Technical Scoop May 21 2018
From David Chapman, Chief Strategist
dchapman@enrichedinvesting.com
For Technical Scoop enquiries: 416-523-5454
For Enriched Investing™ strategy enquiries: 416-203-3028

Energy paints rosy TSX picture while storm clouds brew around US debt and gold still glitters

It is almost four months since the markets topped back in late January. The S&P 500 remains down 5.6% down from that top. We have entered the period that is known as “sell in May, and go away”. We confess we are beginning to wonder if we will see new highs. We are reminded of 2000 when the markets also topped in January (and March as well) then spent the next year or so in a series of sharp ups and downs before succumbing to the events of 9/11. But we are also reminded of numerous times when the market topped fell 10% or more then eventually succumbed to a crash. The years 1929 and 2007 are a reminder of that. So is this a consolidation that eventually takes us to new highs, or is this a consolidation that eventually sees the market crack to the downside? We see storm clouds gathering and none of them are inviting. We attempt to summarize these storm clouds. One constant is the huge amount of debt that is outstanding and how might rising interest rates and a rising US$ negatively impact this debt. Despite an economy that appears to be ok we are reminded that in 1999 and 2006 no one foresaw what was about to unfold. There is some history of depressions that seem to occur roughly every 90 to 100 years. We are currently 86 years from the low of the Great Depression. Signs are pointing to some rough years ahead. The question since the February 2018 breakdown is whether the market would regain its foothold and make another high? Time is running out.

There are some bright lights. The TSX Composite does appear poised to make new all-time highs. It is being led by energy and surprisingly consumer stocks. Material stocks are being accumulated. So even if the S&P 500 doesn’t make new highs the TSX just might. Indeed, the Canadian Dividend Strategy has been increasing exposure to energy. But one has to be selective. This past week saw the U.S. 10-year Treasury note sail through 3%. It helped widen the Recession Watch Spread (page 21). But that is small consolation as the Fed continues to appear poised to hike at least two more times in 2018 and there are hints that they could do it three times. The Fed is always late to the game. We provide our usual array of charts and note that gold and silver are increasingly looking attractive despite the recent pullback. When sentiment is miserable it is usually time to buy. On the other side the US$ is starting to look very toppy accompanied by very high positive sentiment. Nonetheless the US$ Index may have a bit more room to move higher.

Our chart of the week (page 30) looks at the volatility in the market and growing 1% movement days both up and down. Increased volatility is not necessarily a good sign.

Have a great week!

DC

“It came with a speed and ferocity that left men dazed. The bottom, simply fell out of the market… The streets were crammed with a mixed crowd—agonized little speculators…sold-out traders, inquisitive individuals and tourists seeking…a closer view of the national catastrophe…Where was it going to end?”

—*The New York Times*, 1929

“Food Stamp recipients didn't cause the financial crisis; recklessness on Wall Street did.”

—Barack Obama, 2008

Bubbles and crashes occur throughout history. There actually doesn’t appear to be any set frequency as to when crashes will happen. Since 1950 we note crashes (not necessarily U.S. stock market crashes) in 1962 (Kennedy Flash Crash), 1973–1974 (oil, Watergate), 1980 (gold), 1987 (Black Monday), 1990 (Iraq, Oil), 1991 (Japan), 1992 (Pound Sterling), 1997 (Asian Financial Crisis), 1998 (Russia), 2000 (dot-com), 2001-2002 (9/11, dot-com), 2008 (global financial crisis), 2010 (EU), 2013 (gold), and 2015 (China).

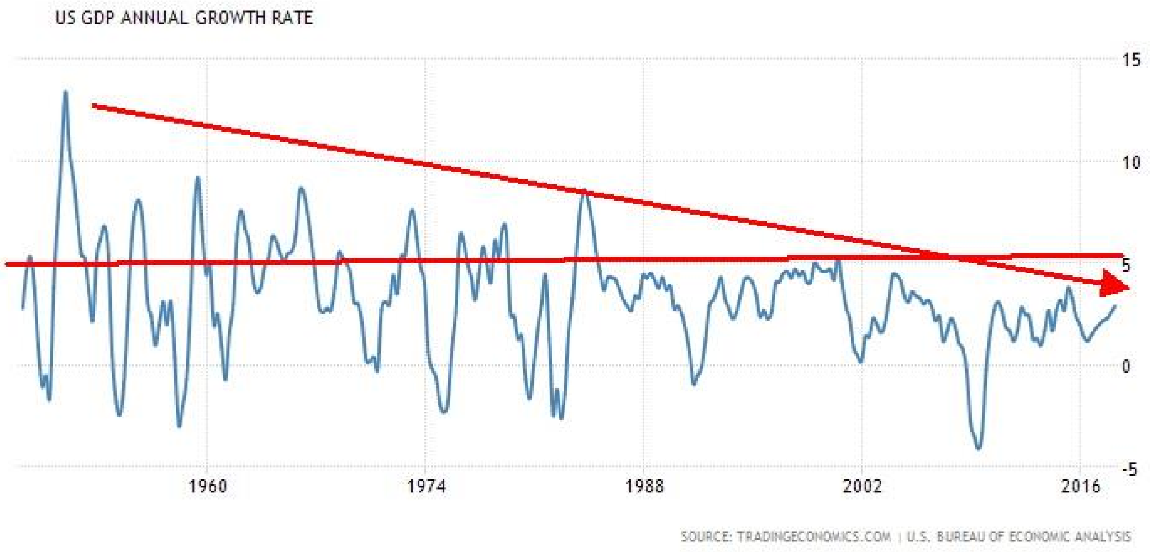
Over the past 100 years or so, dating back to 1900, there have been at least two prolonged periods of a strongly trending upward markets. The first occurred from 1944–1966 following the end of the Great Depression and war, while the second occurred from 1982–2000 and featured the high-tech/Internet/dot-com bubble that culminated in 2000. The most recent rise 2009–2018 is actually fairly short, so far, compared to the other two. It has been known as the “everything bubble.”

All other periods would have to be considered long periods of consolidation. That would have included the “Roaring Twenties” stock market rise, subsequent crash, and Great Depression. Indeed, the entire period from 1900–1944 was one long consolidation in some respects despite the extremes. The next consolidation period was 1966–1982 and the most recent was 2000–2009.

The question now is: is the current consolidation the start of another period of consolidation that ends in a crash, or is it merely a pause in a long-term bull market? During the 1944–1966 bull market there were significant pauses in 1946–1949, 1952–1953, 1956–1957, and 1961–1962. The steepest decline was the 1961–1962 mini-bear when the Dow Jones Industrials (DJI) fell 25%. Following that the DJI rose 86% from 1962-1966. By comparison the January/February 2018 drop was only 12.2%. But then the initial drop in July 2007 as the sub-prime mortgage market began to unravel was only 10.7%. Many thought the crisis that sparked the drop was over as the markets regrouped and made slightly higher highs in October 2007.

Usually when the economy comes out of a recession the first year or two sees strong growth. The chart below shows annual GDP growth rate. Note that recessions in 1953, 1957, 1960, 1970, 1974/1975, 1980/1983 all showed GDP annual growth rates of 5% or more following the recession.

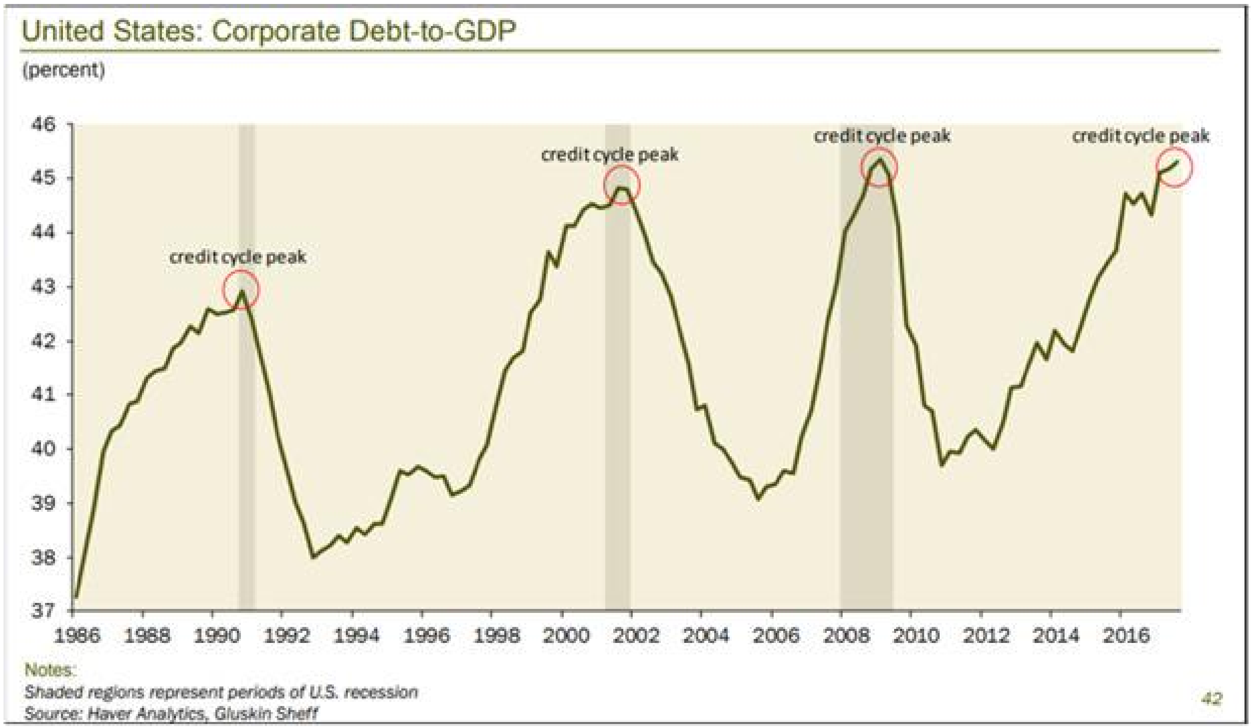
Following the early 1990s recession the annual GDP growth rate faltered and failed to really record any year over 5%. Following the 2001/2002 recession the annual GDP growth rate fell short of 5%. Coming out of the 2007/2009 recession the annual GDP growth not only failed to reach 5%, but it was consistently short of the growth rates out of both the 1990 and the 2001/2002 recessions.



