# Capital Trading Group Blog

## Nothing Lasts Forever

10-17-2017

In the chaotic world in which we live, we feel that investors tend to over hype the wrong things and under prioritize the right things. For a decade now many investors have finally succumbed to the central bank narrative and the continued and never old mantra of "**buying the dip.**" The truth has become so self-fulfilling, that **there isn't even a "dip" to buy**. Many pundits have attacked these global markets, have doubted the global markets and even more so have doubted the wherewithal of this rally. See here is the thing about the human psyche, we humans tends to be risk averse, and we tend to question everything, up until the very end. The funny thing about time, though, as it moves forward, it seems to leave in its wake, many investors dismayed, many in disbelief. Many will say, I know I should have been long, I knew this market was going up, I didn't know exactly why it was going up, but it just keeps going. We have a feeling that many doubters, those patient risk averse, 60/40 allocating types have tossed in the doubting towel, especially over the last 2 years.

Let's just say the enticement has become too much, despite the fundamentals, despite all that is wrong with every value metric out there, who cares, just buy it! Talk to your friends, talk to Joe Blow on the street, nobody and I mean nobody thinks the markets can fall anymore. They say that it seems expensive, that it should fall, but it doesn't, can you blame them? We don't! It's typical of the human psyche to succumb to unwavering pressures. In fact nobody we speak with calls the equity markets a bubble anymore, which means it's just being accepted for what it has become, that is the defacto money market for the top 10%. We get it, but one thing we don't is why everyone we talk to

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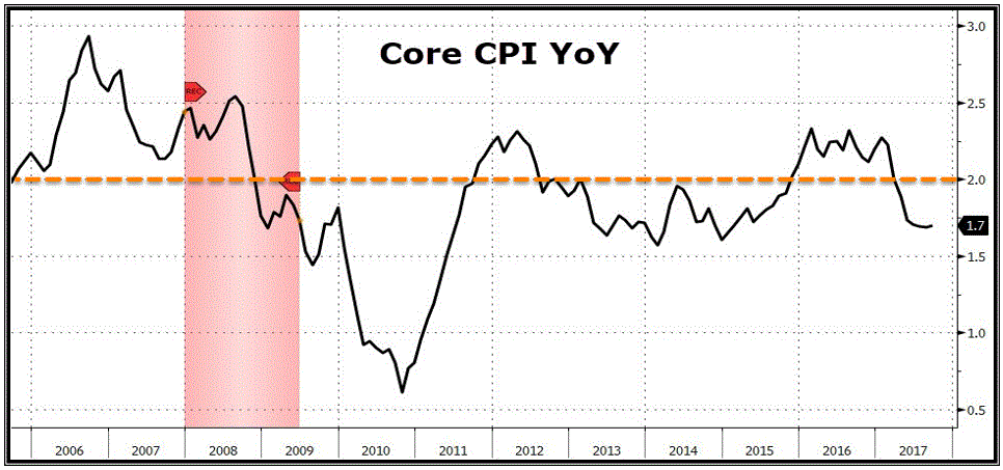
calls Bitcoin a bubble, are they joking, a mere $100bln market cap and that's a bubble? It pales in comparison to the kind of rehypothecated capital that exists out there. So don't fall for it, let's just end the bubble talk any further, for any market in fact, Bitcoin, SP500, Real Estate, forget it, **Bubbles no more. Fundamentals no more!**

As we have said in many letters in the past, the only thing that matters is **DEBT!** More and more and more of it, that's what the Keynesian Monetarists at the global central bank cabal have enthralled us with and come hell or high water its debt that will continue. Our readers should know by now that Debt and Money are one and the same, at least in valuing risk assets. But what if assets can no longer be adequately valued by fiat currencies? What if something like Bitcoin and all its crypto brethren start to capture some real capital? We don't want you to think that Crypto Currencies are the end all save all, but rather we want you to realize the fact that if the likes of Bank of America and Goldman Sachs start covering a sector like this, it's best to put yourself on notice. If the likes of that hypocrite Jaime Dimon starts knocking the validity of such an invention, then you better take notice, because that means this thing is bigger than what you may think. Anyhow let's not lose sight here; we aren't trying to give a valuation lesson, for our time frames are much shorter now even if we don't like them to be. The reaction time for news used to be two weeks or so, now down to the hours. Nothing seems to really matter anymore, NK nukes, hurricanes, Middle East clashes, terror events. **If nothing matters than what really matters?** We hate to sound redundant or even philosophical but it's hard not to, the markets have become, well anything but markets. They seemed to have morphed into this static centrally controlled command function. So what is an investor to do?

