Market Correction Update & Silver Price Trend

While the Dow Jones Index and broader markets are recovering from their lows set on Friday, the worst is still yet to come. Investors need to realize that stock market indexes don't fall in a straight line. Also, there is also the possibility that the Dow Jones Index could surpass its previous high of 26,600 points. Only time will tell.

However, the leverage, margin and insane valuations in the markets are still in way out of whack. Just because the Dow Jones Index has added 1,200 points from its lows in early Friday trading, it is still 2,000 points below its peak of 26,600. **Furthermore, when the Dow Jones peak at 14,100 points in 2007, it took six months and three different peaks before the index started to fall off a cliff in 2008.**

For example, the Dow Jones Index hit three peaks in 2007:

1. July 2007 = 13,900
2. Oct 2007 = 14,100
3. Dec 2007 13,600

Over that six month period in 2007, the Dow Jones Index rose and fell three different times. The biggest percentage drop was between July 2007 and Oct 2007, at nearly 10%. However,

the Dow Jones index peaks were at the most, 3.5% from their high of 14,100. Moreover, it took six months for the Dow Jones Index to finally head lower on a sustained basis and it wasn't until nearly a year later in Oct 2008 did the market finally crash.

So, if you think the Dow Jones correction is over, then you are going to be in for a rude awakening.

I put together my analysis of the Dow Jones Index and the Silver Price Trend in my newest YouTube video:

Not only do I discuss the Dow Jones Index and the Silver Price, but I also explain what is going on in the oil and housing market. **Unfortunately, I believe we are sitting on top of the biggest bubble economy in history.** While it is impossible to know when the EXACT TOP will be in, the higher we go from here, the bigger the bubble becomes.

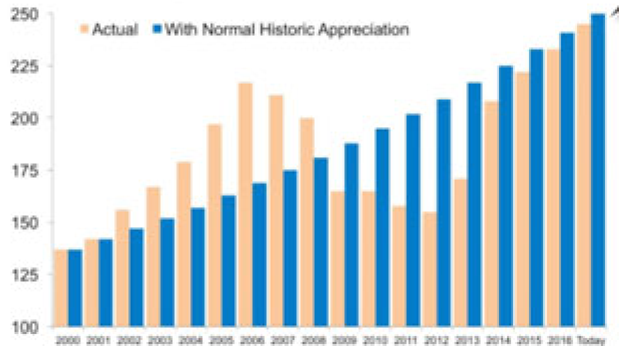
To tell you the truth, I would be amazed to see the Dow Jones Index surpass its previous high of 26,600. But, there is a chance that it COULD HAPPEN. But again, the higher the Dow Jones Index goes…, the bigger the inevitable fall.

In the video, I also discuss the delusionary and superficial analysis that the U.S. Housing Market is not in a Bubble. In this chart below, it explains that if the Housing Boom and Bust were removed from the equation and we used a 3.6% annual historical appreciation rate, the median home price would be about the same:

We can see that prices rose during the early 2000s, fell during the crash and have risen since 2013.

However, let's assume there was no housing bubble and crash and that home prices appreciated at normal historic levels (3.6% annually) over the last ten years.

Here is a graph comparing actual price appreciation (tan bars) with what prices would have been with normal appreciation (blue bars).



Bottom Line

As we can see, had there not been a boom and bust, home values would essentially be where they are right now.

Of course, this is pure BOLLOCKS because compound interest over a long period of time is impossible. Furthermore, you can't enjoy rising appreciation if oil production growth slows or declines. For some strange reason, the analysts don't factor that important TIDBIT into their forecasts.

I want to take this time to thank those followers who have supported my work by becoming MEMBERS on my site or PATREON. Your support is greatly appreciated so I can continue to put out the information, data, and analysis for the public benefit.

Precious Metals News & Analysis – Gold News, Silver News

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

Stock Market Dangers, Stress Test Your Portfolio; Axel Merk: Lot of Damage to Be Caused

Welcome to this week's Market Wrap Podcast, I'm Mike Gleason.

Later in today's program we'll hear from Axel Merk of Merk Investments. Axel gives a wonderful explanation of what's behind this week's wild market action, weighs in on gold's role as a safe haven in the midst of potential chaos and tells us why he believes volatility his here to stay. Don't miss a fantastic interview with Axel Merk, coming up after this week's market update.

Well, there were few places for investors to hide this week. Stocks, bonds, and to a lesser extent precious metals all got hit with selling.

On Monday, the stock market had one of its biggest volatility spikes and worst point drops in years. Gold prices held firm on Monday but succumbed to selling later in the week.

As of this Friday recording, the yellow metal comes in at $ 1,314 an ounce, down $ 19 or 1.4% for the week. Although down in terms dollars, gold prices are higher in terms of the Dow Jones Industrials. The Dow to gold ratio is lower by about 4% this week and now trades around 18 to 1.

It's too early to call a major trend change in the ratio, but it certainly has the potential to fall a lot further. The Dow/gold ratio bottomed at 6 to 1 in 2011 when gold prices peaked at $ 1,900 an ounce. And the ratio hit rock bottom at 1 to 1 way back in 1980. Gold prices had hit a secular high on stagflation fears as silver prices touched nearly $ 50 an

ounce.

Silver can now be had for an incredible bargain at just $ 16.28 per ounce spot price. The white metal is down 35 cents or 2.1% this week and is attracting more bargain hunters. Money Metals Exchange has seen an increase in gold and silver buying in recent days amidst the flight from equities as well as crypto-currencies.

In previous podcasts, we noted that margin debt was at all-time highs and stock valuations were at bubble levels. Yet markets kept moving modestly higher week after week, with the mainstream financial media and the White House celebrating each new milestone. Investors got complacent and became oblivious to the risks inherent in the stock market.

This week has certainly served as a reality check.

It's an interesting coincidence that Monday's selling occurred just as new Federal Reserve Chairman Jerome Powell officially took over from Janet Yellen. If Powell had hoped markets would greet him with a rally of approval, he certainly got a reality check of his own!

Now the question is whether Powell will continue with Yellen's gradual interest rate hikes. The next one had been due in March. Just a week ago, futures markets were pricing in a March rate hike at a near certainty. Now suddenly there is a 30% chance the Fed won't hike in March and a 50% chance they won't hike this summer, according to prognosticators.

But what precipitated the heavy selling in the stock market over the past few days was the steady rise in long-term interest rates. Rates reached a tipping point for some traders, and that's all it took to spark a bout of deleveraging.

Of course, the Fed doesn't directly control long-term rates, but it can certainly influence them with bond purchases or

sales.