Source: www.tradingeconomics.com

Recall as well that in all of those recessions the Federal Reserve (Fed) pushed interest rates increasingly lower until finally after the 2007/2009 financial crisis and recession interest rates fell virtually to zero. As well the Fed engineered an aggressive re-financing of the financial system with quantitative easing (QE). But there was one thing in common following each of those recessions, and that was a massive increase in debt. In 1980, total debt in the U.S. (government, corporate, and personal) totaled $4.4 trillion. Since then debt has increased by $65.8 trillion or 1,395%. Today it sits at $70.2 trillion. While everyone loves to talk about how government debt has exploded (and it has) the worrisome part is corporate and consumer debt has also exploded.

Corporate debt to GDP is as high as it has ever been. As John Mauldin of Mauldin Economics argues, the U.S. economy—and the world economy for that matter—have been increasingly built on a mountain of debt. Mauldin argues we no longer have business cycles, we have credit cycles. But the debt can only grow for so long; then it becomes stretched and it doesn't take much to set off a credit crisis. We have seen that in spades, more and more—going all the way back to the crisis of 1974/1975. Increasingly, it required more and more debt out of each crisis to buy an additional dollar of GDP. When it becomes too stretched, as it did in 2007, it breaks and the crisis is so severe that it could bring down the global economy. Each subsequent crisis has been worse than the previous one and each crisis required more and more debt to drag the economy out of its slump. Yet, despite all the debt, the economy can't even grow as fast as it did 40/50 years ago after a recession.



Source: www.haver.com, www.gluskinsheff.com, www.mauldineconomics.com

Storm clouds are now gathering. Usually, following a sharp decline from a top, there is return action to either a double top or even small new highs. Given we are now almost four months from the January 26, 2018 top the likelihood of new highs is starting to become somewhat suspect. Does that mean we could have a crash at any time? Probably not as these things take time to play themselves out. It is worthwhile, however, to review some of the storm clouds we see gathering.

1. Record debt. Globally, debt has reached $237 trillion. The U.S. alone has $70 trillion of the debt or 30% of global debt. Government and corporate debt in the U.S. is at record levels. Consumer debt is up but is in better shape than what it was back in 2007 in some respects, even as it has also hit record levels. U.S. consumer debt recently hit a record high at $13.1 trillion. The high debt is a feature of all the western nations and many others such as China. Emerging markets are quite vulnerable. Emerging market debt is estimated at over $50 trillion. Much of this was borrowed in US$. A rising US$ makes it difficult to pay back the debt

in US$. In seeking higher yields U.S. pension funds have purchased a lot of this debt. Sovereign debt collapse could occur in Venezuela, Argentina, Ukraine, and even in western nations such as Greece and Italy. Overall global credit (debt) has been growing faster than global GDP. That is never a good sign.

2. On the surface the economy continues to perform well, but employment numbers have been softening and the unemployment rate has been falling, primarily because of a drop in the size of the labour force, not because more people are working and the number of people not considered to be a part of the labour force has been growing. Earnings have been good and should continue as such, but P/E ratios are extremely high, at levels that exceed those seen in 1929 and 2007, although below what was seen in 2000. Rising inflation should benefit commodities and energy in particular. Consumer confidence remains high, but that could change quickly if unemployment starts to rise. With unemployment at a multi-year low it is highly unlikely it has much more room to move lower and the risk shifts to the upside.

3. Interest rates have been rising. The 10-year U.S. Treasury note is now over 3.00% hitting a recent high of 3.11%. The Fed plans on hiking the key Fed rate at least two more times in 2018 and more in 2019. There are even suggestions the Fed might hike three times in 2018. Higher interest rates have been putting upward pressure on the US$. A higher US$ is negative for foreign borrowers in US$. The reality is a lot of US$ debt has been issued in the past several years outside of the U.S. Higher interest rates and a higher US$ are a double whammy to this debt. The Fed has a history of starting to hike rates too late and then raise them too high, thus sparking the next crisis. Also, the Fed is continuing with its quantitative tightening (QT) program whereby they are reducing their balance sheet. This has the effect of taking money out of the financial system. Higher interest rates are starting to bite as delinquencies rise for car and student loans in particular.

4. War clouds are gathering, particularly in the Mid-East where Israel and Iran recently exchanged fire after the cancellation of the Iranian nuclear deal by the U.S. Strife continues on the Israel/Gaza border. North Korea has cancelled summits with the U.S. because of the decision by the U.S. and South Korea to hold military drills. Once again Trump is threatening regime change if they don't get rid of their nuclear weapons. Tensions remain in Europe along the Russian border, particularly in Ukraine and in the South China Sea with China.

Enriched Investing Incorporated
P.O. Box 1016, TD Centre, Toronto, ON M5K 1A0
ph: 416.203.3028 fx: 416.203.8825 www.enrichedinvesting.com
e-mail: dchapman@enrichedinvesting.com

5. International trade remains under duress and the threat of trade wars remain. The U.S. has announced numerous trade tariffs and China has taken retaliatory action. NAFTA remains in a state of flux. Trump wants to reduce the U.S. trade deficit, but his actions are actually making it worse. While the US$ has been rising, the likelihood is that will change as Trump pushes for a lower US$. Tariffs are like a tax. While the U.S. cut tax rates with one hand they raised taxes via tariffs with the other hand. Problems are already showing up in a number of industries that are negatively impacted by tariffs or the threat of tariffs from other countries.

6. There are ongoing threats to global US$ hegemony with Iran announcing it will take payment for its oil in Euros. The prime reason is the U.S. is cutting off Iran from the global financial system. Instead, Iran will use foreign exchange bureaus and wants no transactions in US$. The EU has indicated it may accommodate them, given how upset they are with the U.S. over sanctions that are negatively impacting their trade. The EU is already steaming over the U.S. pulling out of the Paris Accord and the TTIP (Transatlantic Trade and Investment Partnership), plus rising oil prices that hit the EU hard. Maybe it's a coincidence, but soon after Iran's announcement the U.S. cancelled the Iranian nuclear deal, reinstated sanctions including declaring that the head of the Iranian central bank was a terrorist and a shooting war started between Israel and Iran. However, the main threat to the global dominance of the US$ is coming from China who is in the process of creating a Yuan trading zone in China by creating counterparts to the U.S-dominated institutions of the IMF, the World Bank, and the SWIFT payment system. Also, China is building the new Silk Road that will link 68 countries, 65% of the world's population, and 40% of the world's GDP. The currency will be the Chinese Yuan. Russia and Turkey are also switching to Euros and avoiding US$. But the EU, in looking for ways around Iran sanctions is headed for a collision course with the U.S., along with the one already in progress with Iran, China, and Russia.

7. Whether one wishes to accept global warming as a fact or not is moot, with increased frequency and severity of storms, floods, droughts, and more. Sea levels are rising and threatening populations. There are estimated to be over 65 million refugees in the world—record levels as a result of war, famine, and global warming. The cost of all of this is putting more upward pressure on sharply rising global debt and creating instability.

8. Finally, the EU itself is on a collision course with itself following the election of a number of hard right governments in Hungary, Poland, Austria, and now in Italy. All are also anti-EU. It could lead to the breakup of the EU itself.

In an environment of gathering storm clouds, can the stock markets make new all-time highs? Some, such as the Russell 2000 and the S&P 600 (small cap) already have. Internationally, the Paris CAC 40, the Singapore Straits Time Index, and the EuroNext 100 Index have as well. But following an initial break of over 10%, the record for the markets returning to the previous highs is not particularly good. After an initial break in 2007 of 10.7% the markets eventually made new all-time highs almost two months later. By the end of May 2018, we will be four months from the January 2018 top. Following the top in January 2000 the DJI made a series of ups and downs for the next nineteen months but never again made new highs. The events of September 2001 (9/11) started a crash. There was a strong rebound into February 2002, but then the market once again crashed into the October 2002 low.

So, while new highs remain possible the odds are starting to slip. The table below shows us the time of the market top followed by the first decline. We note the time it took to make the low following the top and how much the market lost. The crash of 1929 is still the steepest one-time decline, although gold's crash in 1980 is just behind. We then note the secondary top, how long it took to get there from the low and the gain. While gold in 1980 had the biggest gain, it took just over six months to get there. The shortest was WTI Oil in 2008, where the market rebounded 22% and topped just six days later. Finally, we note when the crash bottom took place and how long it took to get there after the secondary top. The biggest decline was the Great Depression collapse where the DJI fell 86% from its April 1930 top. It took the equivalent of two years and 3 months to get there. WTI Oil collapsed almost 70% in five months. Gold's collapse from 2011 to 2015 took the equivalent of three years and two months, but the decline was only about 42%.

The high so far following the first decline came a mere 18 days later as the market gained a meagre 10.4%. Could that be it? Time will tell as it only starts to become confirmed once the market makes new lows.

