The Fed's "Catch 22"

Before diving into the topic, let's be clear about one thing: The economic definition of "inflation" is the increase in money supply relative to the marginal increase of wealth output (GDP) in the economic system for which money supply is created. This is differentiated from "price inflation," which would is "a general rise in prices."

Money and credit creation in excess of wealth output causes currency devaluation. It is this currency devaluation that arises from money and credit printing that causes "price inflation." More money (and credit) chasing a relatively less amount of "goods."

Furthermore, the commonly used price inflation reference is the Government's CPI. The CPI measurement of inflation has been discredited ad nauseum. And yet, 99% of analysts, commentators, bloggers, financial media meat-with-mouths, etc uses the CPI as their inflation trophy. But the CPI has been statistically manipulated to mute price inflation since the early 1970's, when then-Fed Chairman, Arthur Burns, correctly understood that the currency devaluation that was going to occur after Nixon closed the gold window would have adverse political consequences. Today, the CPI measurement of price inflation is not even remotely close to the true rise in prices that has occurred over the last 8 years. Over the last 47 years, for that matter.

This notion of rising inflation seems to be the en vogue "economic" discussion now. But the event that causes the evidence of currency devalution – aka "inflation" – has largely occurred over the past 8 years of global money printing. If your general basket of expenditures for necessities – like housing, healthcare, food, energy, and transportation – has risen by a considerable amount more over the last 5-7 years than is reflected in the CPI, ask either

the Bureau of Labor Statistics, which publishes the CPI report – or the moronic analysts who insist erroneously on using the CPI as the cornerstone of their suppositions – why that is the case.

The Fed's Catch 22 – It's been estimated that the Treasury will need to sell $ 1.4 trillion new bonds this year to cover the spending deficit that will result from the tax cuts combined with the record level of Government spending just approved by Congress and Trump. With the dollar declining, foreign Treasury buyers are sitting on significant losses on their Treasury holdings. As an example, since March the dollar has dropped 16% vs. the euro. Add this to falling Treasury bond prices (rising yields), and European holders of Treasuries, especially those who have to sell now for whatever reason, have incurred a large drop in the euro-value of their Treasury bonds. The same math applies to Japanese Treasury bond investors, as the dollar has fallen nearly 9% vs. the yen since March.

One of the primary fundamental factors causing the dollar decline is the continuously deteriorating fiscal condition of the U.S. Government. If the Fed continues hiking interest rates at the same pace – 1.25% in Fed Funds rate hikes over two years – the dollar will continue declining. The pace of the rate hikes is falling drastically behind just the official measurement of inflation (CPI). Imagine the spread between the real rate of inflation (John Williams estimates actual inflation to be at least 6%) and the Fed funds rate, also known as "real interest rates." Real interest rates using a real measure of inflation are thus quite negative (6% inflation rate minus 1.25% Fed funds = negative 4.75% real rate of interest). As negative real rates widen, it exerts further downward pressure on the value of the dollar.

The Fed could act to halt the falling dollar by hiking rates at a faster pace and actually sticking to its stated balance sheet reduction schedule. But in doing so, the Fed risks

sending the economy into a rapid tail-spin. Higher rates and less banking system liquidity will choke-off the demand for the low-cost credit – auto, credit card and mortgage loans – that has been stimulating consumer spending. In fact, I have made the case in recent SSJ issues that the average household is now near its limitations on taking on more debt. Consumer borrowing, and thus consumer spending, will decelerate/decline regardless of the cost of borrowing. We are seeing this show up in retail sales (more on retail sales below) and in stagnating home sales.