Long-term interest rates have been rising in part due to concerns over inflation and also because of Uncle Sam's deteriorating fiscal outlook. The expected jump in economic growth this fiscal year from tax cuts is being financed by new debt creation. The U.S. Treasury Department announced it expects to borrow an additional $ 955 billion this fiscal year. That's a HUGE jump from the $ 519 billion deficit the government ran last year.

We're facing trillion dollar deficits even in the context of a rosy economic outlook. It's difficult to imagine what will happen when the next recession hits… or if the current correction in equity markets accelerates into a full blown financial crisis.

For now, it's just a correction. When the selling abates and the volatility dampens down, investors will have to re-assess where they want to deploy capital. Will they plough it right back into the stock market? Put it into bonds? Or diversify into precious metals?

Gold and silver tend to exhibit near zero correlation to conventional financial assets. That makes them ideal for portfolio diversification in turbulent times like these. You may even want to increase your position in case these market tremors mean we're headed for disaster.

> ***Except from the song: "Headed for Disaster" by Store Dore***
>
> *We're headed for disaster… faster and faster.*
> *Government is liable and out of control, for millions and billions and trillions and more.*
> *The rich get richer. The rest don't know. Their standard of livin's gonna fall through the floor.*
> *You better be ready, by making a plan, than trusting what you're told with your head in the sand.*
> *And grow your food, get ready, get some gold. Build up your*

bunker before ya get too old.
We're headed for disaster… faster and faster.
We're headed for disaster…. faster and faster.

Whether the chorus of the preceding song by Steve Dore rings true or if markets stabilize from here, investors should definitely stand up and take notice about the warning signs we've been seeing in the financial world this week. Having some financial insurance in the form of physical gold and silver just makes plain sense at all times, but especially now.

Well now, for more on the risks ahead and the likelihood of ongoing market volatility, let's get right to this week's exclusive interview.

Mike Gleason: It is my privilege now to welcome in Axel Merk, President and Chief Investment Officer of Merk Investments and author of the book *Sustainable Wealth*. Axel is a highly sought-after guest at financial conferences and on news outlets throughout the world, and it's great to have him back on with us.

Axel, it's a real pleasure to speak with you again, and thanks for joining us.

Axel Merk: Oh, it's good to be with you.

Mike Gleason: Axel, I'd like to jump right in here and get your thoughts on the health of the markets in general, because I think it's an appropriate place to start in light of the

whipsaw action we've seen of late. Now to us, the behavior is becoming more and more strange and artificial. We had an 1,100 point drop in the Dow on Monday, and it recovered nearly 600 points on Tuesday, almost right on cue. We know algorithmic trading is a big deal these days. We also know that price rigging and manipulation is real. There were six traders arrested a couple of weeks ago for cheating in a variety of markets including gold futures. Those were just the most recent examples of arrests and criminal charges.

So, on the one hand we have machines doing lots of trading and they don't respond to cues as humans might, and they are designed to front run anybody using traditional low speed connections. And on the other hand, we know at least sometimes the cues are phony – just order spoofing and other tricks employed by crooked traders. So, before we dive deeper into some of the specifics about what we're seeing, from an overall perspective what do you make of these markets here, Axel?

Axel Merk: Sure, let me first address maybe what you just said about conspiracies and manipulation. While I don't necessarily disagree with what you say, the one challenge with that viewpoint is that it assumes that if you just get rid of a few bad apples everything is going to be fine. My view is actually far more negative. I happen to believe that most people in the markets are actually trying to do the right thing, trying to be honest, it's just the dynamics of the system. Similarly, with policy makers, drives them in a certain direction. Let me just put that out there, and we can touch on that in different ways, but let me kind of address the broader point here.

Since early December, I've referred to this market a little bit like a washing machine. And what I mean with that is, that correlations have been breaking down. For years, everybody knew exactly what was supposed to be happening and one of the most noble thing, was during the financial crisis, stocks went down and the Fed went in to buy bonds. And the sort of thing that happened as a result is, one is, we had this immense

inverse relationship between stocks and bonds and the other one is, because of the Fed and so forth, volatility came down. And, so I don't think it's just a few bad apples, it's kind of the bigger policy of Federal Reserve stepping in, compressing volatility.

And so, fast forward to what happened just recently and volatility suddenly surged. And part of it is, when volatility has been so low, people have been trying to buy protection, it's costing an arm and a leg. They want to kind of have their cake and eat it, want to, buy the stock market and be protect on downside. If you want to bet on volatility rising, which is a form of buying protection, it would cost you over 10% a month.

Now there are some folks on the other side of the trade that were making over 10% a month, they were making over 100% a year, and guess what? That lunch was a little too good to be true and that blew up in their face and part of the trigger that blew it up was the other thing that didn't work anymore, this correlation of stocks and bonds.

On Friday the second of February, we had both stocks and bonds sell off; and that was just too much. Those folks who thought they're diversified and many of those folks that used the so-called risk parity trades, they said, 'Oh my God, we're losing on everything that we have, we've got to sell.' And you call it the machines, well, yeah, it's called rebalancing. I don't know whether it's the machines or the people. We just a little faster when the machines do it. But yes, they needed to get out of these trades, and on top of that, those folks who've been making 10% a month, or they lost over 90% in a day. And of you make, for those who don't know the math, if you make 100% in one day and lose 90% the next, net you're down 80%, so, those guys have lost big.

Mike Gleason: Fears over interest rates with the Feds potentially hiking rates several times this year and

continuing to shrink its balance sheet, was the explanation given for the most recent stock market losses. Is that really what's driving this long overdue stock market correction? And even if it is the reason, doesn't carnage in the stock market make it likely the Fed will pause its rate hikes here, Axel?

Axel Merk: Well, couple of things. One is, there are various ways of describing, and I just gave a technical explanation with kind of short volatility folks, but yes, volatility has been compressed. The reason volatility has been compressed, the primary driver, in my view, has been QE, has been low interest rates. And the Fed is stepping away from that rising risk premia. Top of that, on February 2nd with the Non-Farm Payroll report, inflation is a real thing now, wage pressure is moving higher. Another reason why volatility should move higher. We got these extreme speculators out of the way that were on the short-volatility trade, and by the way, I don't think that we've seen the last of that unwind yet. But that means, I think that volatility in the VIX below ten for an extended period is a thing of the past. And so, yes from that sort of view, turmoil is going to be here to stay.

To your other question, whether the Fed is going to pause, the Fed will tell you they will not react to a declining stock market, but they will react to deteriorating financial conditions. Now I tweeted the Bloomberg Financial Conditions Index and sure enough, it plunged on Monday. Now, the Bloomberg Financial Conditions Index is a little different from the other ones because it has a very heavy weighting on volatility itself, and so, yes that clearly reflects it.