Enriched Investing Incorporated
P.O. Box 1016, TD Centre, Toronto, ON M5K 1A0
ph: 416.203.3028 fx: 416.203.8825 www.enrichedinvesting.com
e-mail: dchapman@enrichedinvesting.com

Market top	First decline	Second top	Crash bottom
September 3, 1929 Dow Jones Industrials	November 13, 1929 71 days (47.9)%	April 17, 1930 155 days 48.0%	July 8, 1932 813 days (86.0)%
January 21, 1980 Gold	March 18, 1980 57 days (47.1)%	September 23, 1980 189 days 61.7%	June 21, 1982 636 days (60.3)%
January 3, 1990 Tokyo Nikkei Dow	April 30, 1990 117 days (26.1)%	July 17, 1990 78 days 15.4%	August 19, 1992 762 days (57.3)%
July 17, 2007 Dow Jones Industrials	August 16, 2007 30 days (10.7)%	October 11, 2007 56 days 12.2%*	March 6, 2009 512 days (54.4)%
July 11, 2008 WTI Oil	September 16, 2008 67 days (38.5)%	September 22, 2008 6 days 22.0%	February 12, 2009 143 days (69.6)%
September 6, 2011 Gold	September 26, 2011 20 days (20.2)%	October 5, 2012 375 days 17.1%	December 3, 2015 1,154 days (41.9)%
January 26, 2018 Dow Jones Industrials	February 9, 2018 14 days (12.2)%	???? Thus far February 27, 2018 18 days 10.4%	????

*** New highs** **Source: David Chapman**

None of this is suggests the markets can't make new all-time highs and are going to crash. What makes it a possibility that no new highs will be seen and after that the market could crash is the technical pattern that appears to be forming (technical) and the gathering economic storm clouds (fundamental). Even if new highs are seen, the gathering storm could send markets into a tailspin although the final low might not be seen until 2020 or even as late as 2022. According to Ray Merriman and his studies of long-term cycles he has noted 2022/2023 as a potential period for a significant stock market low.

Enriched Investing Incorporated
P.O. Box 1016, TD Centre, Toronto, ON M5K 1A0
ph: 416.203.3028 fx: 416.203.8825 www.enrichedinvesting.com
e-mail: dchapman@enrichedinvesting.com

Some have noted the possible presence of a 90-year cycle in stocks. A fascinating series of bank failures and wars occurred during the 1550s and into the 1570s where a major economic depression took place. A series of stock market lows, economic depressions, and war took place during the 1670s and into the 1690s. A further series of economic depressions and wars took place from roughly 1760 (Seven Years' War) and up until the 1780s (American Revolution). The 1870s and up into the 1890s was known as the period of the "Long Depression." The 1970s saw the steepest recession since the Great Depression of the 1930s.

While none of those cycles catch the upcoming 2020s other cycles do. 2022 is 90 years from the Great Depression low of 1932. There was a major economic depression in the late 1830s, culminating in a major stock market low in 1843. Ninety years earlier is 1753 and the early stages of a depression and the Seven Years' War (1756–1763).

The conclusion is the current market needs to be watched carefully for signs that the rebound underway is going to fail. While new highs are possible, a failure to regain those highs is also possible given we are now four months from the all-time high seen in January 2018. Warning signs are there and investors should be cautious going forward.

Enriched Investing Incorporated
P.O. Box 1016, TD Centre, Toronto, ON M5K 1A0
ph: 416.203.3028 fx: 416.203.8825 www.enrichedinvesting.com
e-mail: dchapman@enrichedinvesting.com

Bitcoin Watch!

Source: www.coindesk.com

Once again, the bloom has come off Bitcoin and the cryptocurrencies. After hitting almost $10,000 on May 5, 2018, Bitcoin has fallen almost 20%, briefly dipping under $8,000. A firm break under $8,000 could send Bitcoin tumbling towards the lows seen on April 6, 2018 near $6,600. It is interesting to note the top in December coincided with the start of futures trading on the CME and the most recent top roughly coincided with an announcement from Goldman Sachs that they were going to offer derivatives on Bitcoin. The introduction of derivatives on cryptos means that trades can both buy and sell and go outright short. It introduces arbitrage opportunities. All of this helps narrow spreads and it also allows short sellers to attack Bitcoin.

Over the past week very few cryptos are up. Most are down to varying amounts. Of the top 25 only two, ZCash (ZEC) and Binance Coin (BNB), have seen gains. The biggest gain was ZCash, up roughly 48% after the Winklevoss twins' Gemini digital currency exchange became the first in New York to receive a license to trade the privacy-focused cryptocurrency. Trading starts on May 22. Yes, the same Winklevoss twins who accused Mark Zuckerberg of Facebook fame of stealing their idea called ConnectU, as featured in the film *The Social Network*.

The market cap for all cryptos has fallen to $366 billion, down roughly $20 billion from the previous week. Total market cap has fallen almost $100 billion in the past few weeks. The number of cryptos has also fallen to 1,593 down from 1,604 the previous week. We have long noted that there are far too many cryptos and many should fail. There remain 24 cryptos with a market cap of over $1 billion. Bitcoin remains the largest with a market cap of about $138 billion. At its peak Bitcoin had a market cap of $324 billion thus a decline of roughly 57%. Cryptos are not for the fainthearted.

We noted a story that China said they found 421 fake cryptocurrencies. Most of them are deployed overseas. China has also said most cryptos are being used to launder money. As well some 271 ICO's out of 1,450 ICO's have been flagged as fake. We have said consistently that there are too many cryptos and that money laundering and other scams most likely proliferate. Another reason this market has further to fall.

It is difficult to say just yet what kind of pattern Bitcoin is forming. It is possible that it is forming a descending triangle which would be bearish. But the evidence so far is only lower high. We most likely need a few more.

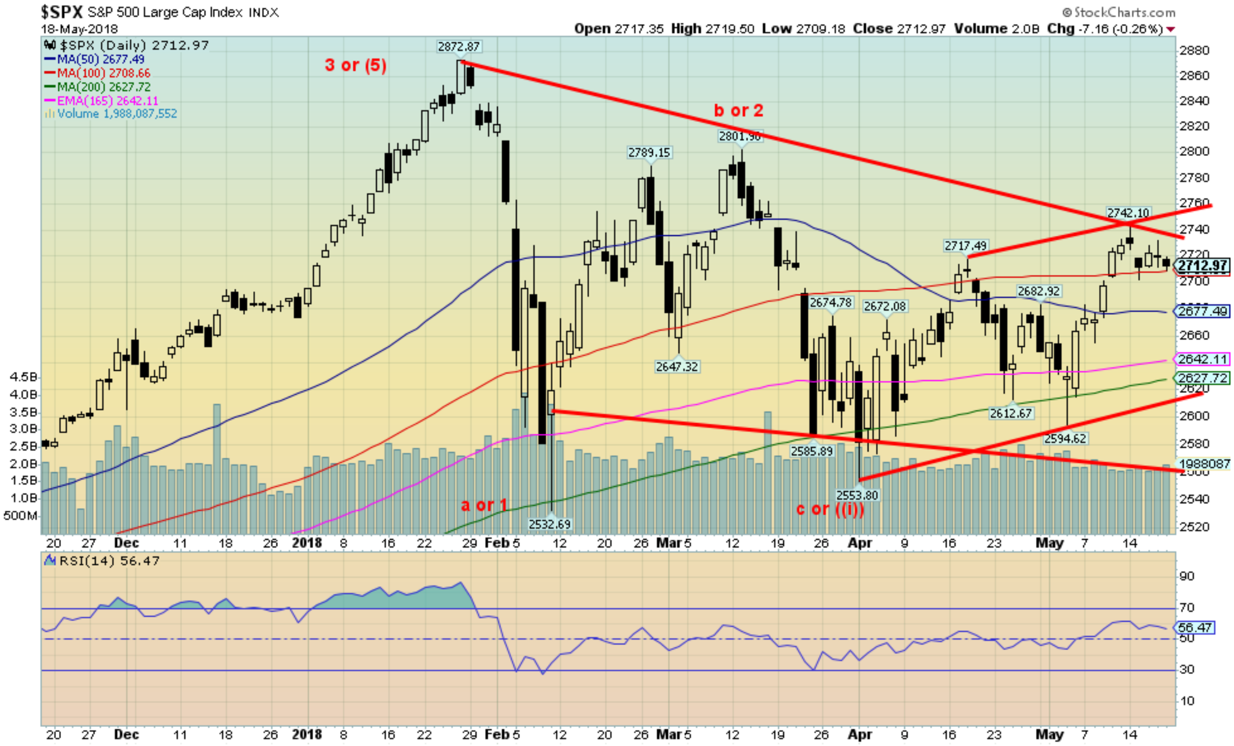
ENRICHED
INVESTING INCORPORATED

MARKETS AND TRENDS

	Close Dec 31/17	Close May 18/18	Week (% Gains (Losses))	YTD (% Gains (Losses))	Daily (Short Term) (Trends)	Weekly (Intermediate) (Trends)	Monthly (Long Term) (Trends)
Stock Market Indices							
S&P 500	2,673.63	2,712.97	(0.5)%	1.5%	up	up	up (topping)
Dow Jones Industrials	24,719.22	24,715.09	(0.5)%	flat	up	up	up (topping)
Dow Jones Transports	10,612.29	10,730.46	0.2%	1.1%	up	up	up (topping)
NASDAQ	6,903.39	7,354.34	(0.7)%	6.5%	up	up	up (topping)
S&P/TSX Composite	16,209.13	16,162.31	1.1%	(0.3)%	up	up	up
S&P/TSX Venture (CDNX)	850.72	786.39	0.4%	(7.6)%	neutral	down (weak)	up (weak)
Russell 2000	1,535.51	**1,626.63 (new highs)**	1.2%	5.9%	up	up	up (topping)
MSCI World Index	2,046.47	2,038.76	(0.5)%	(0.4)%	up	up	up
NYSE Bitcoin Index	14,492.18	8,105.96	(5.5)%	(44.1)%	neutral	neutral	up (weak)
Gold Mining Stock Indices							
Gold Bugs Index (HUI)	192.31	177.75	(2.5)%	(7.6)%	down	down	neutral
TSX Gold Index (TGD)	195.71	186.99	(2.3)%	(4.5)%	down	down	neutral
Fixed Income Yields/Spreads							
U.S. 10-Year Treasury yield	2.40	3.06	3.0%	27.5%			
Cdn. 10-Year Bond yield	2.04	2.49	4.6%	22.1%			
Recession Watch Spreads							
U.S. 2-year 10-year Treasury spread	0.51	0.51	18.6%	flat			
Cdn 2-year 10-year CGB spread	0.36	0.43	7.5%	19.4%			
Currencies							
US$ Index	91.99	93.69	1.4%	1.9%	up	up	down
Canadian $	0.7990	0.7770	(0.8)%	(2.8)%	down	down	neutral
Euro	120.03	117.66	(1.5)%	(2.0)%	down	down	up
British Pound	135.04	134.79	(0.4)%	(0.2)%	down	neutral	neutral
Japanese Yen	88.76	90.27	(1.3)%	1.7%	down	neutral	up (weak)
Precious Metals							
Gold	1,309.30	1,291.30	(2.2)%	(1.4)%	down	down (weak)	up
Silver	17.15	16.45	(1.8)%	(4.1)%	down	down (weak)	neutral
Platinum	938.30	886.50	(4.3)%	(5.5)%	down	down	down
Base Metals							
Palladium	1,061.00	960.20	(2.5)%	(9.5)%	neutral	down (weak)	up
Copper	3.30	3.06	(1.6)%	(7.3)%	neutral	down (weak)	up
Energy							
WTI Oil	60.42	**71.37 (new highs)**	1.0%	18.1%	up	up	up
Natural Gas	2.95	2.85	1.4%	(3.4)%	up	neutral	neutral