Aside from reading our letter, **we think you need to pay attention to the FED.** We hate it, we despise it, but it's what we have and we can't fight that fact, so let's embrace it and watch for the signs that will tell us what the potential move that lies ahead might be. The very thoughts right now are focused upon a December hike, followed by a new chair appointment, which at this point seems up for grabs, although Kevin Warsh and now John Taylor seem to be at the fore front. We like Taylor but we feel that his rule needs some debt tweaking and is a bit archaic in the QE world in which we find ourselves in. We have heard that his rule would be calling for a 5% Fed Funds, hah, we laugh at such a notion. Where would the FED get the $100 billion a year to give to the banks? Then again maybe that's what will be needed to once again in order to save the system. What we are beginning to think is the FED itself doesn't know exactly what to do. Anyway, what the FED is planning on draining or removing in terms of stimulus, the ECB and BOJ will be adding so we are still in QE mode. So let's stop this entire accommodation removal bit shall we.

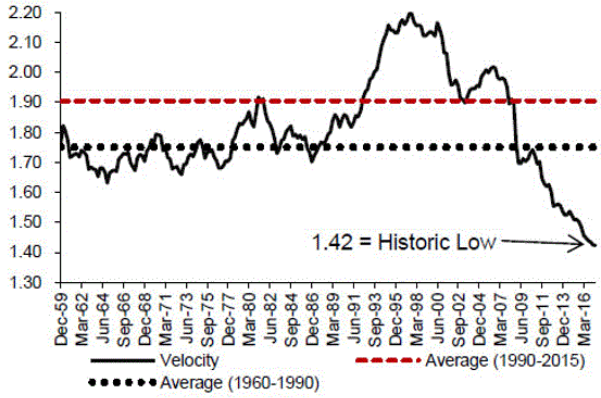
As for the US, the yield curves continue to flatten and we view this as pretty fundamental given the outlook, but we aren't sure its justified given the fundamental case. For instance last week's Core CPI continues to sink and

inflation is running well below the FED's 2% target, so what gives?



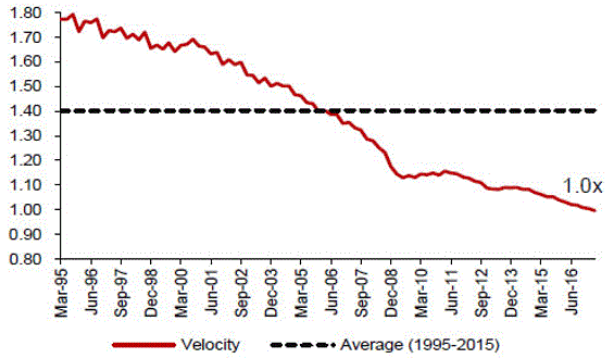

We aren't sure who is navigating the decisions at the FED but we are sure that it can't be easy. We certainly don't envy their position. Another metric we saw this week that is certainly not helping their rate hiking case was the velocity of money metric shown here for the US and Europe:

**Fig 9 US Velocity of money (GDP/M2) (x) – … velocity of money is not rising…**




Source: Bloomberg, Thomson, Macquarie Research, October 2017

**Fig 10 Eurozone Velocity of money (GDP/M2) (x) – … in most jurisdictions while…**




Source: Bloomberg, Thomson, Macquarie Research, October 2017

**This chart highlights a very important and systemic dilemma, how is it global central banks have printed over $15 trillion dollars to buy risk assets and yet the money is not circulating and generating excessive GDP?** Surely the quants at the central banks understand monetary mechanics, or is it something else, entirely? Are they merely saving their own ass? Have they sold out generations upon generations under the guise of stimulating

economies and merely bought themselves another decade of decadence? We hate to say it but the income numbers don't lie and nothing can be further from the truth when our leaders say they care about the economy and the commoner. It's patently false and it's become rather obvious, that the only thing that matters is concentrating wealth and removing any semblance of free and open markets. So where do we go from here? We aren't quite sure of the how, but we are certain **that "nothing lasts forever,"** these markets will fall and a correction will ensue, it always has and it always will.