I don't think the Fed is going to stop at this stage and there are several reasons for that. One is just reading it from the market. If you look at what is priced in as far as how people assess the Fed, that hasn't budged much. Importantly, inflation expectations haven't plunged. The inflation expectations are for real and that kind of makes the Fed to move slower. And then, most importantly, we got a new chief.

We got Mr. Powell and I think we've talked about Powell a little bit, but Powell, he is a bank regulator.

When he was asked a question about monetary policy, he was stuttering, he had to kind of look up what he had to say. He doesn't really have an interest in that. I'm not questioning his intellect, I'm not questioning his integrity, but I would think that, what he will do is, well he'll call his committee. He will take a while to make a decision. He is not going to be the one who's going to be there with a fire hose the moment that the markets go off the rails. He's going to be taking his time and saying, 'Oh we have some inflation and so let me look up in page 576 of the Bernanke manual what we have to do and so, oh yes, maybe we'll have to watch this and this indicator.' That means he's going to be very slow to react and I've argued for some time and continue to believe that there's going to be a lot of damage that's going to be caused to the market before the Fed is going to do a U-turn.

Mike Gleason: Yeah, the last time we had you on, we did talk about the potential Trump pick to replace Janet Yellen as Fed chair. We didn't get Warsh, we didn't get Taylor, we got Jerome Powell who appears to be a more-of-the-same type of pick. So now that we know what this new Fed is going to look like, comment if you would, and expand the point on how you're approaching your investing philosophy under this new regime now that it's mostly taken full effect under Trump here with the appointment of Powell as a key player when it comes to the near term monetary policy that we're going to get from our central planning overlords.

Axel Merk: So, with the caveat, of course, that I'm not allowed to give specific investment advice to a general audience, but let's just put the stakes out here where we are. We've had years of a bull market, everything has been going great if you invested in the stock market. I allege that a lot of investors have not rebalanced their portfolios, meaning taking chips off the table when times were good and then, put

them into something ‘safe’. And even to the extent that they have put them into something safer, well two problems with that. One is, they have been chasing yield, which means they’re not really in anything safe. They’re still correlated with equities, and secondly, I indicated earlier, this washing machine effect.

Correlations are breaking down and that means you’re not going to get the sort of diversification out of the things that you thought you would. And so, a lot of people, as volatility is going to be higher for longer, and I gave several arguments as to why that’s going be the case, people are going to realize, ‘Oh my God, I have too much in risk assets. Too much in equities, my alternative market isn’t performing as it should be.’ And so, people will take more chips off the table and will rebalance, will scramble what to do. And not just retail investors. Institutions that have their rigorous investment programs, those won’t be working anymore, because the traditional 60/40 allocation putting 60% in stocks, 40% in bonds, or it could be more sophisticated. But whatever they might have done, those models are breaking down. And so, there’s going to be a lot of uncertainty, scrambling as to what the right thing to do is.

Now, my take is, that investors should be stress testing their portfolios. They should look at what happened on February 5th in my portfolio, obviously that’s not going to happen every day, but ‘Is there anything that went up that day in my portfolio?’ That’s the sort of stuff you might want to look at whether you want to have more of, ‘Is there anything else that I can do?’ And it isn’t easy to diversify in this environment.

I mean, one of the reasons why the short volatility trade was so profitable, is because anybody who was skeptical of these markets, had to pay an arm and a leg to do anything else. And so, one of the kind of the technical terms is that when your long carry, that means you’re gathering money as you do something, in order to do that you got to have some sort of

risk investment, such as selling volatility. Whereas if you're short carry, meaning you pay up, that would be anything from buying a put option the market, but also even buying gold. If you buy gold you actually have to pay every year to hold the gold, so that's a negative carry idea. You're not getting rewarded other than potential price appreciation.

And so, all these conservative ideas tend to cost you money. And so there are many, buying gold is an easy one, not always the best one, but it's one of the easier ones. But anything beyond that really goes into the short and long kind of things. Your hedged equities… we do long/short currencies. Complex stuff that most people don't understand and frankly many don't want to touch. And so then, the alternative is cash, well, cash, especially if you are professional investors, you have clients are going to run away and, if you're an individual investor, it may be the right thing to do but it's tough to be holding cash. And so in that process, a lot of people, I think, in the period to come, it may even be years to come, might be losing significant amount of money in the markets.

Mike Gleason: Let's talk a little bit more about precious metals here. Gold and silver have been trading opposite the U.S. dollar in recent weeks. The recent turmoil in the equities markets has not translated to safe haven buying necessarily, at least not on the futures markets. We have seen some in the physical markets. So, what are you expecting to drive the metals markets over the near term, Axel? Do you think we will get more volatility in the equities? And if we do, will metals futures ultimately get a bid from investors looking for safety?

Axel Merk: Well, it's the washing machine again. Things haven't worked the way they should've, might've, would've, whatever it may be. That said, take gold, year to date it has gone quite nicely. Indeed, we had this period where the dollar was plunging and gold was doing reasonably well. And then,

sure enough, the day, on Friday the 2nd, gold went down. On the 5th, when we had this big plunge, well gold was up a few bucks.

Well I'll take up a few bucks for gold over down a thousand for the DOW any day. The way I look at it is that in the context of volatility what everybody seems to be talking about right now, when volatility goes up, future cash flows get discounted more. So, if you buy equities that have cash flow, those are worth less. Not worthless, but worth less. Meaning as volatility goes up, valuations go down, everything else equal.

Well, gold doesn't have cash flow and as such, as volatility goes up, gold tends to shine relative to other risk assets, other relative equities and that's why gold is up, even if it's only five bucks, compared to equities that is down substantially. So gold has done what it should do. Some people say, 'Oh my God, gold didn't go through the roof.'

In this sort of environment, gold has done reasonably well year to date, has outperformed equities year to date, and don't get greedy. I mean, this doesn't happen overnight. And obviously interest rates have been moving higher, and so higher interest rates are a big competitor to gold and the fact that gold has been doing so well in this environment, suggests that people are scrambling to find diversifiers and gold again is just the easiest one of them. I call it the easiest rather than necessarily the best because it obviously doesn't always go up when the markets go down. But it something where people can wrap their head around it. People aren't invested in gold and such investors, in my view, should consider it. And importantly they should consider how much they want to have in the context of everything else they have in the portfolio.

Mike Gleason: How 'bout the U.S. dollar? It's been rallying in recent days, which has hurt metals prices. Is this rally more

of a dead cat bounce or is the bottom in for the dollar, at least for now?

Axel Merk: Well, depends on who you talk to. And none of us have a crystal ball. There's one thing I can tell you, that anybody's investments, any view that you have, will be challenged in the coming months. And that's again this washing machine idea.