Source: www.stockcharts.com, David Chapman

Note: For an explanation of the trends, see the glossary at the end of this article.
New highs/lows refer to new 52-week highs/lows.



Source: www.stockcharts.com

This past week the S&P 500 fell 0.5% while the Dow Jones Industrials (DJI) also fell 0.5%. The Dow Jones Transportations (DJT) eked out a small 0.2% gain while the NASDAQ fell 0.7%. Here in Canada the TSX Composite bucked the trend, gaining 1.1% thanks to strength in energy stocks. The junior TSX Venture Exchange also gained up 0.4%. But the real winner on the week was the small cap Russell 2000 that jumped to new all-time highs with a 1.2% gain.

In overseas markets the MSCI World Index lost 0.5%. European markets were, however, generally up. The Paris CAC 40 gained 1.3% making new all-time highs. The German DAX gained 0.6% while the FTSE 100 closed the week up 0.9%. The Tokyo Nikkei Dow (TKN) jumped 0.8% but the Shanghai Stock Exchange (SSEC) lost 0.3%.

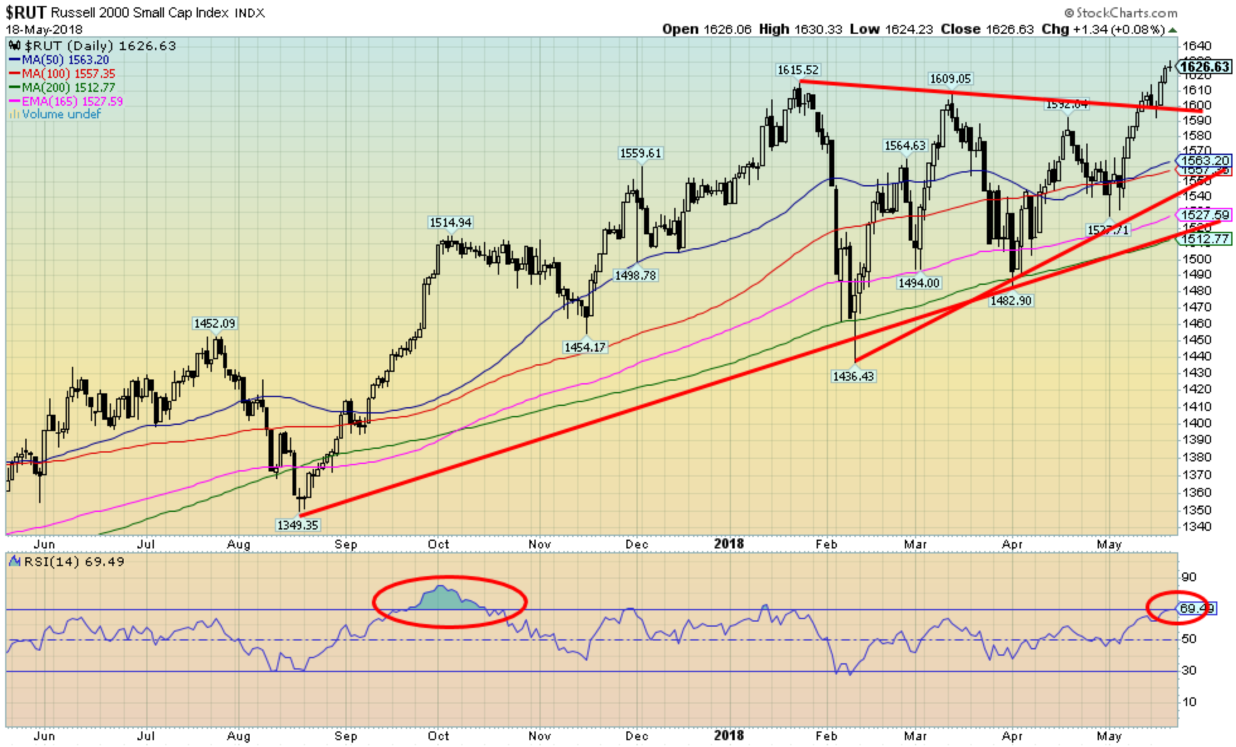
The S&P 500 managed to crawl back over the 100-day MA but it has been on reduced volume. This tends to make the rally suspect. This past week the S&P 500 managed to hold above the 100-day MA, but it is a shaky one. Left unchallenged for the moment is the March high of 2,802. If the market could take out that point then odds begin to shift that new highs could be seen. Failure would be a break back under 2,675 and the 50-day MA. At that point odds begin to suggest new lows ahead. The pattern that formed following the January high still potentially suggests new highs but given we are now almost four months from that high time is running out. We can't dismiss the thought that a chop-chop market very similar to 2000/2001 might take place. The two waves that took place following the high are in our opinion too short of a period to qualify as intermediate waves. This is why the 2000/2001 might be more likely. Those two waves were the collapse into February 9, 2018 at 2,532 and the subsequent bounce back to a high on March 13, 2018 at 2,802.

We know it is "sell in May and go away," but there are often important lows in the early part of spring that turn into summer rallies. So we have to watch for that as well. That could give us more credence for a chop-chop market ahead.

Source: www.stockcharts.com

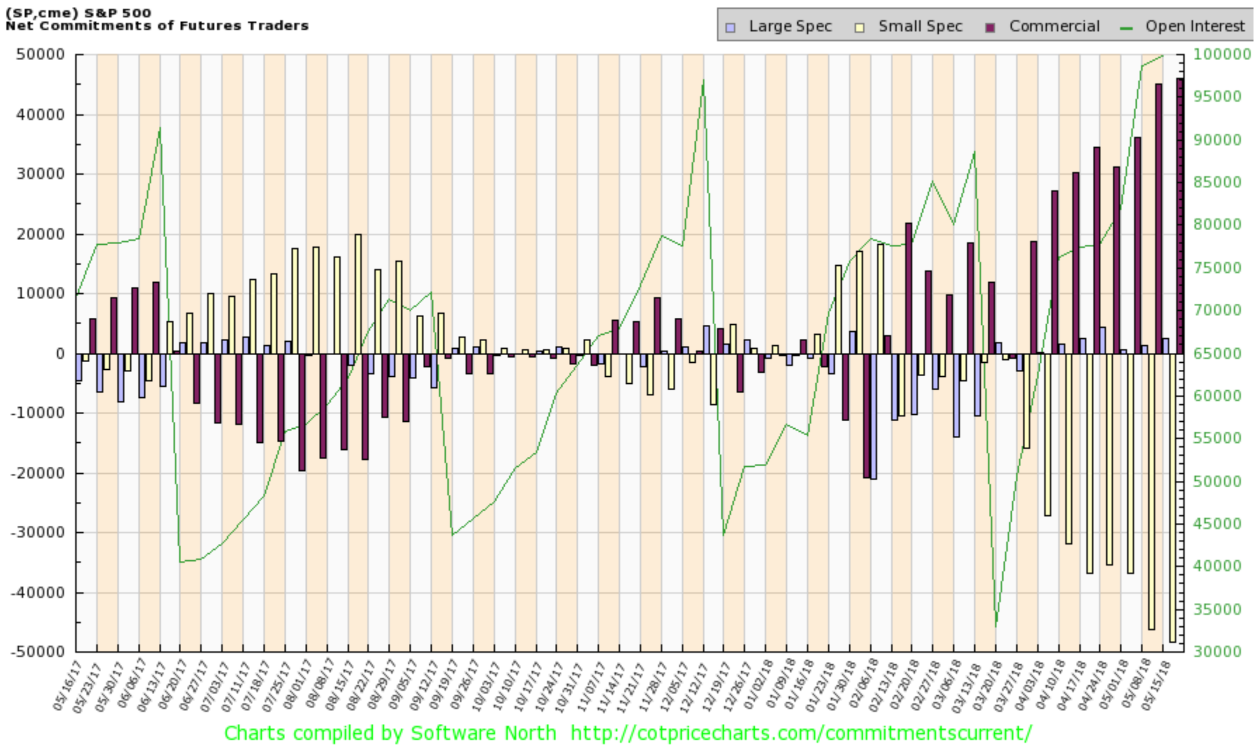
The NASDAQ index made new all-time highs on its return action into the March high. It was the only index to do so. A negative divergence with the DJI, the DJT, and the S&P 500. The NASDAQ has moved nicely higher and, unlike the S&P 500, has nicely cleared the 50- and 100-day MAs. But like the other markets, the NASDAQ faltered this past week. It may be a pause before higher prices. But we need some volume and failure now could set up a potential head and shoulders top pattern. The breakdown point is at 7,000 and has the potential to send the NASDAQ down to targets at 6,000. That is why it is now important to see a move by the NASDAQ early this week that takes out the January high at 7,505. That would begin to bust the potential H&S pattern.