As it stands now, based on its reluctance to reduce its balance sheet at the $ 10 billion per month rate initially set forth by Janet Yellen, it appears that the Fed is fully aware of its Catch 22 predicament. Last week, in response to the nearly 10% plunge in the Dow/SPX, the Fed actually increased its QE holdings by $ 11 billion. It did this by adding $ 11 billion in mortgages to its SOMA account (the Fed's QE balance sheet account). This is an injection of $ 11 billion in liquidity directly into the banking system. This $ 11 billion can, theoretically, be leveraged into $ 99 billion by the banks (based on a 10% reserve ratio). The dollar "saw" this move and dropped over 2.2% in the first four trading days this past week before experiencing a small technical bounce on Friday. The 10-yr Treasury hit 2.93% last week before settling Friday at 2.87%. 2.87% is a four-year high on the 10-yr.

Investment Research Dynamics

The Fed Targets Stock Prices

– Here’s Why

The week before the Dow/SPX quickly plunged 10%, the Fed had reduced its SOMA account (the SOMA account is its “QE” account) by $ 21 billion. Just as quickly as the stock market dropped, it has sharply recovered more than half of its losses from the previous week. As it turns out, the Fed added $ 11 billion back to its SOMA account. That’s an $ 11 billion injection of cash directly into the banking system. Clearly the Fed’s actions were a large factor in the 10% plunge and the subsequent bounce.

The Federal Reserve is targeting stock prices with it’s monetary policy because, if it did not, the financial system would collapse led by collapsing pension funds and the housing market. The pension collapse alone would run into the trillions of dollars.

I have a good friend/colleague who works at big public pension fund. He did a “stress test” study with the data available to him on all big public pensions. He concluded that, based on the current stated amount of underfunding at every big pension fund, if the Dow/SPX declined 10% or more over a sustained period of time – where “sustained period” is defined as 3-4 month – every public pension fund in the country would collapse.

You’ll note in the graphic above that the three 10% drops in the Dow since August 2015 were followed with sharp, “V” recoveries. Each one encompassed 10% drawdowns which were

remarkably brief. The latest 10% plunge has been met with an equally forceful recovery, with the 10% decline allowed to persist for less than three trading days.

Craig Hemke – aka "Turd Ferguson" – invited me to discuss the the massive financial pressures building in the U.S. financial and economic system. It's 2007 before the de facto financial system collapse on steroids. The factors discussed explain why the Fed will not let the stock market sustain a meaningful sell-off – click on the MP3 player below or visit **TF Metals** for the podcast link:

http://investmentresearchdynamics.com/wp-content/uploads/2018/02/07DDFeb17.mp3
Investment Research Dynamics

Is The Fed Back To "Quantitative Easing?"

The Fed added $ 11 billion to its SOMA account for the week ending yesterday. It purchased $ 11 billion in mortgage securities directly from banks. This injects $ 11 billion into the banking system. Cash is "high powered" money, meaning it can be leveraged 10x (banks need to hold 10% in reserves against "high powered" money. $ 11 billion is $ 110 billion of leverage for the banks to use for activities such as propping up the stock market.

« As of 02/07/2018

SECURITIES HOLDINGS AS OF

February 14, 2018

Summary | T-Bills | T-Notes and T-Bonds | FRN | TIPS | Agencies

Security Type	Total (in Thousands)
US Treasury Bills (T-Bills)	
US Treasury Notes and Bonds (Notes/Bonds)	2,290,601,200.3
US Treasury Floating Rate Notes (FRN)	16,990,298.0
US Treasury Inflation-Protected Securities (TIPS)*	109,413,480.7
Federal Agency Securities**	4,391,000.0
Agency Mortgage-Backed Securities***	1,771,926,571.3
Total SOMA Holdings	4,193,322,550.3
Change From Prior Week	11,183,119.9

*Does not reflect inflation compensation of 19,168,420.2

**Fannie Mae, Freddie Mac and Federal Home Loan Bank

***Guaranteed by Fannie Mae, Freddie Mac, and Ginnie Mae. Current face value of the securities, which is the remaining principal balance of the securities.

+$11 billion from last week

This certainly explains why there appears to be another “V” recovery in the stock market after a near-10% drawdown in the Dow and the SPX. This is very similar to the 10% market plunges in August 2015 and January 2016, both of which were followed with highly unusual “V” recoveries.