These markets do not walk in lockstep anymore. Sometimes the dollar goes up with gold, sometimes it goes down with gold of late. These things don't move in tandem anymore. So, no matter if you love equities you'll have days when you say, 'Oh my God, how can I love equities.' If you love gold, there will be days when gold is down significantly. And so, similarly, rates have been moving higher and usually, that's a good thing for the dollar. That said, we had four years when the dollar was moving higher and higher and higher and in the last year and a bit, that's been unwinding despite moving rates higher and that's very consistent with the history. The dollar historically goes up in anticipation of a rate hike, but then when the rate hikes actually start happening, it doesn't move anymore.

Now, if you look at Europe, we now have talk about the European Central Bank tapering and stopping QE. It's not going to happen for a while, but it's that talk that keeps that bid on the euro and as has been moving in high end as you may recall, we've had the euro in the kind of mid-one teens and it was going up to 1.25/1.26. So, yeah, it had this huge run up. Now everybody says, 'When the plunge happened, the dollar was surging.'

I had argued last year that in a risk-off environment, the euro can do quite well because the euro has become a funding currency meaning people sell it when times are good and then have to buy it when they go back. But again, the correlation broke down now a few weeks ago, and people say the dollar is

stronger but what the heck… the dollar, as we are talking, is at 1.2260. That's much higher than it was just recently, yet it's down in recent days. And so, I think being married to these short-term correlations, everybody is going to be called into question what it is.

My view is that in Europe, rates are way too low for the economic activity, for the level of activity so the Europeans, the European Central Bank, in particular, has to be tighter on monetary policy than what is currently priced in. At the Federal Reserve, I happen to think they'll probably go along the path that's currently priced in. Maybe a little bit less with more turmoil in the markets but that sort of change relative to what is expected, in my view, should be a bad thing for the dollar and a good thing for the euro. And I mention the euro because that's just the biggest driver here in the dollar index that's usually referred to.

Mike Gleason: Well, as begin to wrap up here, Axel, maybe talk about the environment you see ahead for safe haven assets like gold and other precious metals. And are you expecting more volatility in equities and bonds? Should investors brace for more rough riding and what are you watching most closely here in the near term.

Axel Merk: Well sure, I do believe volatility is going to move higher compared to what it was last year. I think we're not going to go back to those levels so anybody that said, 'Oh the Brexit selloff and the Trump election selloff was just brief and we going to recover.' And sure, we may reach new highs before we plunge much further potentially but, the reason why these volatilities are going to go higher is because of all the things I said including the short vol(atility) craziness where people were selling volatility and making 100% a year.

Those days are over. The derivatives were driving the spot market. During the introduction talked about manipulation, that is a form of manipulation of the markets. It's probably

not illegal, but it certainly impacted the market and it was absolutely insane and the problem is you couldn’t bet against those folks because it cost you an arm and a leg to bet against them. And so, you just had to kind of wait it out on the sidelines and now we’re dealing with it.

But yes, how the ‘safe havens’ will do that? They’re not safe either right? I mean, they do move quite a bit. Anybody who’s been in gold, silver for an extended period knows the volatility can be high. So we have to make sure that anybody who has these is comfortable with the risk profile.

These days, I happen to be more concerned with the equity portion and the fixed income portion of many portfolios. The equity portion because I happen to think that equities are too expensive and going to be more volatile; and the fixed income side is because they’re not going to serve the role that many people think that they have served. And so from that point of view, yes they should look beyond.

Cash is not a bad option and then gold and precious metals again, I can’t make a specific investment recommendation, but I think yes, investors should have that as a core position or I have to say they should consider having it at a core position of their portfolio. I certainly do. Beyond that, one has to get into more sophisticated instruments that are unfortunately, probably not suitable for many investors that don’t understand them. And I’m not trying to belittle them but, for example, we do long-short currencies. I happen to think it’s the best thing since sliced bread but I spend day and night looking at these sort of things. I try to use things like a currency strategy because that’s where I can generate uncorrelated returns, but that’s just one piece in a portfolio.

I just happen to think that the quote ‘traditional’ piece people have in a portfolio, the equity portion, is going to continue to be in for quite a rough ride.

Mike Gleason: Well, on that note, for folks that want to learn more about you and your firm before we let you go, tell them how they can do that. Tell them how they can follow you more so they can trust the professionals when it comes to their investments.

Axel Merk: Sure, well, don't have a crystal ball. We do have lots of opinions, but come to MerkInvestments.com, follow me on Twitter, follow me on Linkedin. We have a variety of ways. We even have a Patrium site now, I don't know whether you're familiar with that service, where we publish a research service. So, we have lots of ways to connect but MerkInvestments.com is probably a starting point. Where you can sign up for a newsletter and then you can also, of course, look at the sort of products we have. But follow me on Twitter, follow me on Linkedin, Facebook, anywhere there. We try to be expressing our views, and part of that is because we appreciate the feedback. Because that helps us to kind of brainstorm as well and to consider viewpoints that we might not consider. So, we very much appreciate the feedback that we're getting and you can do that through social media if you wish.

Mike Gleason: Well, we've been following you for a long time. A lot longer than we've had you on the podcast here these last 6 or 8 months, which we've certainly appreciated and it's a very studied view that you bring to the table and we love having you on. Appreciate your insights. Thanks very much, I hope that we can catch up with you again before long. Appreciate it, Axel.

Axel Merk: My pleasure.

Mike Gleason: Well that will do it for this week. Thanks again to Axel Merk, President and Chief Investment Officer of Merk Investments, manager of the Merk Funds. For more information, be sure to check out MerkInvestments.com.

And check back here next Friday for our next weekly Weekly Market Wrap Podcast. Until then, this has been Mike Gleason with Money Metals Exchange, thanks for listening and have a great weekend everybody.

Precious Metals News & Analysis – Gold News, Silver News

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

-1,175 Points! We Just Witnessed The Largest One Day Stock Market Crash Ever

The mainstream media seems so surprised that the stock market is crashing, but the truth is that it isn't a surprise at all. In fact, this crash is way, way overdue. If the Dow Jones industrial average fell another 10,000 points, stock prices would still be overvalued. I have been warning and warning and warning that this would happen, because stock valuations **always** return to their long-term averages eventually. On Monday, the Dow was down a staggering 1,175 points, which was the largest single day decline that we have ever seen by a very wide margin. In fact, it shattered the old record by nearly 400 points.