ENRICHED
INVESTING INCORPORATED



Source: www.stockcharts.com

If there is one thing that holds out hope for new highs it is the performance of the small cap stocks, represented here by the Russell 2000. The small cap S&P 600 also made new all-time highs this past week, but the S&P 400 (mid caps) did not. Usually in a bear market it is the small caps that get hit first and the hardest. But they aren't as susceptible to the Trump's trade moves as the large cap and mid cap companies. So they may be benefitting from that. In theory, the breakout suggests much higher prices but if the other markets turn down the Russell 2000 will follow. And remember so far only the Russell 2000 and the S&P 600 are making new all-time highs. The others are not and that is a potential negative divergence. The RSI is also getting high but it has been higher and for longer. So that is not a particular issue just yet.



	--- Large Speculators ---				------ Commercial ------				-- Small Speculators --			Open
	#	Long	Short	Bullish	#	Long	Short	Bullish	Long	Short	Bullish	Intrest
04/17/18	19	7,700	5,219	60%	34	50,898	16,472	76%	18430	55,337	25%	77,465
04/24/18	19	9,237	4,954	65%	34	49,223	17,993	73%	18529	54,042	26%	77,816
05/01/18	18	8,223	7,637	52%	33	55,314	19,194	74%	17958	54,664	25%	81,901
05/08/18	21	10,080	8,894	53%	33	70,460	25,398	74%	17917	64,165	22%	98,616
05/15/18	21	10,636	8,212	56%	35	70,726	24,805	74%	18382	66,727	22%	99,871

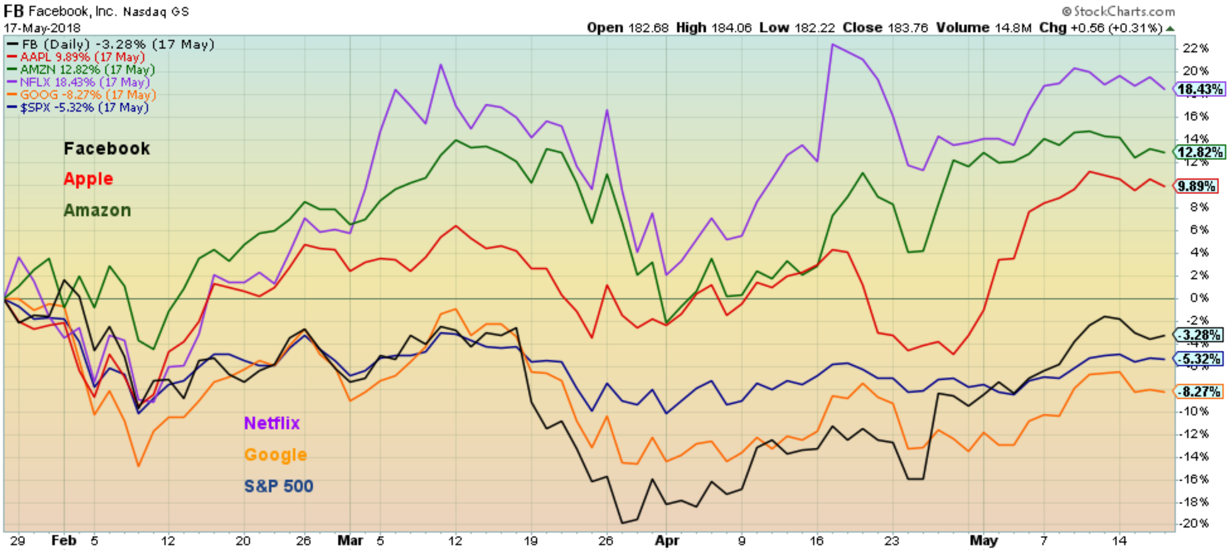
Source: www.cotpricecharts.com

The commercial COT for the S&P 500 remains high at 74%, unchanged from the previous week. The commercial COT continues to suggest that the S&P 500 could move higher. The large speculators COT (hedge funds, managed futures etc.) actually rose slightly this past week to 56% from 53%. There really wasn't much movement in the long and short open interest for the commercial COT. The COT seems to indicate higher levels ahead for the S&P 500, but it doesn't necessarily guarantee higher prices.

Source: www.stockcharts.com

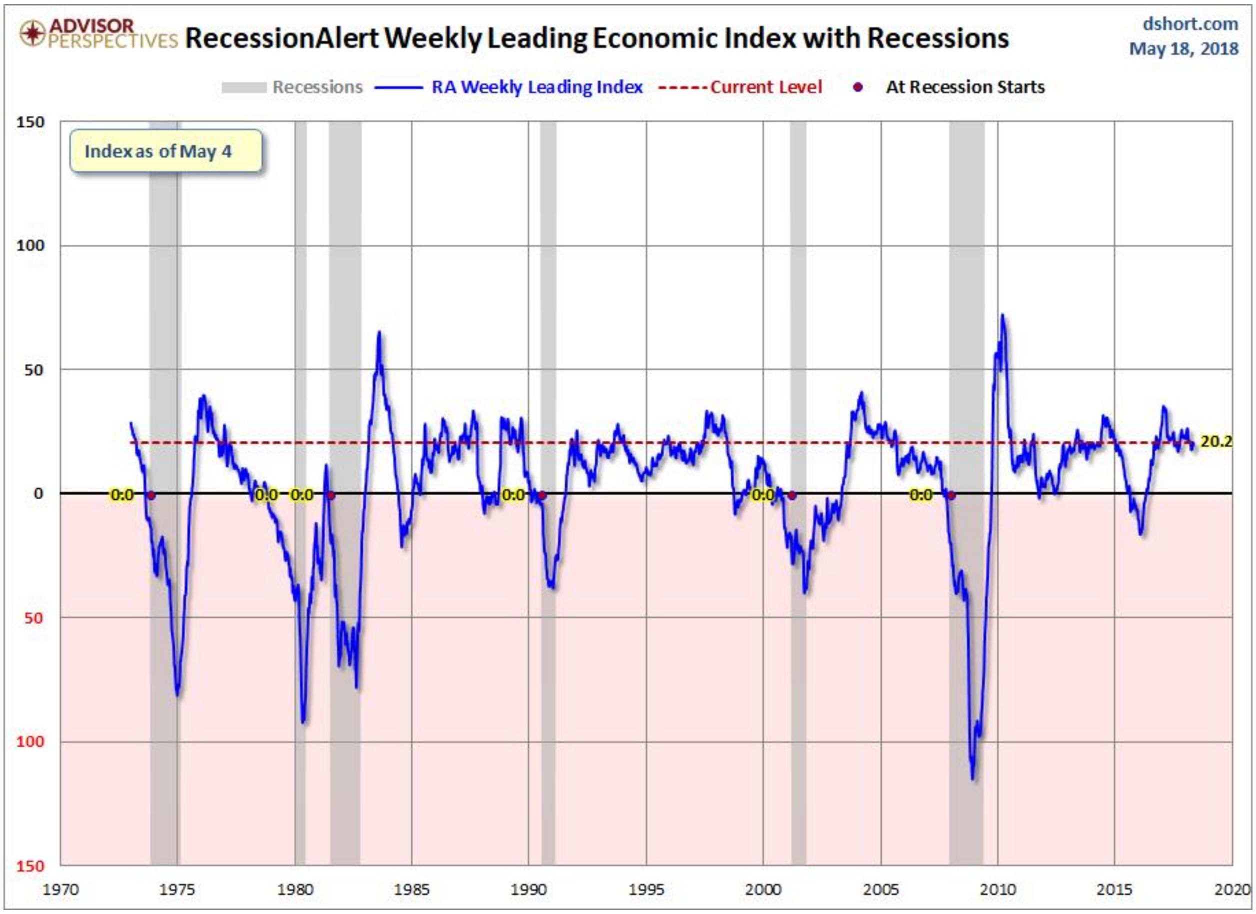
Volatility, as measured by the Volatility Index (VIX), has come down quite a bit from the high seen in February when the S&P 500 was plunging. The high of 37.32 was the highest seen since August 2015. While volatility has come down from its highs it is highly unlikely that the lows that were seen during 2017 will be seen again. The last time we had prolonged high volatility was the drop in the market in 2015/2016. The recent peak was, however, only about half the level seen in 2008 at the height of the financial crisis. Despite the recent drop in volatility it remains well above the low levels seen thoughout 2017.