This is also likely the catalyst that powered gold’s $ 41 rise since February 9th.

Clearly the Federal Reserve – not withstanding the fecal odor that emanates from Fed officials’ mouths when they speak – has an implicit monetary policy that targets the stock prices.

Furthermore, the Fed must be getting worried about the housing market. Removing $ 11 billion in mortgage securities from the banking system and replacing those securities with cash was likely a move targeting the rate spread between conventional mortgages and the 10-yr Treasury. Mortgage purchase applications plunged 6% last week. This was without question in response to mortgage rates pushed meaningfully higher by the rising 10yr Treasury yield and the widening of spreads associated with higher volatility in the markets.

I remain highly skeptical that the Fed will actually follow-through with its stated plan to raise monthly its balance

sheet reduction to $ 30 billion this year. In fact, the Fed has yet to disclose a definitive schedule for said balance sheet reduction. I'm taking wagers that we do not see this occur.

Investment Research Dynamics

Why Even Pretend There's A Debt Ceiling Limit?

The current "debt ceiling" has been suspended until March 2019. The current amount of Treasury debt outstanding is $ 20.681 trillion. It has been estimated that the amount of Treasury outstanding by March 2019 will be as high as $ 22 trillion. U.S. Government has, for all intents and purposes, operated without a constraint on debt issuance since 2013:

> **Beginning in 2013, Congress has taken to temporarily suspending the debt limit, rather than raising it directly. The debt limit has now been suspended on five occasions, most recently as part of the Bipartisan Budget Act of 2018, which suspends the debt limit through March 1, 2019. When that suspension expires, the debt limit will be reinstated at a new, higher level.** – Bipartisan Policy Center

Note that the estimate of $ 22 trillion in Treasury debt outstanding by March 2019 is just an estimate from the Committee for a Responsible Federal Budget. But the suspension of the debt ceiling gives the Government carte blanche to spend as much as it wants without restraint. In theory, the amount of Treasury debt could me much higher than $ 22 trillion by March 2019.

Furthermore, based on the track record of Congress and the President since 2013, the debt ceiling will likely be waived once again. Why even bother playing this game? The Treasury debt doubled under Bush II from $ 5.7 trillion to $ 11.2 trillion. Under Obama the debt outstanding nearly doubled again. If this pattern simply repeats, the debt will double again under Trump or under Trump + Trump's successor after four years.

But it will likely more than double. The cost of interest on the Treasury debt in 2017 was $ 458 billion. This was 11.5% of the Government's total expenditures in FY 2017. Already in the first four quarters of FY 2018, the Government has spent $ 174.8 billion in interest expense – a run-rate of $ 524.4 billio – 12.8% of the Government's FY 2018 budget . By the end of FY 2018, the total interest expense will be even higher because the amount of debt outstanding will be have increased over the year by at least $ 1 trillion and probably more.

The question, then, is why even bother with the debt ceiling? What's the point of pretending? The debt ceiling was meant to act as a "brake" on the Government's fiscal recklessness. But now it's so easy to suspend the ceiling it makes no sense to waste time going through the formality of suspending it. The U.S. is on debt-driven suicide path anyway.

Money that is borrowed behaves exactly like money created (printed) until the borrowed money is repaid and the debt is extinguished. But the Federal Government, for all intents and purposes has not repaid a dime of the amount borrowed for many decades. In effect, in addition to the money that has been printed by the Fed, there is another $ 20.6 trillion of money that has been created by debt issuance and spent just like actual currency printed.

At some point, this de facto dollar devaluation is going to exert brutal and inexorable downward pressure on the value of the US dollar. Furthermore, at some point, the U.S.' biggest

creditors – like China – are going to say “no mas” to participating in Treasury debt issuance. That’s when the real fun will begin, especially for those long gold and silver.

Investment Research Dynamics

Do Bona Fide Financial Markets Still Exist?