Shortly after 3 PM, all hell broke loose on Wall Street. The Dow dropped by more than 800 points in just 10 minutes. At one point on Monday, the Dow was down nearly 1,600 points, but a brief rally cut those losses roughly in half. However, the rally did not last long and stock prices collapsed hard as the market closed. At this moment, the Dow is already down more than 2,200 points from the peak of the market, and we are not too far from officially entering "correction" territory.

Once stocks start falling, it can trigger a massive rush for the exits, and that is what happened on Monday. In particular, investors started to panic once the Dow broke through the 50-day moving average…

> ***“As soon as we broke the 50-day moving average … we saw volatility spike,”*** *said Jeff Kilburg, CEO of KKM Financial. “It’s just been downhill from there.”*

Other waves of selling were triggered once the 25,000 and 24,000 barriers on the Dow were breached. In order to protect against losing too much money, many investors have stop losses set at psychologically-important levels. The following comes from MarketWatch…

> ***Amplifying the slump was computer-programmed trade set to dump shares at certain levels.*** *According to traders, the Dow DJIA, -4.60% was set to trigger trades once it fell below 25,000 and 24,000, for example, and 2,700 for the S&P 500.*

Markets almost always go down faster than they go up, and once panic begins to spread on Wall Street it doesn’t take much to create a massive stampede.

In the end, this next financial crisis will be far worse than it should have been. The Federal Reserve and other global central banks have endlessly manipulated the financial markets, and they created the biggest financial bubble in human history.

When an irrational financial bubble is growing, it can seem like things are wonderful. But all such bubbles eventually burst, and the bursting of the bubble often does far more damage than the good that was accomplished by the manipulation of the markets.

So was there anything specific that caused the panic on Wall Street on Monday?

Yes, interest rates are rising, but as Bloomberg has noted, there wasn’t really anything noteworthy in the news that triggered the selling…

> *While Friday's market rout came amid U.S. wage data on Friday that pointed to quickening inflation, which would lead to higher rates and, in turn, rising borrowing costs for companies, the selling Monday came amid few major data points.*
>
> *"I think sentiment was a little too optimistic," said Brad McMillan, chief investment officer for Commonwealth Financial Network. "What was driving the market up in January? It wasn't the fundamentals, as good as they were, it was excessive confidence."*

Ultimately, time simply runs out on all irrational financial bubbles. It is interesting to note that the Tulip price index began to crash on this exact date in 1637, and we may look back and point to February 5th as the key moment when the "financial crisis of 2018" started.

Once again, let us hope for some type of a bounce tomorrow. Often stock prices do rebound quite a bit after an enormous decline, and many are hoping that stock prices will soar on Tuesday.

But so far the news after the market closed in New York has all been bad. For example, CNBC is reporting that XIV has fallen more than 80 percent after hours…

> *An exchange-traded security which is supposed to be a bet on calm markets was collapsing after hours.*
>
> *The VelocityShares Daily Inverse VIX Short-Term exchange-traded note (XIV) is down more than 80 percent in extended trading Monday. The security, issued by Credit Suisse, is supposed to give the opposite return of the Cboe Volatility index (VIX), the market's widely followed turbulence gauge.*

And as I write this article, it looks like markets all over Asia are going to be way down at the opening.

If stock prices keep collapsing, it could actually cause a major financial crisis. So many financial institutions are deeply leveraged today, and many of them simply would not be able to handle a stock market decline of 30, 40 or 50 percent.

In particular, if things start to really unravel it will be important to pay special attention for any mention of "derivatives" in the financial news. Once those dominoes start falling, we will see financial pain on a scale unlike anything that we have ever seen before in U.S. history.

Also, let us not forget that trouble signs continue to emerge for the "real economy". Just today, we learned that another major retail chain has filed for bankruptcy…

> *Bon-Ton Stores, the corporate parent of several department store chains, tumbled into Chapter 11 bankruptcy protection as the company seeks a fresh lease on life.*
>
> *Bon-Ton, whose brands include Boston Store, Carson's, Elder-Beerman and Younkers, had been on a fast track toward bankruptcy court after it recently announced plans to close 47 of its 260 stores.*

I cannot stress enough that what happened on Monday is not a surprise. The only surprise is that it took this long to happen.

Stock valuations need to fall another 40 or 50 percent just to get back to their long-term averages, and whether that happens very rapidly or takes an extended period of time, the truth is that stock valuations **will** return to those long-term averages.

Unfortunately for us, the central banks have created a bubble of such enormity that it could potentially collapse the entire global financial system when it finally fully bursts.

Let us hope for calmer markets on Tuesday, but let us also be mindful that at some point we are going to pay an exceedingly

great price for years and years of horribly foolish decisions.

Michael Snyder is a pro-Trump candidate for Congress in Idaho's First Congressional District, and you can learn how you can get involved in the campaign on his official website. His new book entitled "Living A Life That Really Matters" is available in paperback and for the Kindle on Amazon.com.

The Economic Collapse

One of the Last Truly Cheap Pockets of the Market…

2018 is stacking up to be a nasty year for bond investors. The 10-year Treasury yield has jumped from less than 2.5% to just shy of 2.9% in a matter of weeks.

And while that might not sound like a big deal, remember that rising bond *yields* mean falling bond *prices*. An investor holding a 10-year Treasury note would have seen the value drop by 3.4% since the start of 2018, which washes out more than a year of bond coupon payments.

Harry has written for months that he expects the 10-year yield to peak at around 3% before rolling over again, and that buying 10- and 30-year Treasurys at these yields represents a safe and profitable "trade of the decade."

I agree.

But, in the meantime, let's see what other yields we can find on offer.

Asset Class	Current Yield
S&P 500	1.8%
10-Year Treasury	2.9%
30-Year Treasury	3.1%
Utilities Sector (XLU)	3.3%
REITs (VNQ)	4.2%
Tax-Free Muni Closed-End Funds*	5.4%
Master Limited Partnerships (AMJ)	7.0%

*Average of yields of tax-free muni funds recently held in *Peak Income*.

Last week's hiccup in the stock market didn't have much of an impact on the S&P 500's dividend yield. The index has yielded less than 2% for years, and prices haven't fallen enough to materially change that.

Bonds sport almost respectable yields these days.

The 10- and 30-year Treasurys both now yield around 3%, which is close to five-year highs for both. But, keep in mind, the inflation rate sits near 2%… so "real" yield is hovering around 1%. (We see inflation rates falling over the next few years, but we'll leave that conversation for another day.)

You're getting a higher yield these days in the utilities sector, at around 3.3%. But dividend growth has been sluggish for years, and the sector faces an ugly competitive environment going forward as solar and other alternative energies make inroads.

Real estate investment trusts (REITs) are a more attractive option, sporting a current yield of more than 4%. The sector faces long-term challenges from the rise of e-commerce, but it's also evolving to meet those challenges.