Enriched Investing Incorporated
P.O. Box 1016, TD Centre, Toronto, ON M5K 1A0
ph: 416.203.3028 fx: 416.203.8825 www.enrichedinvesting.com
e-mail: dchapman@enrichedinvesting.com



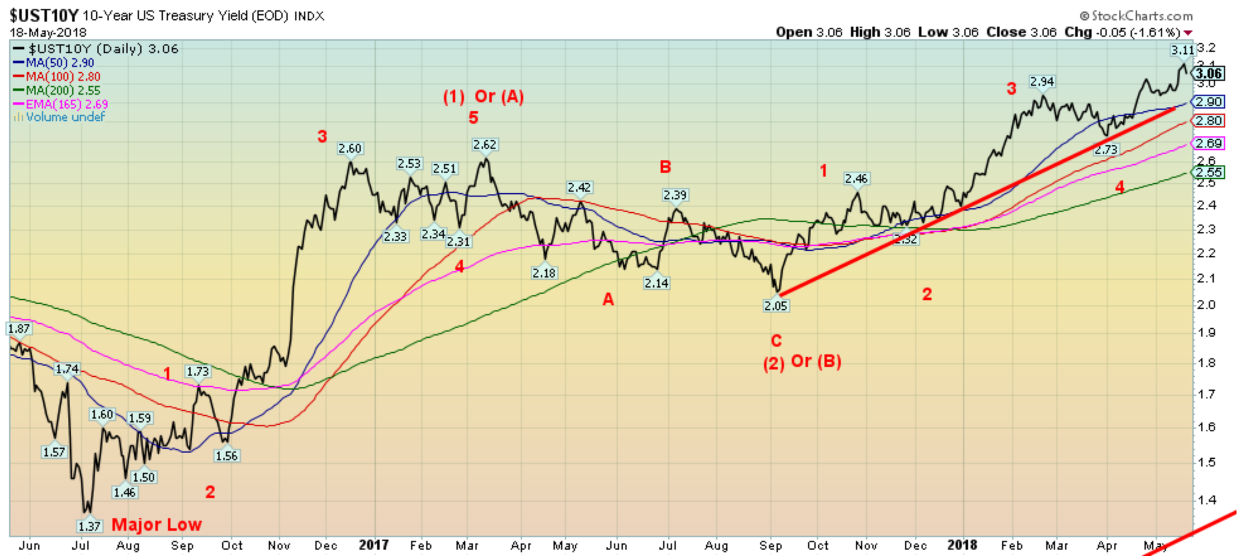
Source: www.stockcharts.com

It is interesting to observe the performance of the FAANGs (Facebook, Apple, Amazon, Netflix, Google) since the market top in late January. The FAANGs led the market up so they could in theory lead the market down. We have compared the performance of the FAANGs since the January top vs. the performance of the S&P 500. The winner: Netflix (NFLX), up 18.4%, followed by Amazon (AMZN), up 12.8% and Apple (AAPL), up 9.9%. They are, however, the only ones in positive territory. The others are all down but not by a lot. Facebook (FB) given all its troubles recently is only off 3.3%, while Google (GOOG) is the biggest loser, down 8.3%. The S&P 500 has fared marginally better, off 5.3% from its top. The FAANGs are hanging in. But all seem to be rolling over in looking at this chart. Thanks to John for the suggestion to show this chart.



Source: www.dshort.com

Here is an interesting index known as the Weekly Leading Economic Index (WLEI). It examines 50 different time series from corporate bond composites, treasury bond composites, stock market composites, labour market composites, and credit market composites. It has a one-week lag. This chart uses data back to 1973. The chart indicates that things are slowing but are not in recession territory. It dipped under 0 back in 2016 but it never triggered a recession. As we have often noted, we are deep into this cycle, one that is being propped up by huge amounts of credit. As with interest rates it is going to put pressure on the economy and it could (should?) trigger another credit crisis.



Source: www.stockcharts.com

The U.S. 10-year Treasury note hit a high this past of 3.11% before pulling back, closing at 3.06% up from 2.97% the previous week. The 10-year is now getting closer to our long-term targets of 3.20%. The 10-year appears to have been rising in a distinct five wave pattern since its low at 2.05% back in September 2017. As we showed last week, bond yields (yields move inversely to prices) are most likely approaching a potential 6-year cycle high (6-year cycle low for prices). The last significant low was seen in 2013 so, in theory, upward pressure on interest rates could remain into 2019. Higher interest rates are seeping into the economy as mortgage rates are rising (in Canada as well), and delinquencies are rising on car loans and student loans. Housing starts and new home sales have sagged recently so it is possible that higher interest rates are beginning to dig. The homebuilders index is down 16% from its high. Corporate debt is also slowly becoming shaky as well. Of course, a 3% yield on the 10-year really doesn't seem all that high in an historical perspective. But one needs to keep in mind that the 10-year is up about 124% since its low in 2016. A move of that magnitude has caused recessions in the past. The higher yield is also sparking the US$ higher as well as fund flows move out of lower interest rates in the EU and Japan for higher yields in the U.S. A higher US$ is not particularly good for foreign borrowers who have borrowed heavily in US$.

Recession Watch Spread

Source: www.stockcharts.com

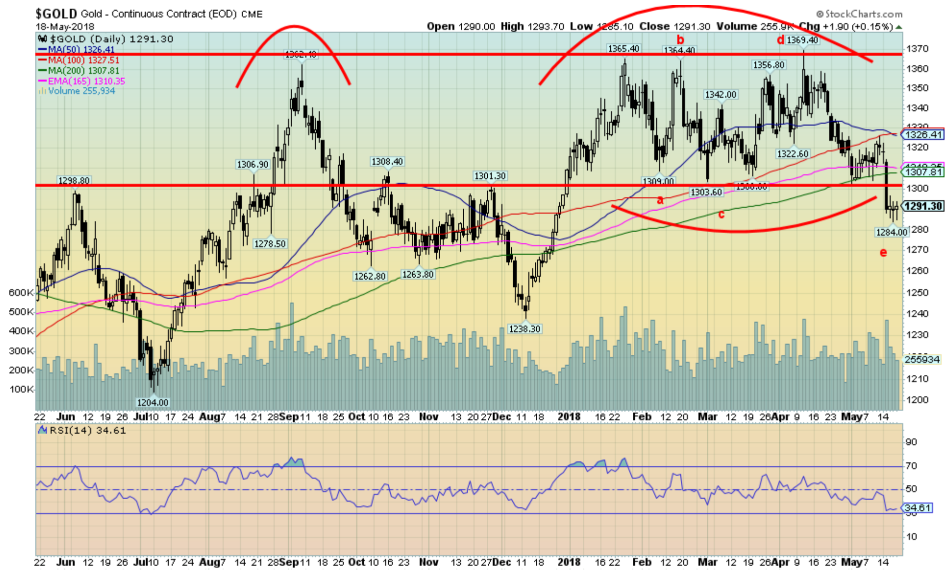
The 2–10-year spread widened this past week to 0.51% from 0.43% the previous week. A widening spread appears to be taking the pressure off thoughts of an impending recession. But a reminder that the trend is down and the Fed is expected to hike the Fed rate at least two more times in 2018 and possibly more in 2019. All that should eventually put downward pressure on the 2–10 spread as 10-year yields hit a possible peak and begin to decline, even as the Fed keeps hiking rates.

Source: www.stockcharts.com

Onward and upward is the byword for the US$ Index. This past week the US$ Index jumped firmly over 93, closing at 93.64. That resistance line up near 95 looks increasingly inviting. Just as gold sentiment has fallen to 10% the US$ Index sentiment has jumped to 90%. So far, there appear to be five distinct waves to the upside from the low in late March 2018 at 88.53. Given the high sentiment a corrective wave should soon be seen. The Euro, of course, has been doing the opposite and its sentiment is the mirror opposite of the US$ Index. As well, the US$ Index has seen consistent readings over 70 since the beginning of the month. That can go on but it doesn't last forever. The driver, of course, has been higher interest rates as the 10-year soars over 3% and the 2–10 spread has rebounded back to 50 bp. As well, economic numbers continue to be okay but not spectacular. The Fed is poised to hike the Fed rate further and all that adds to upward pressure on the US$. There appears to be solid support down to 92. Ultimate targets should be at least 95 and we are getting close.

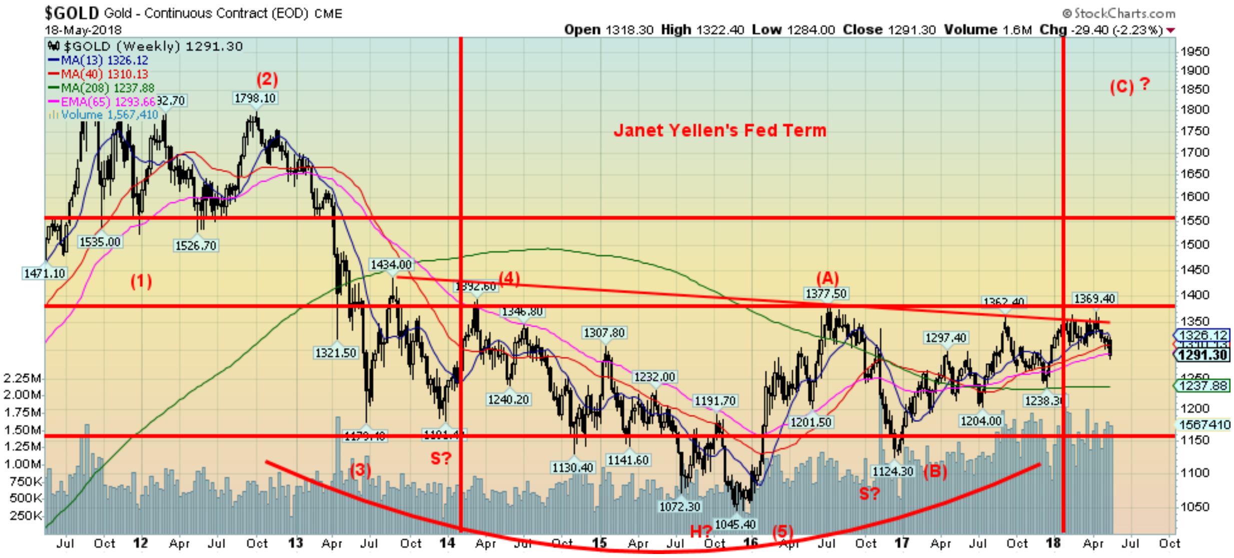
Source: **www.stockcharts.com**

The Canadian$ appears to be caught in a no-man's land—part-way between resistance at 79 and support just above 77. A break to the upside could see the Cdn$ rise to 85. A break to the downside would send the Cdn$ down to 70/71. The driver could be NAFTA. A successful conclusion would see the former while a failure would see the latter. Yes, NAFTA is that important for Canada. Unfortunately, it is at the whim of a President who is only focused on pleasing his base and not on what actually makes economic sense. Huge tariffs, for example, on Canadian softwood lumber have raised the price of the average U.S. home by at least $1,300. A lower Cdn$ also puts upward pressure on interest rates so it is a bit of a double whammy.