**So the game plan for our readers is to enjoy the "buy the new highs" while you can, because as soon as that Fed Funds rate nears that 10year rate, the reaper will be waiting.** The US yield curves are flattening and rightfully so. The only question we have is what motives do the central banks have to raise rates, other than handing out more free money to their conduits? We really can't find one, but a common theme around the fundamentalist camp is so they have room to lower rates when the day of reckoning comes. We never believed that theory, but many do, we would rather look more counterintuitively and ask "Cui Bono?" The banks themselves stand to benefit, God knows they aren't making money anywhere else but the credit card sector, so they need help but as our readers know, Blockchain is here to stay and banking's fate will be much like the print newspapers that we are willing to bet on. The millennials appetite for work, for archaic static business is not like its predecessors. **The millennials seem to want technology, innovation, crowd sourcing, sharing, organic food and nothing outside of their individual preferences to waste their time. We hate to say it, but every generation has their quirks that ultimately change both the financial landscape and the political one as well. Try telling a millennial he or she has to work to pay for pensions and entitlements for those before them, good luck! So we can either embrace this brave new world (no pun intended) or we can fight the change. We would rather adapt and change and find a way, then fight in cynicism as the world passes us by.**

Ok to the charts and of course considering our US treasury flattening theme, we have to start with the 2s30 and 5s30 charts. The 2s30 seems to be targeting 92 bp some 36bp of flattening ahead:


The 30Yr Yield vs 5 Yr Yield (**5s30**) is targeting around 50 basis points, or some 37bp below:


All of this flattening in the US Treasury complex can be expected given the FEDs expected hiking campaign, but we have to be mindful of any developments geopolitically, domestically etc. As nothing is set in stone, rather this seems very normal given the current outlook.

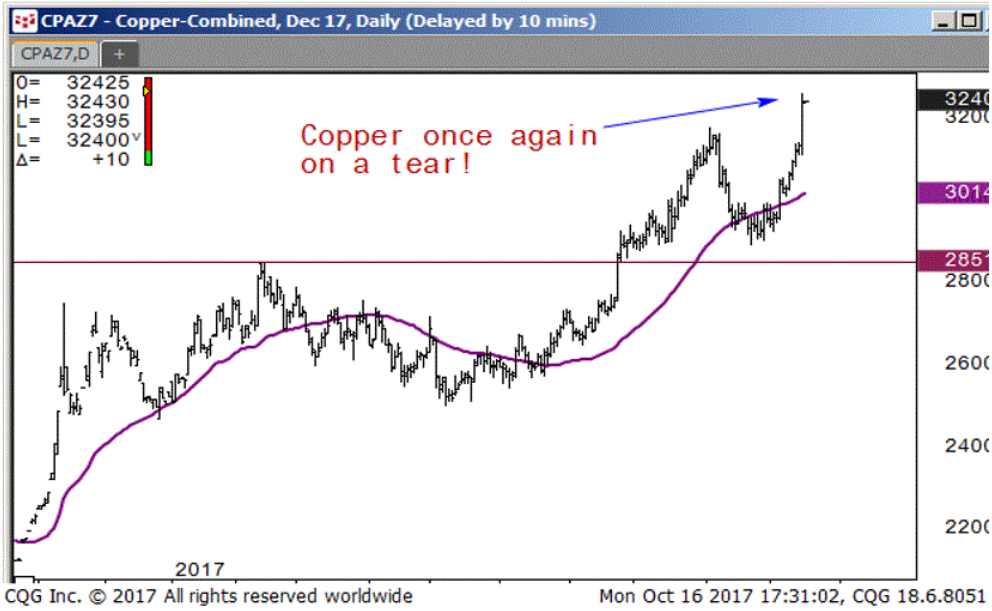
As for that buy the high market, SP500, rinse recycle repeat. It's still above the trend channel and thus its bullish theme is obviously still intact, duh:


Moving over to Crude Oil we can see that $49 held support and $52 is back in play where a trade above there may see $54 fairly quickly:

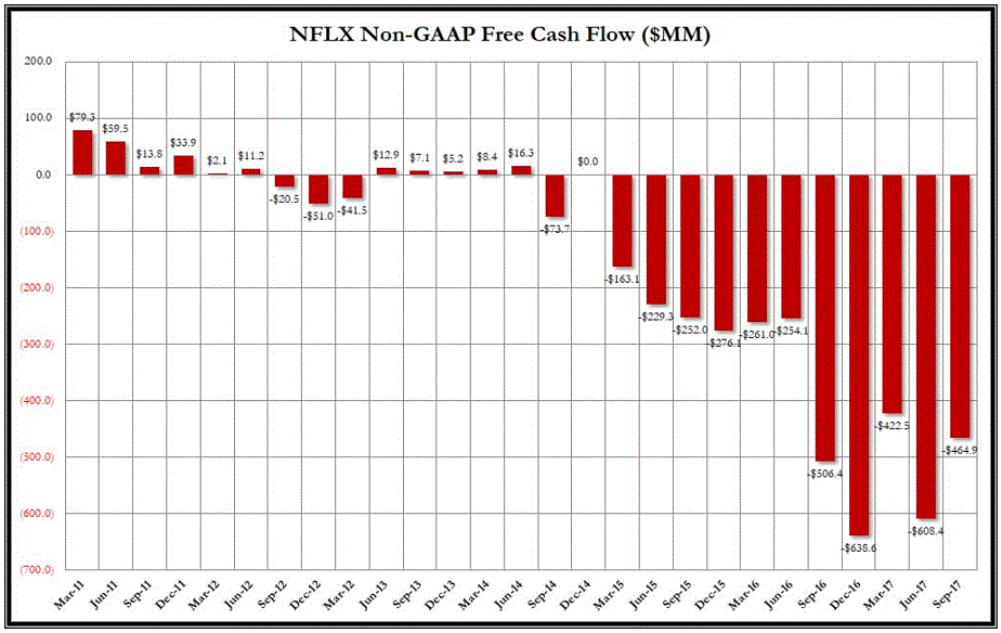

To the metals which seem to be experiencing some profit taking but are still in an uptrend, Gold here:


Silver here:

Copper is breaking to the upside once again:




Also out this week was this chart of Netflix's cash burn. We tend to think Netflix has an identity problem, are they a content provider or an original content producer or both? What is the price ceiling for its product? We tend to think that Netflix will have to navigate toward that price ceiling for it's subscriber base, much sooner rather than later. They have done a good job at adapting, the only question now becomes one of shareholder value, this free cash flow chart should worry a few, but that's just us, then again in the age of Amazon, when did fundamentals seem to matter:




In conclusion and as always we leave you with the weekly settlements. It is no shock to us that Bitcoin has surpassed $5k once again and was up some 29% last week alone. We have spoken with many wealthy individuals and they continue to question us on both the valuation as well as the technology, in fact they almost laugh at the thought of Bitcoin, as they drive away in their Tesla's. What is funny is the fact that people have the audacity to say Bitcoin is a bubble. Really? We would rather they ask, how is Bitcoin $5k a piece, why is someone willing to pay 5000x per US Dollar? Once again, valuation is unique to one's individual reality, or should we say perception. How many trillions is the

internet worth? What did its invention do to revolutionize many industries? I am sure there is a number, but we don't really care, what we know is the technology behind Bitcoin is a force to be reckoned with and the old guard is clearly on notice. Death to the Fiat we like to say, but then again that's just us. **Then again, maybe the real truth behind the prices of things is that the fiat is becoming less and less valued, for if wealth is simply measured by debt, then we would rather own digital and metal and bet on the future.** In fact an astute investor just today reminded us that 3 dimes bought a gallon of gas in 1964, (30 cents) and those same 1964 dimes today will still buy a gallon of gas ($3.50, due to silver content). We said that's interesting, but that's hard money for you. Keynesian's won't admit it, but we don't care, we know in the future that gold and silver will store value and fiat will be inflated away, it's inherent to its design, unfortunately!

| 13-Oct | | Weekly | Weekly | YTD |
|---|---|---|---|---|
| Instrument | Price/Yield | Net Change | % Change | Change |
| US 30yr Govt | 2.81 | -9.4 | 3.2% | 7.9% |
| US 10yr Govt | 2.28 | -8.6 | 3.6% | 6.3% |
| US 5yr Govt | 1.91 | -6.1 | 3.1% | 1.0% |
| DEC Bond | 154-00 | 2'03 | 1.4% | 2.2% |
| DEC Ten Yr | 125-22+ | 0'21+ | 0.5% | 1.1% |
| DEC Five Yr | 117-18+ | 0'092 | 0.2% | -0.1% |
| DEC SP500 | 2552.75 | 7.75 | 0.3% | 14.7% |
| DEC DOW | 22830 | 136.00 | 0.6% | 16.5% |
| DEC Nasdaq | 6099.75 | 35.50 | 0.6% | 25.3% |
| DEC Nikkei | 21265 | 570.00 | 2.8% | 11.8% |
| DEC Dax | 12991.0 | 45.50 | 0.4% | 13.2% |
| Shanghai Comp | 3390.52 | 41.58 | 1.2% | 9.2% |
| DEC Crude | $51.73 | 2.08 | 4.2% | -11.1% |
| DEC Gold | $1,304.60 | 29.70 | 2.3% | 12.2% |
| DEC Silver | $17.41 | 0.62 | 3.7% | 7.5% |
| DEC Dollar Index | $92.93 | (0.71) | -0.8% | -8.7% |
| DEC EURO | 118.58 | 0.80 | 0.7% | 11.0% |
| DEC YEN | 89.620 | 0.62 | 0.7% | 3.3% |
| Bitcoin (BTC) | $5,591.95 | $1,250.21 | 28.8% | 486.5% |

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