All the same, the spread between REIT yields and bond yields is a little lower than what'd I'd ideally like to see, so I'm not exactly backing up the truck to load up on REITs… at least not yet.

The yield picture gets a lot more interesting when you start looking at municipal closed-end bond funds (CEFs) and master limited partnerships (MLPs). You can put together a diversified basket of muni CEFs yielding over 5% — tax free.

To put that in perspective, if you're in the 32% tax bracket, a 5.4% tax-free yield is the equivalent of a 7.9% taxable yield. That's not too shabby.

I'm not allocating to muni CEFs just yet, as my risk management system had me leave the sector during the recent bond-market rout. But you can bet the sector is on my watch list.

I am, however, pushing into MLPs… and their 7% yields.

The MLP sector hit a major rough patch in 2015. The sector had become far too dependent on debt financing, and some of the biggest names in the space were forced to slash their dividends in order to pare back their debt to reasonable levels.

Well, three years later, the sector looks a lot healthier, yet investors are still gun shy about returning to it.

That's good news for us. Their fear is what makes the 7% yields possible. MLPs are one of the last truly cheap pockets of the market, and we have our pick of the litter.

And in the February issue of *Peak Income*, I'm recommending one of my very favorite MLPs, one that I believe is priced to massively outperform in 2018 and beyond. Click here to find out more.

Charles Sizemore
Editor, *Peak Income*

The post One of the Last Truly Cheap Pockets of the Market… appeared first on Economy and Markets.

Charles Sizemore – Economy and Markets (Charles Sizemore)

The Stock Market Is Setting Up For A Historic Collapse

There is no history to suggest this is sustainable. This price move remains the most extreme technical disconnect in the $ DJIA ever. – Northman Trader

The U.S. dollar has had the worst January since 1987. There's a lot of reasons why the stock market crashed in October 1987, but the declining dollar was one of the primary catalysts. The rest of the world, led by China, is methodically and patiently removing the dollar as the world's reserve currency. The cost for the U.S. Government to fund its rapidly expanding spending deficit is going to soar. Absent the ability to print unlimited quantities of electronic dollars, the U.S. Government's credit quality is equivalent to that of a Third World country.

Silver Doctor's invited me to join Elijah and Eric Dubin for their weekly Metals and Markets podcast. We discuss the issues above plus have a little bit of fun:

The cost to buy down-side protection has never been cheaper. No one, I mean no one is short or hedged this market. When slide starts, it will quickly turn into a massive avalanche. You will have to be set up with hedges and short positions or you will miss the money that will be made from taking a lonely

contrarian view of the market.

My subscribers who shorted my homebuilder stock idea two weeks ago are now up 17.7%. That's if they shorted the shares. They are up even more if they used puts. If you are interested in learning how to take advantage of the coming stock market crash, you learn more about the Short Seller's Journal here: **Short Seller's Journal information.**

Investment Research Dynamics

Market Underestimates Energy Consumption By The Gold Mining Industry

While the gold mining industry reports energy as only 15-20% of its total production costs, the total amount consumed by the industry is much higher. The market underestimates the amount of energy consumed by the gold mining industry because of the way it is listed in their financial statements. Thus, it takes a great deal more energy to produce gold than the market realizes.

Due to the complex supply chain system that we depend upon, most of the energy that is consumed in the production of goods, services, materials, metals, and commodities is hidden from plain sight. For example, a gold mining company will list "Tire Costs" in their Financial and Sustainability Reports. However, even though a tire cost is listed as a material cost, the majority of a tire's production cost comes from burning energy… in all forms and in all stages.

For example, Barrick Gold consumed nearly 25,000 tons of tires in 2013 on its mining operations. According to the Rubber Manufacturing Association, it takes roughly 7 gallons of oil to produce a standard car tire. And from the article, *This Is What A $ 42,500 Tire Looks Like*, stated the following:

>
>
>
> One of the many unique aspects of the Cat 797 are its tires: More than 13-feet-tall, weighing 11,860 pounds, each Michelin or Bridgestone 59/80R63 XDR tire costs $ 42,500 and that's when you buy the full set of six required by each $ 5.5 million truck.
>
> Contains nearly **2,000 pounds of steel**, enough to build two small cars **and enough rubber to make 600 tires to put on them**.

If the Rubber Manufacturing Association says it takes 7 gallons of oil to make one standard tire, and this article claims that the 13-feet-tall tire used by the Caterpillar 797 haul truck contains enough rubber to make 600 tires, then it takes 4,200 gallons of oil to make one of these giant tires.

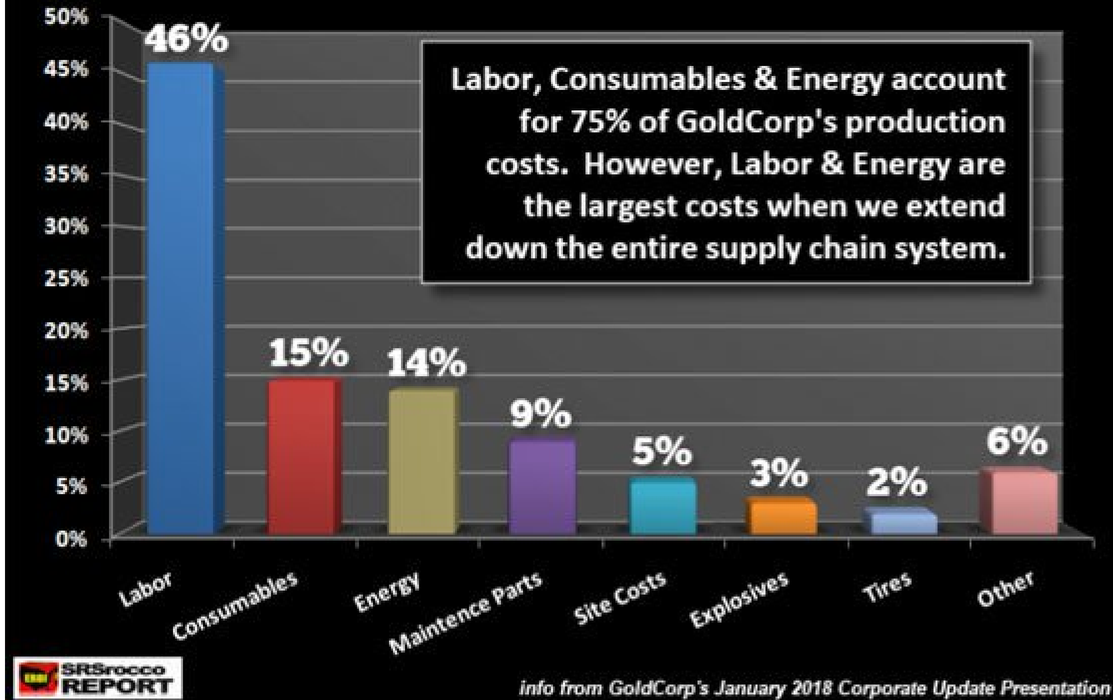
If we take a more conservative estimation of a smaller mining truck tire, it would likely consume at least 2,000 gallons or oil, or nearly 50 barrels of oil.