Paul Craig Roberts, Dave Kranzler, Michael Hudson

For many decades the Federal Reserve has rigged the bond market by its purchases. And for about a century, central banks have set interest rates (mainly to stabilize their currency’s exchange rate) with collateral effects on securities prices. It appears that in May 2010, August 2015, January/February 2016, and currently in February 2018 the Fed is rigging the stock market by purchasing S&P equity index futures in order to arrest stock market declines driven by fundamentals, and to push prices back up in keeping with a decade of money creation.

No one should find this a surprising suggestion. The Bank of Japan has a long tradition of propping up the Japanese equity market with large purchases of equities. The European Central Bank purchases corporate as well as government bonds. In 1989 Fed governor Robert Heller said that as the Fed already rigs the bond market with purchases, the Fed can also rig the stock market to stop price declines. That is the reason the Plunge Protection Team (PPT) was created in 1987.

Looking at the chart of futures activity on the E-mini S&P

500, we see an uptick in activity on February 2 when the market dropped, with higher increases in future activity last Monday and Tuesday placing Tuesday's futures activity at about four times the daily average of the previous month. Futures activity last Wednesday and Thursday remained above the average daily activity of the previous month, and Friday's activity was about three times the previous month's daily average. The result of this futures activity was to send the market up, because the futures activity was purchases, not sales.
http://www.cmegroup.com/trading/equity-index/us-index/e-mini-sandp500_quotes_volume_voi.html

Who would be purchasing S&P equity futures when the market is collapsing from under them? The most likely answer we can come up with is that the Fed is acting for the PPT. The Fed can actually stop a market decline without purchasing a single futures contract. All that has to happen is that a trader recognized as operating for the Fed or PPT enters a futures bid just below the current price. The traders see the bid as the Fed establishing a floor below which it will not let the market fall. Expecting continuing declines to make the bid effective, they front-run the bid, and the hedge funds algorithms pick it up, and up goes the market.

Is there another explanation for the shift in the market from decline to rise? Are retail investors purchasing dips? Not according to this report in Bloomberg – https://www.bloomberg.com/news/articles/2018-02-12/record-23-billion-flees-world-s-largest-etf-as-panic-reigns – that last week a record $ 23.6 billion was removed from the world's largest ETF, the SPDR S& 500 index fund. Here we see retail investors abandoning the market.

If central banks can produce zero interest rates simultaneously with a massive increase in indebtedness, why can't they keep equity prices far above the values supported by fundamentals? As central banks have learned that they can

rig financial asset prices to the delight of everyone in the market, in what sense does capitalism, free markets, and price discovery exist? Have we entered a new kind of economic system?

Investment Research Dynamics

Amazon.com's Accounting Pornography

I wrote the following analysis on Amazon.com's GAAP accounting manipulation for Seeking Alpha…

Amazon.com (AMZN) released its earnings on Thursday, February 1st after the market closed. The headline net income number was $ 3.85/share. This blew away Wall Street's estimate of $ 1.85/share, which is a bit peculiar since the traditional "beat the Street" earnings game is accomplished by guiding Wall Street analysts to an earnings consensus that is slightly below the posted result.

The revenue growth rate was truly impressive. For Q4 2018 vs. 2017, revenues jumped 38.2%. For the full year, revenues grew 30.8%. However, without question AMZN's free 2-day shipping associated with its Prime membership is the driving force behind sales growth. But at what cost? The table below shows AMZN's revenue growth rate plus cost and operating margins from 2005 – 2007. The data is from AMZN's 10-k filings.

