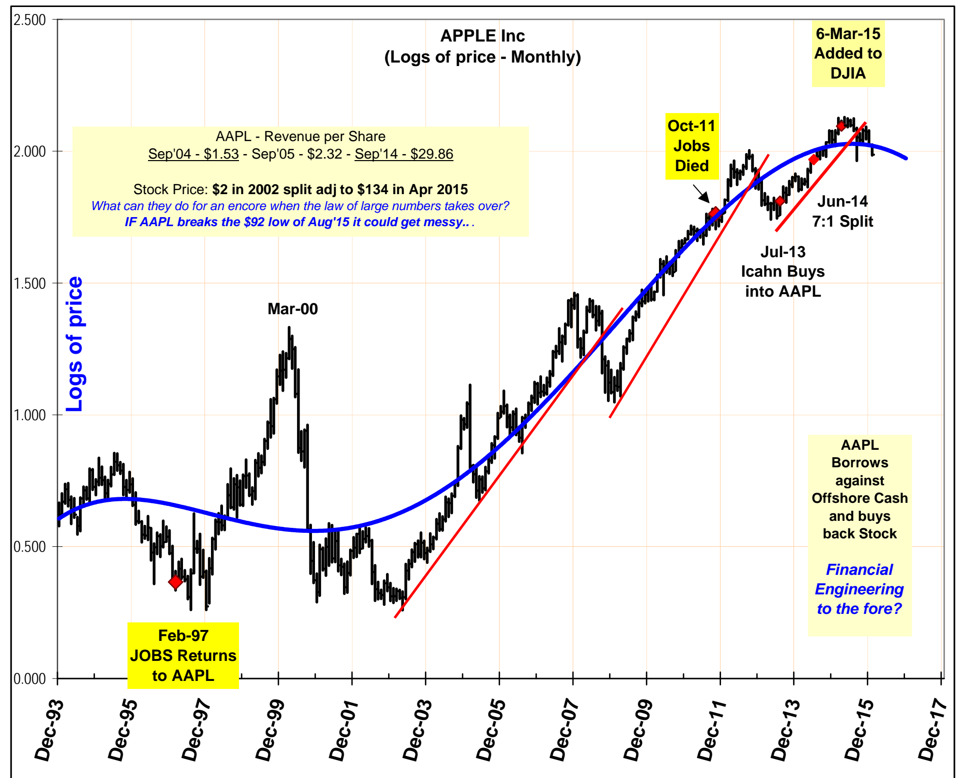
IBM was one of the "Nifty 50" growth stocks in 1968, but was still in that range in 1982… 14 years later!

More troubling to me is that IBM's share price "growth" in recent years has largely been driven buy share buyback programs. In 2005, their total revenues were $91 billion. In 2015, revenues were $24 billion. In 2005 their average shares outstanding was 1.63 bil. By Sep'15, that's down to 979 million. 40% less!

It might be argued that IBM's key 'growth' business these days is financial engineering uisng share buybacks… bringing back to AAPL.

After the death of Steve Jobs, they have done a great job sustaining new growth and hoarding offshore cash, but the arrival of activist Icahn has pushed them into splitting the stock and starting large stock buybacks to keep the "per share" numbers going even if real growth is slowing.

I understand the US Tax code of essentially double taxing dividend distribution rationale behind the "returning capital to shareholders" via buybacks idea, but I don't like it.



Buyback decision-making comes form the same Board that awards itself and employees with stock options. Activists argue that aligns the interests of managers with their shareholders, which is a good thing.

But if a company is accumulating cash that it is not reinvesting in continuing future business growth, should the Price/Earnings ratios of such 'growth' companies get adjusted downward when it becomes apparent an increasing share of the growth in "EPS" (Earnings per Share) is increasingly a result of financial engineering that shrinks the divisor?