Furthermore, Barrick consumed 25,000 tonnes or roughly 50 million pounds of tires in 2013. How many large mining tires did Barrick use in its mining operations in 2013? Well, if we use a more standard mining tire called the Bridgestone size 40.0057, that is 11.5 feet tall, it weighs 8,500 lbs. Thus, Barrick consumed nearly 6,000 of these tires in 2013 (I am using 2013 data because Barrick stopped listing its tire usage in later sustainability reports).

Regardless, Barrick lists its tire costs as a material cost. However, if we take the time and dissect the entire "haul truck tire manufacturing and supply chain," we will see that energy was the overwhelming cost in manufacturing one of these large haul truck tires. Even though it takes 50+ barrels of oil to make one of these large tires, this does not include the steel, other materials, the electricity and labor used in their production. We must remember, all the materials that were used in making a large haul truck tire was a result of a tremendous amount of energy all the way down the manufacturing and supply chain.

Goldcorp's Production Costs: Don't Report Full Amount Of Total Energy Consumption

Goldcorp, the fourth largest gold mining company in the world, published a breakdown of its production costs for 2018. According to their Jan 2018 Presentation, labor (including contractors) were the largest cost at 46%, followed by consumables (15%), energy (14%), Maintenance parts (9%), Site costs (5%), Explosives (3%), tires (2%) and other additional costs (6%):



Goldcorp stated their labor costs were 27% and contractors at 19% for a total of 46%. Goldcorp also broke down its energy costs to 7% for fuel and 7% for power (electric generation costs). Even though energy is only 14% of Goldcorp's total production costs, the majority of the other items listed received their value from consuming energy down their entire manufacturing and supply chain system.

Let me give you another example, Goldcorp consumed nearly 500,000 metric tons (mt) of lime in 2016. According to the U.S. EPA, energy was 31% of the material cost to produce lime:

The cost of materials is by far the greatest cost to lime producers. Lime producers spend three to four times more on material than they do on labor, with a large portion of the costs being fuels. For 1996, the Annual Survey of Manufactures reported that the lime industry spent $138.2 million on energy, which is 31.4 percent of total material costs for that year (U.S. Department of Commerce, 1997) The inputs that are specific to this industry are the type of fuel and the limestone or other calcareous material used. The fuels most widely used in lime production in the United States are coal, coke, natural gas, and fuel oil (Sauers, Beige, and Smith, 1993a).

2003 EPA Report: Economic Impact For Lime Manufacturing

Moreover, lime producers spend 3-4 times more on materials than they do on labor. If we take the time and examine all the

additional materials consumed in the production of lime, we would find out that ENERGY is the major cost in their mining, production, and transportation to the lime production plant. So, even the lime producers underestimate the total energy consumption in producing lime because they list it in their “material cost.”

If we look at Goldcorp’s production cost breakdown chart above, the consumables, maintenance parts, site costs, explosives, tires and other costs received their value or market price from the burning of energy in all forms and in all stages along the way. Unfortunately, we don’t see that because the energy is not considered because it shows up as a finished product, good or material at the gold mine.

Lastly, while labor accounts for 46% of the production cost for Goldcorp, without energy, there wouldn’t be workers. Let me explain. A haul truck driver makes a lot of money because the job is very stressful and takes a certain amount of skilled labor. **However, all the haul truck driver is doing, is steering and controlling all the LEVERAGED ENERGY contained in that transportation system.**

Not only did it take a lot of energy and capital to produce that haul truck, the amount of diesel the haul truck burns is quite high. The Caterpillar 797F gets about 0.3 miles per gallon. Thus, all the haul truck driver is really doing is controlling how energy is being burned. Without the massive haul truck and its ability to move 200-400 tons of ore at a time, manual human labor would take quite a long time to move that much ore the old fashion way.

So, most of the labor today used in the gold mining industry is to control and manipulate trucks, machines and processing systems that do most of the work by consuming a tremendous amount of energy. **While humans could be replaced by machines or more automatization, the energy can't be replaced.** A barrel of oil has the equivalent of approximately 10,000-20,000 human labor hours of work (depending on the wage).

Without oil or energy, it would take a large army of workers to produce gold today. Actually, it would be impossible to produce anywhere near the 110 million oz of gold we are currently.

[Precious Metals News & Analysis – Gold News, Silver News]

How Long Does This Bull

Market Have Left?

We called this explosive Trump rally.

Right after the election…

After Dow futures fell 800 points overnight and the S&P 500 and Nasdaq futures hit their 5% limit, which halts trading, and then everything turned around and opened the day in the green – an extreme reversal on high volume…

We sent an email to subscribers saying we would see a Tramp rally that would see the market gain 20% to 25%, if not more.

I had been cautious up to that point, after an apparent rolling top in 2015. But Wall Street was convinced they would get another massive free lunch… and they recently got what they wanted with the tax reform bill.

Now, this rally is looking very, *very* stretched.

Yet, there are NO signs of divergences or technical indicators to warn that a peak is near.

So, the million-dollar questions are:

1. How long does this bull market have to live?
2. And will any of the usual warning signs appear or be as obvious as they were in early 2009?

It's an impossible question to answer because this rally is the first in history to primarily be driven by artificial stimulus and not natural fundamentals and "animal spirits."

This is more than a bubble.

It is an *artificial* bubble, like the Mississippi Land Bubble in France in 1720 that was driven by a government scheme of finance.

This isn't a case of a good-times boom that has just gone too far, like 1925 to 1929 and 1995 to 2000… or 1985 to 1989 in Japan.

Given that fundamentals have had little to do with this bubble, and the tools I usually turn to when forecasting market movement are no longer as effective, or may not show up at all, I find that patterns in stock charts are the best fallback.

And what I'm seeing on these charts is that we have some accelerated rising wedges and channels that clearly look like topping patterns in the making.

That's why, in the January issue of *The Leading Edge,* I show readers how powerful this pattern can be… and what it's warning right now.

I shared 10 charts with them, discussing the patterns and the points at which it would be best to take money off the table.

I can't share all of those details with you – for that you'd need to become a lifetime member to *Boom & Bust* – but I will show you one chart…

The Nasdaq.