AMZN Full-Year Operating Results - 2005 to 2017

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	8,490	10,711	14,835	19,166	24,509	34,204	48,077	61,093	74,452	88,988	107,006	135,987	177,866
Growth Rate		26.16%	38.50%	29.19%	27.88%	39.56%	40.56%	27.07%	21.87%	19.52%	20.25%	27.08%	30.80%
Cost of Sales	6,451	8,255	11,482	14,896	18,978	26,561	37,288	45,971	54,181	62,752	71,651	88,265	111,934
AMZN-Reported Gross Margin	24.02%	22.93%	22.60%	22.28%	22.57%	22.35%	22.44%	24.75%	27.23%	29.48%	33.04%	35.09%	37.07%
Fulfillment Costs	745	937	1,292	1,658	2,052	2,898	4,576	6,419	8,585	10,766	13,420	17,619	25,249
% of Revenues		11.35%	11.25%	11.13%	10.81%	10.91%	12.27%	13.96%	15.85%	17.16%	18.73%	19.96%	22.56%
COGS + Fulfillment	7,196	9,192	12,774	16,554	21,030	29,459	41,864	52,390	62,766	73,518	85,071	105,884	137,183
True Gross Margin	15.24%	14.18%	13.89%	13.63%	14.19%	13.87%	12.92%	14.25%	15.70%	17.38%	20.50%	22.14%	22.87%
Operating Income	432	389	655	842	1,129	1,406	862	676	745	178	2,233	4,186	4,106
Op Inc Margin	5.09%	3.63%	4.42%	4.39%	4.61%	4.11%	1.79%	1.11%	1.00%	0.20%	2.09%	3.08%	2.31%

Investment Research Dynamics - Short Seller's Journal

Cost of fulfillment is the cost of de-stocking an item and getting it to the customer's doorstep. The fourth line item above shows fulfillment costs over time. As you can see, the cost of fulfillment as a percentage of revenues has doubled since 2006. For every dollar of revenue, AMZN spends nearly 23 cents getting inventory delivered to end-users.

You can read the rest of this article here: **Amazon's Deceptive Accounting Games**

I also publish the Short Seller's Journal, which is a weekly newsletter that provides insight on the latest economic data and provides short-sell ideas, including strategies for using options. You can learn more about this newsletter here: **Short Seller's Journal information.**

I've been subscribed for a number of months now and really appreciate your newsletter. It has been quite profitable. In fact I had bought the $ 15 August puts BZH, Bought at $ 0.70 – yesterday $ 1.82 – 160%. Other recommendations have also paid off well. Thanks again for your hard work. – subscriber feedback

Investment Research Dynamics

The Stock Market – Dow And SPX – Could Easily Drop 50%

Jim Rogers stated in an interview with Bloomberg that "the next bear market will be worst in my lifetime," adding that he didn't know when that bear market would occur. The stock market has become insanely overvalued. Before last week, several market-top "bells" were ringing loudly. The stock market could easily drop 50% and, by historical metrics, still be overvalued.

Gold, silver and the mining stocks have been pulling back since late January. In fact, I warned my Mining Stock Journal subscribers in the January 25th issue that the sector was getting ready for bank-manipulated take-down. In the latest issue I offered a view on when the next move higher could begin. Mining stocks in relation to the price of gold and silver have become almost as undervalued as they were in December 2015, when the sector bottomed from the 4 1/2-year cyclical correction. In a recent issue I listed my five favorite junior mining stocks.

I was invited to join Elijah Johnson and Eric Dubin on Silver Doctors' weekly Metals & Markets podcast. We discussed the stock market, precious metals and the Fed's next policy direction:

I also publish the Short Seller's Journal, which is a weekly newsletter that provides insight on the latest economic data and provides short-sell ideas, including strategies for using options. You can learn more about this newsletter here: **Short Seller's Journal information**.

Investment Research Dynamics

How Long Can Fed Keep The Stock Market Propped Up?

Is the Stock Market Rigged?

Paul Craig Roberts and Dave Kranzler

On February 6 PCR asked if the Plunge Protection Team had stepped in and prevented a stock market correction by purchasing equity index futures. https://www.paulcraigroberts.org/2018/02/06/another-arrested-equity-correction-paul-craig-roberts/ Sure enough, the daily exchange volume chart shows an increase in futures activity on February 2 with sharp increases on Feb. 5th and 6th. Those are the days when the stock market averages were experiencing large point drops. So, ask yourself, would you purchase equity futures while experiencing cumultive stock market drops? One can understand shorting a dropping market, but not buying futures.