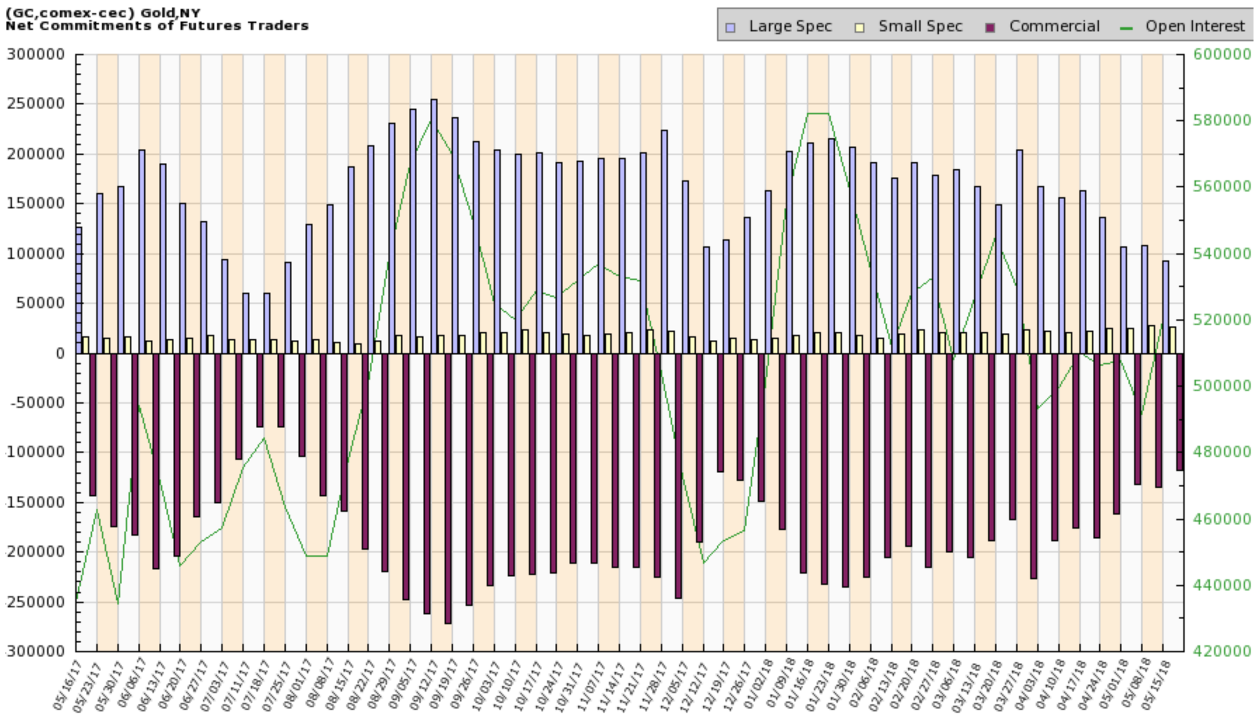
Source: www.stockcharts.com

This past week gold fell 2.2% and is now down 1.4% on the year. Gold also fell below what appeared as a sideways pattern, making new lows below $1,300 and all the lows seen earlier this year. In what may turn out to be a significant divergence neither silver or the gold stocks as represented by either the Gold Bugs Index (HUI) and the TSX Gold Index (TGD) made new lows along with gold. Naturally this divergence is not yet confirmed. A rise back over $1,300 and especially over $1,326 would go a long way to confirming the divergence as long as the stocks and silver stay above their lows. Gold sentiment has fallen to around 10% according to the "Daily Sentiment Index" (www.trade-futures.com). We are intrigued by what may be an ABCDE type corrective pattern formed over the past several weeks. The E wave, which may or may not be complete, appears to have fallen in 5 waves. That is what one would expect from an E wave down. These type of consolidation patterns are not unusual. But for "gold bugs" it has been a huge source of frustration as there appear to be lots of reasons why gold should rise. But a stronger US$ and higher interest rates are overwhelming the more positive reasons. It is possible that gold will fall further before this move is over. Minimum objectives appeared to be down into the $1,270/$1,275 zone. Ultimate objectives could be down to $1,230 although we doubt that should occur. Given the upward pressure on interest rates and a stronger US$ it can't be ruled out. Watch this week's FOMC minutes for more clues on interest rates. The $1,270 zone is a solid support zone, but if broken, then $1,230 is clearly possible. Once this move is over we expect a significant rally that should carry us over major resistance at $1,370 (a level that everyone knows about). Targets then could be up to $1,425 to $1,450. That level has been long awaited.



Source: www.stockcharts.com

Here is the big picture for gold. According to [Elliott Wave International](), gold fell in five waves from its September 2011 high with the bottom coming in at $1,045 in December 2015. Since then, there appears to have been an A wave up topping at $1,377 in July 2016 and a B wave down bottoming at $1,124 in December 2016. And since then, gold has been rising in an uneven manner, making a series of higher lows. That should be defined as an uptrend. Except the rallies have been stalling out consistently, just below $1,370 and the July 2016 high of $1,377. It is possible that gold is making a rather large multi-year head and shoulders bottom with the neckline at the aforementioned $1,370 level. If it is correct, then gold has the potential to rise to targets up at $1,760. Now that would warm the hearts of the "gold bugs." First, however, the US$ rally needs to find a top.

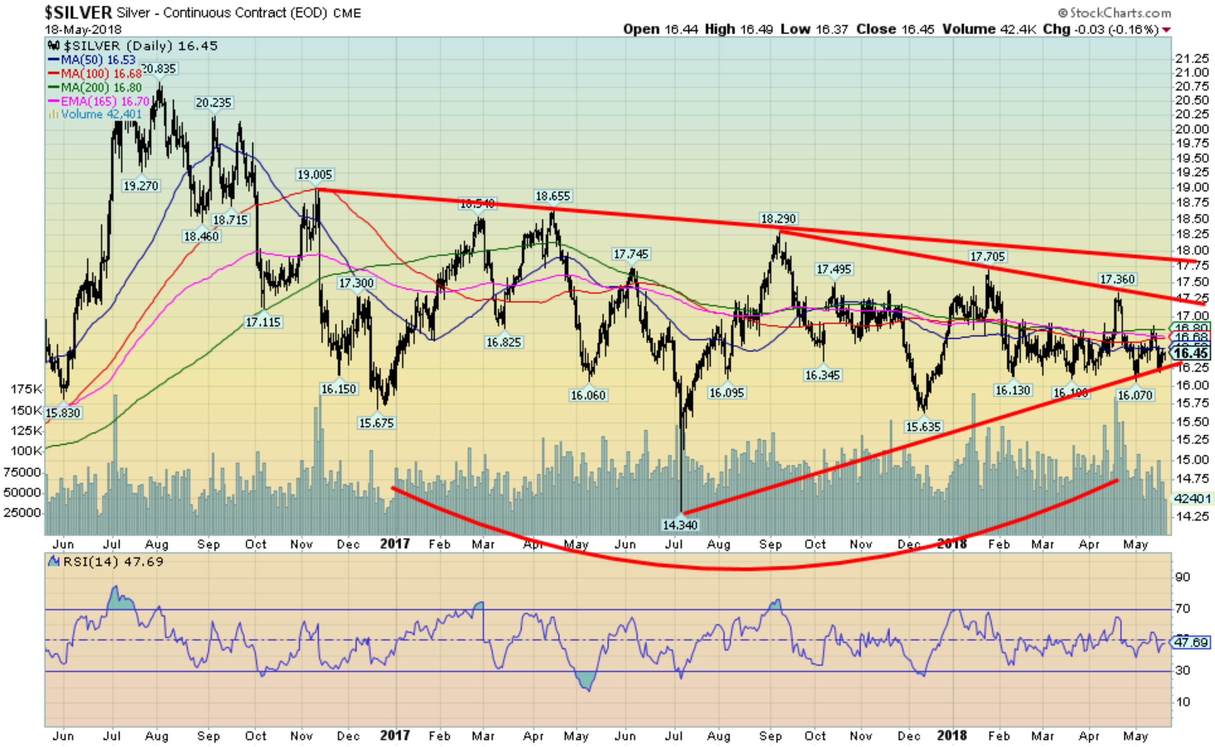


Charts compiled by Software North http://cotpricecharts.com/commitmentscurrent/

	--- Large Speculators ---				------ Commercial ------				-- Small Speculators --			Open
	#	Long	Short	Bullish	#	Long	Short	Bullish	Long	Short	Bullish	Intrest
04/17/18	340	237,288	74,219	76%	103	173,535	358,797	33%	46906	24,713	65%	510,229
04/24/18	352	225,804	89,158	72%	99	175,715	337,515	34%	50537	25,383	67%	506,410
05/01/18	371	209,577	102,798	67%	104	179,735	311,607	37%	52288	27,195	66%	507,756
05/08/18	356	198,548	91,108	69%	102	181,586	316,570	36%	53651	26,107	67%	491,398
05/15/18	360	201,468	109,025	65%	106	195,925	314,014	38%	57246	31,600	64%	519,958