The Nasdaq bubble, from December 1994 to March 2000, was the steepest one we'd seen to that point.

One of the warnings that the bubble was in its orgasmic final stage was the Internet Index (Bloomberg) bubble that only came alive from November 1998 into March 2000. It made more than 8-times gains in just 16 months – more than the entire Nasdaq gain of 6.3 times in 5.4 years.

But that overall bubble came into a final steep channel from late 1999 into early 2000.

Well, guess what?

We find ourselves in an eerily similar situation today!

On Friday, January 12, we got a slight throw-over rally (meaning the top trend line of the rising bearish wedge was broken) on the Nasdaq, with new highs of 7,221.

That was an aggressive place to look to get any passive investments (like those in your 401K) out of the overall market, even if only partially.

The higher probability sell signal would come around 6,600 near term, with a break of the lower trend-line, about 8% to 9% lower.

Here’s what I’m looking at…

Really, all we need to pop this bubble now is a pin.

And I've mentioned several times already that I think Bitcoin is it!

Bitcoin has gone up 20 times in a little over a year! Its bubble is greater than even the infamous tulip bubble. This is the best sign of a major top ahead.

My prediction is that, within a year, Bitcoin will crash 95% or more, down to $ 1,000 or so. As that happens, investors will begin to question all bubbles, just like they did with the internet bubble crash in 2000.

Buckle up. This could get interesting.

And stay tuned.

Harry
Follow Me on Twitter ***@harrydentjr***

P.S. Another million-dollar question is: Do you get out of the market now or not. The best answer I have for you is to follow the trend for now, and team up with Adam O'Dell, who helped his readers grab 85.9% average profit per trade in 2017!

The post How Long Does This Bull Market Have Left? appeared first on Economy and Markets.

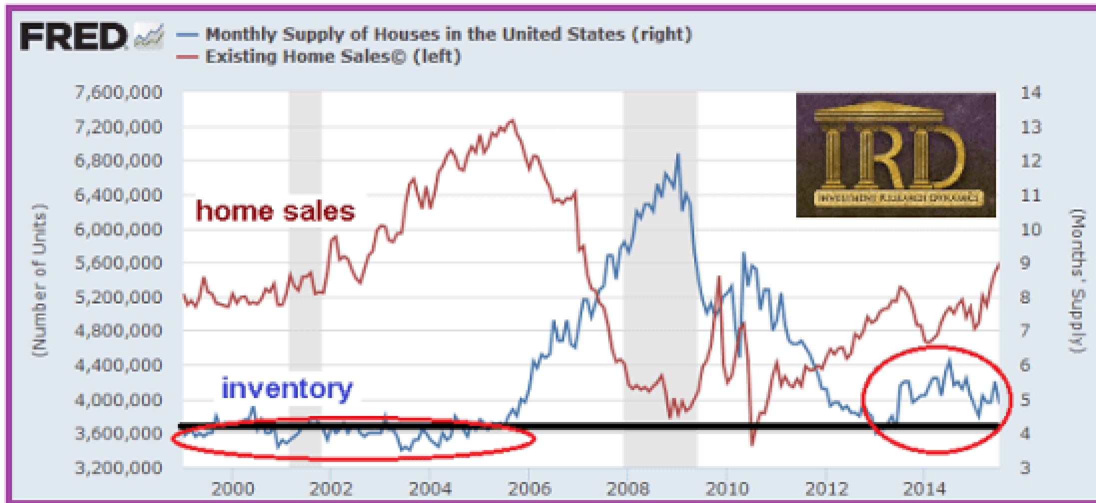
Harry Dent – Economy and Markets (Harry Dent)

Housing Market Supply And Demand: Just The Facts

"Housing – people are insane if they think housing isn't going to get crushed with rising rates. As you outline often, it's already happening in (NY, Den, etc.) I live in LA and most of my friends/ coworkers are telling me how dumb I am to not jump in. I know to just stay quiet, but I think they are about to walk into a buzz saw (again)." – email from a subscriber

The National Association of Realtors reports that December existing home sales fell more than the NAR led its Wall Street lap-dogs to believe they would decline. Larry Yun, the NAR's market elf, has been blaming phlegmatic housing sales over the last two years on low inventory. There's only one problem with

this assertion: it's not true based on historical data:



The chart above is drawn from data that the Fed, for some inexplicable reason, purged from its FRED database. It illustrates the inverse relationship – generally – that exists between inventory and sales. The bigger factor driving the economics of the housing market right now is the deteriorating financial condition of any household that might want to buy a house. The Fed and Government have largely exhausted the population of would-be mortgagees that can make a 0-3% down payment on a conventional mortgage plus carry the monthly burden of servicing that mortgage. The tax advantage from deducting real estate taxes was stripped from the equation.

I suspect the Fed is getting worried about the housing market. The Fed's QE holdings rose $ 5 billion last week. The entire increase is attributable to an increase in mortgage holdings. Not only is the Fed not reducing its balance sheet, it felt compelled to inject capital into the mortgage market.

One thing to keep in mind. A large percentage of homes purchased and financed with 0-3% down payment mortgages in the last couple of years are underwater. When a buyer puts almost nothing down on a mortgage-financed home, the transaction costs all-in are about 10% of the value of the home. These homes are underwater at closing. Except in certain bubble areas, homes have not appreciated in value enough to make up

for the amount that low down payment buyers are underwater when they closed. When the stock market eventually tanks, it will take home values down at least 30-40%, and possibly more.

Just like any market bubble, I believe the housing market is reaching the point of exhaustion. As households continue to get squeezed financially, there will be a lot of homes put on the market hoping for last year's price. As I've mentioned before, when home prices are rising quickly, there's an oversupply of buyers. When home prices start to drop, the buyers disappear. When prices are rising continuously, it's very easy to sell a home. When prices begin to fall, it becomes difficult to sell a home. It's been very easy to sell a home for the last 5+ years. I believe it's going to start to become difficult to sell a home at current general price levels. The smartest sellers will price their home to move. This will begin the process of "re-pricing" the market lower, which in turn could trigger a flood of flipper homes to hit the market – just like 2007/2008.

Greenwich, Connecticut housing values are down 20%. Greenwich would be the "poster child" for the high-end housing market. NYC values are starting to get hammered. For taxpayers who itemize, the new tax law limits the deduction for State, local, sales and property taxes to $ 10,000. This will hammer the high-end market, which in turn will put downward pressure on everything below it.

The commentary above is an excerpt from the latest weekly Short Seller's Journal. If you are interested in learning how to make money from the most overvalued stock market in U.S. history, visit this link for more information: **Short Seller's Journal subscription information.**

Investment Research Dynamics