Unless this is what happened. Seeing the beginning of a correction, the Plunge Protection Team placed a futures bid just below the existing price. Traders saw the bid, recognized that the government was intervening to support the market, and the bid was front-run with the hedge fund algorithms automatically picking up the action.

The futures purchases prevented margin calls and stop/loss orders in a heavily leveraged equity market that would have collapsed the market.

What are the pros and cons of this kind of intervention (which might have occurred also in May 2010 and August 2015)? By stopping a correction, the intervention prevented a pension

fund collapse, both private and state. However, by propping up over-valued equities that the Federal Reserve's quantitative easing created, the intervention rewarded over-leveraged speculative risk-taking and prevented price discovery. We still have an equity market whose values rest on record margin debt, stock buy-backs, and prices pumped up by money-printing. The problems waiting to come home continue to build.

The question is: can intervention prop-up over-valued, problem-ridden markets forever?

After today's drop, we will see what happens tomorrow.

Investment Research Dynamics

Who Could've Seen This Coming?

Yesterday was amusing. The meat with mouths on the so-called financial networks were crying, "how could this have happened." Funny thing, that. They don't raise the slightest doubt of conviction when the Dow soars 2,676 points in less than two months – 23,940 on November 29th to 26,616 on January 26th. But when the market takes back that move in 6 trading days it's a problem that Congress and the Fed need to "fix."

The stock market's small accident last Friday was a warning signal. But, in the context of the move made by the Dow since it bottomed on March 5, 2009, barely registers on the radar screen:

I saw this table on Twitter and thought it was a good summary of the extreme bullishness that I've been documenting for the past few issues (Short Seller's Journal):

Indicator Description	10-Year Bearish Extreme	10-Year Bullish Extreme	Recent Value	Bullish -ness Percentile	Date of Recent Value
3-Month VIX	49.21	13.00	14.60	96th	1/31/18
Investors Intelligence	-32.2%	+54.0%	+53.4%	99th	1/26/18
Consensus, Inc. bulls	18%	78%	76%	96th	1/26/18
Market Vane bulls	32%	72%	72%	99th	1/26/18
AAII cash allocation	44.8%	13.0%	13.0%	99th	12/31/17
NAAIM exposure index	0%	+100%	+100%	96th	1/24/18
MMF/MF + ETF assets	41.0%	12.7%	12.9%	97th	12/31/17
Equity fund cash levels	5.9%	3.0%	3.1%	99th	12/31/17
Rydex bear/total assets	59.2%	3.4%	3.4%	99th	1/30/18

The old adage states that "they don't ring a bell at the top." But that table above seems to have nine different "bells ringing." Note: "NAAIM" is the National Association of Active Investment Managers (Note, I know MMF is money market funds but I'm not sure what the rest of the metric represents other than its some measure of investor portfolio cash vs stock holdings). As you can see, every indicator that measures relative bull/bear sentiment is at a bullish extreme.

A record one-day inflow north of $ 500 million was tossed by retail investors into one of the inverse VIX ETNs. Hard to imagine a louder "fire alarm" ringing than that one. The Dow

shed 1,095 points from last Friday's close – 4.1%. The first big chunk down was Tuesday, when it lost 363 points. It also lost 177 points on Monday. After two small days of gains, ostensibly in support of Trump's State of the Union speech, the Dow plunged 665 points on Friday.

Monday was obviously the type of market behavior about which many, including this blog, have been, have been warning. Who could've seen that coming?

Even more interesting than the action in the stock market was the action in the bond market. Historically, other than in times of extreme market turmoil, when the stock market sells off with force, the funds flow into the Treasury bond market. Bond prices rise and yields fall. But this week the 10-year Treasury lost roughly 1.4 points, which translated into a 15 basis point jump in its yield to 2.84% The long bond closed over 3%. Even short term Treasury rates rose. It will be interesting to see if this trend continues. It is exceptionally bearish for the housing market.