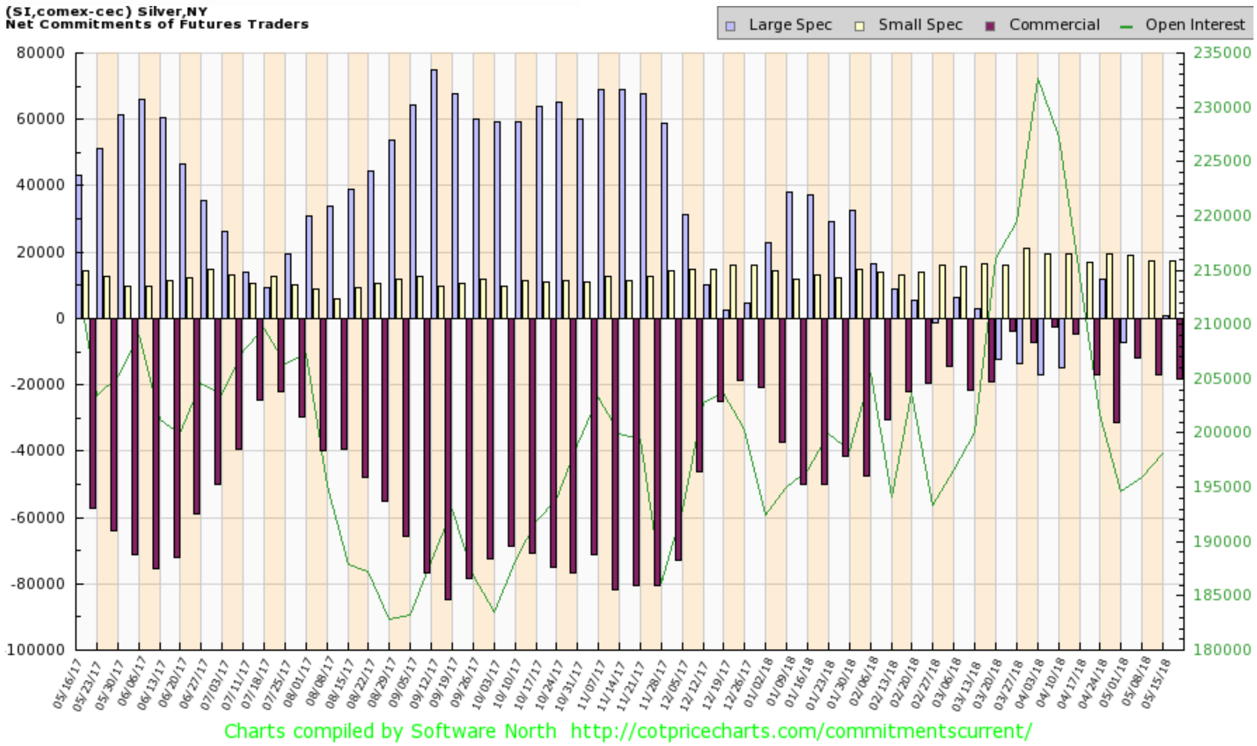
Source: www.cotpricecharts.com

The gold commercial COT improved to 38% this past week from 36% the previous week. This is a positive development. Short open interest fell over 2,000 contracts while long open interest jumped over 14,000 contracts. Total open interest rose almost 28,000 contracts. The large speculators COT (hedge funds, managed futures, etc.) fell to 65% from 69% as the large speculators increased their short position by roughly 18,000 contracts. Their long open interest was also up by about 3,000 contracts. This week’s move in the COT is viewed as positive. It is almost at levels seen back in December 2017 just before a 10%+ move in gold prices.



Source: www.stockcharts.com

As we noted earlier silver prices held up nicely this past week. Unlike gold, they have not seen new lows below the May 1, 2018 low at $16.07. Silver also continues to hold its uptrend line from the July 2017 low. Silver continues to form what we believe could a huge head and shoulders bottom pattern with the neckline up around $17.90. A firm breakout above $18 could see silver prices rise to potential targets at $22.50. Given this week's positive divergence with gold (so far, anyway) odds favour an upside breakout, not a downside break. Sentiment indicators have fallen sharply according to the "Daily Sentiment Index" from www.trade-futures.com. Sentiment currently sits at 10%. The last time sentiment was that low was in December 2017. Any reading under at 10% or lower tends to indicate a potential bottom. Emotion runs rampant with silver prices (and with gold too).



	--- Large Speculators ---				------ Commercial ------				-- Small Speculators --			Open
	#	Long	Short	Bullish	#	Long	Short	Bullish	Long	Short	Bullish	Intrest
04/17/18	228	66,609	66,696	50%	80	76,300	93,255	45%	31127	14,085	69%	214,297
04/24/18	229	67,802	55,835	55%	73	75,386	106,951	41%	31795	12,197	72%	201,707
05/01/18	217	68,528	75,724	48%	72	78,011	89,989	46%	32743	13,569	71%	194,685
05/08/18	206	72,713	72,834	50%	66	77,127	94,204	45%	30792	13,594	69%	195,865
05/15/18	212	72,663	72,005	50%	75	78,406	96,472	45%	30546	13,138	70%	198,065

Source: www.cotpricecharts.com

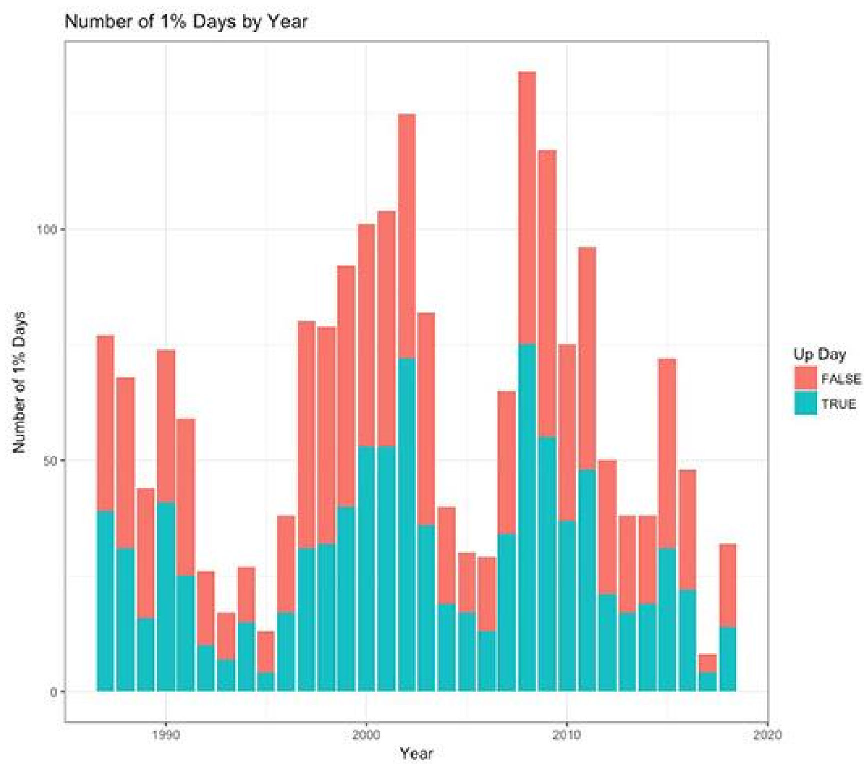
The silver commercial COT remained steady this past week at 45%. There was little movement overall, although long open interest was up just over 1,000 contracts and short open interest jumped just over 2,000 contracts. Total open interest rose just over 2,000 contracts during a down week. The silver commercial COT remains positive near levels seen last December just before a 13%+ move in silver prices. The large speculators COT was also steady at 50%. The silver COT overall remains bullish towards silver.

Source: www.stockcharts.com

Gold stocks fell this past week along with gold and silver. The TSX Gold Index (TGD) fell 2.3% while the Gold Bugs Index (HUI) was off 2.5%. Both remain down on the year by 4.5% and 7.6% respectively. It has been an unhappy year for the "gold bugs." Worse, the TGD remains down 58% from its all-time high seen in 2011 and the HUI is even worse down 72%. That's the bad news as the TGD is up 64% from its 2015 low while the HUI is up almost 80%. Small consolation, but one would not want to see those levels again. As we noted earlier while the gold stocks were down this past week they did not see a new low below the February 2018 low. Only gold holds that honour. That is a positive divergence and as we noted with both gold and silver it potentially buoys positively for the gold stocks going forward. We still like what appears to be a rising or ascending triangle forming. The TGD breaks out above 193 and potentially projects up to 214. That would allow the TGD to clear further resistance seen at 200. The TGD's downside appears limited. All signs point to accumulation going on. What is needed is the spark to see the TGD break upside resistance.

ENRICHED INVESTING INCORPORATED

Chart of the Week



Source: www.sevenfigurepublishing.com

We found this chart of 1% days interesting. The chart is from the people who publish *The Rude Awakening, The Insider Network, The Rundown*, and a host of other newsletters. They were originally a part of Agora Financial, a publishing group out of Baltimore MD. They specialize in advisory newsletters and have a vast array for every type of interest and investor. They have extensive research teams.

What this chart shows is the number of 1% days each year. The red bars are negative moves and the blue bars are positive moves. The bigger the bar, the more volatility was seen in that particular year. Notice the bars surrounding the high-tech/Internet/dot-com bubble and crash. Volatility shot up, much of it on the negative side. The same for the period surrounding the financial crisis of 2008. Interestingly, 2017 was the quietest year in three decades. Now volatility is picking up again and is the highest since 2016, four times already what it was in 2017. High volatility makes it difficult to get a sense of where the market is going. But rising volatility also appears to point to difficult markets ahead. Something to keep in mind.

GLOSSARY

Trends

Daily – Short-term trend (For swing traders)
Weekly – Intermediate-term trend (For long-term trend followers)
Monthly – Long-term secular trend (For long-term trend followers)
Up – The trend is up.
Down – The trend is down
Neutral – Indicators are mostly neutral. A trend change might be in the offing.
Weak – The trend is still up or down but it is weakening. It is also a sign that the trend might change.
Topping – Indicators are suggesting that while the trend remains up there are considerable signs that suggest that the market is topping.
Bottoming – Indicators are suggesting that while the trend is down there are considerable signs that suggest that the market is bottoming.

Disclaimer

Enriched Investing Incorporated
P.O. Box 1016, TD Centre, Toronto, ON M5K 1A0
ph: 416.203.3028 fx: 416.203.8825 www.enrichedinvesting.com
e-mail: dchapman@enrichedinvesting.com