Now, self-entitled "exceptionalist" Americans will be begging their Congressmen to "do something" while Congressmen will be grand-standing for the Fed to "do something." But the "something" that was done from 2008 to 2015 is wearing off. If the Fed is going to do God's work and save the universe from natural market forces, it will have to print even more money than last time around. That type of "doing something" will annihilate the dollar.

The immediate problem will be retail and hedge fund margin calls. If we don't hear about ETFs and hedge funds blowing up after what happened yesterday, it means the PPT (NY Fed + the Treasury's Working Group on Financial Markets – the "PPT" – which both have offices in the same building in lower Manhattan) has monetized and covered up those financial road-side bombs.

Hedge fund net exposure to equities had reached a record by early January. "Risk appetite" by mid-January had reached an all-time high. Margin debt and "investor credit" began hitting all-time highs and all-time lows, respectively, in January. "Investor credit" is, essentially, the amount of cash an investor can withdraw from a stock account *after* subtracting margin debt. This metric was north of negative $ 500 billion.

But, who could've seen this coming?

Part of the commentary above is an excerpt from the most recent Short Seller's Journal. If you want to learn how you can take advantage of historically overvalued stocks, click here: **Short Seller's Journal information page**.

Investment Research Dynamics

Amazon's Shock And Awe Earnings

Yesterday ahead of earnings, AMZN's stock dropped $ 60, with $ 30 of that drop occurring in the last hour of trading. It's almost as if market-makers, with their customary preview of the impending AMZN headline EPS report in hand, intentionally took the price down to set-up a short-trap. AMZN stock closed at $ 1390, down $ 60 from Wednesday's close.

Shortly thereafter, AMZN's earnings headline showed $ 3.85/share, more than double the consensus estimate produced by Wall Street's Einstein Center For Earnings Forecasts. $ 1.85 was the expectation. AMZN's stock shot up to as high as $ 1480 in after hours, up as much as $ 90 from the close. Imagine how much money the Big Bank trading desks made

assuming they bought all the shares that were sold short in the last hour of trading on Thursday.

Within the first eight minutes of today's open, AMZN stock shot up to as high as $ 1495, up $ 105 from Thursday's close. As I write this, AMZN is trading below Wednesday's close of $ 1450:

A round-trip to nowhere, essentially. Here's the funny thing about AMZN's earnings that Wall Street's finest will never report, if they even know the truth. Embedded in AMZN's net income is a $ 789 million non-cash "provisional" tax benefit for the estimated impact of the new tax law. Note that this is a somewhat arbitrarily determined number – which is why its labelled "provisional" – and it's non-cash. **This GAAP, non-cash tax "benefit," as guesstimated by AMZN's accountants, added $ 1.63 per share to AMZN's headline EPS report.**

Regardless of how you want to account for this, at face value AMZN's stock is trading at 233x trailing earnings. Not including the GAAP, non-cash tax benefit, AMZN stock is trading at 315x trailing earnings.

This is not the only problem with the quality of AMZN's earnings. I've dissected AMZN's entire financials for my Short Seller's Journal subscribers, as reported, showing the areas in which AMZN has exploited the current highly

liberalized GAAP accounting standards to generate the appearance of financial performance that is not real.

Despite Jeff Bezos' claim that AMZN generated $ 8.4 billion LTM "free cash flow," this misleading metric was down 20% from the end of Q4 2016. But that's on display in the earnings slides that AMZN publishes every quarter. On a true GAAP basis, AMZN generated an LTM cash flow deficit – i.e. negative $ 1.46 billion.

This is just a small portion of AMZN's accounting abortion. Unfortunately, until the capital markets are no longer willing to finance AMZN's cash burning Rube Goldberg operational structure, the stock is very difficult to short. There will come a time, however, when sand gets blown into Jeff Bezos' elaborate gears of deception. When this occurs, the rush for the exits by shareholder will be epic.

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