Technical Scoop December 31 2018
From David Chapman, Chief Strategist
dchapman@enrichedinvesting.com
For Technical Scoop enquiries: 416-523-5454
For Enriched Investing™ strategy enquiries: 416-203-3028

Worst December … Ever, Plunge Protection Team, Paper Starting to Come Off, Rising Gold

What a week! And month! It was the worst December ever recorded. A record sixth for the year 600 point plus down day on Christmas Eve followed by a record up day on Boxing Day. Whew! And then the next day another 600 point drop only to be followed by a huge reversal and the market closing up 260 points. Friday was boring by comparison. A Christmas miracle? Or intervention from the hand of God himself? Or maybe the PPT? Oh yes the PPT – aka the Plunge Protection Team.

All fascinating in what is an increasingly dangerous world. Stock markets tend to lead and the volatility of the stock market coupled with it poised to close down for the year points to a coming recession. The collapse of 2008 was never really resolved. It was merely papered over. The paper is starting to come off. The Canadian Dividend Strategy continues to be heavily weighted in cash. But there is something rising and it is gold.

Irrespective the best for 2019 and have a great week and a safe (and sober) New Year's.

DC

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

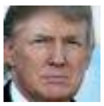
“Gold is money; everything else is credit.”
—J.P. Morgan, 1912 (financier, banker; 1837–1913)

“In the absence of the gold standard, there is no way to protect savings from confiscation through inflation. There is no safe store of value.”
—Alan Greenspan, before Congress, 1978 (American economist, Fed Chairman 1987-2006)

“We have gold because we cannot trust governments.”
—Herbert Hoover (engineer, businessman, politician, U.S. president 1929–1933)

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

Merry Crashmas! Or was it? Santa Claus came to town, but a day late. Boxing Day special. Everything was on deep discount. It was a wild and woolly week. Down, then up, up, up. On Monday, Christmas Eve, the Dow Jones Industrials (DJI) fell 653 points, marking a record sixth time in 2018 that the DJI has fallen 600 points or more. It was the worst Christmas Eve ever. Trump tweeting that the U.S. economy's only problem was "the Fed," coupled with rumours that that Trump was prepared to fire Fed Chair Jerome Powell were amongst the catalysts.



Donald J. Trump

✓@realDonaldTrump

The only problem our economy has is the Fed. They don't have a feel for the Market, they don't understand necessary Trade Wars or Strong Dollars or even Democrat Shutdowns over Borders. The Fed is like a powerful golfer who can't score because he has no touch - he can't putt!

10:55 AM - Dec 24, 2018

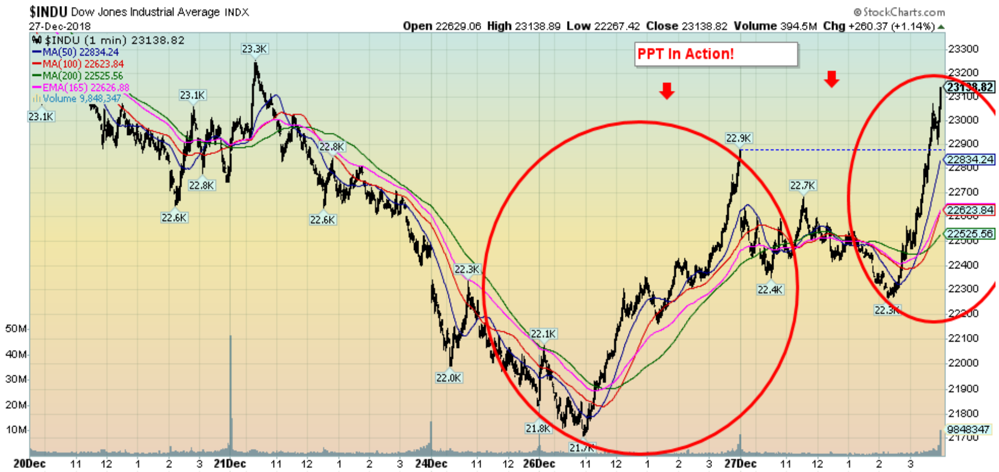
Treasury Secretary Steve Mnuchin tried to calm the waters and called together the CEOs of the U.S.'s largest banks to advise there was "ample liquidity" in the financial system. But still, there was a whiff of panic in the air. Incoming Chief of Staff Mick Mulvaney calmed the waters effectively, advising Trump he didn't have the right to fire Powell. It seems Trump reluctantly backed off. But it did nothing to quell his rage with the Fed.

Then on Boxing Day, around 11 am, the market mysteriously started a rise. It then exploded to the upside, finishing the day up an astonishing 1,086 points—the largest one-day gain since 2009. Forget 2009, the largest one day gain ever. Thursday the market opened lower and at one point was down some 600 points, and then once again, seemingly out of the blue, at about 2:30 pm the markets reversed and closed up some 260 points. Whew! Traders called it all completely bizarre. Some called it a miracle; we can only guess—a Christmas miracle. There was virtually no news in the background. Trading was thin. Investors went bargain shopping. Back up the truck.

Uh? What the…? Trump was so worried about the drop in the stock market he feared being compared to Herbert Hoover. Yes, that Herbert Hoover, the president at the start of the Great Depression. Fund managers were baffled. It has been the worst December on record. The volatility has been earth-shattering at a time when earnings growth remains strong. It was supposed to be a time of calmness, thin trading, and the Santa Claus rally. Okay, it came—with a vengeance. Did you catch it?

You'd think that God himself intervened in the markets. Except maybe it wasn't God. Buried in the announcements that Steve Mnuchin was going to convene a meeting of the CEOs of the six largest banks Steve was also talking with the PPT—the Plunge Protection Team. Yes, the PPT. It even has an official name--the President's Working Group on Financial Markets. Generally, it is made up of the Treasury Secretary, the Fed Chair, the head of the SEC, and the head of the CFTC.

The PPT In Action



Source: www.stockcharts.com

The PPT was formed in 1987 by President Ronald Reagan one day after the famous stock market crash. Its purpose is to stabilize financial markets during especially volatile periods. They never really announce anything beyond noting that “confidence-building measures” will be taken. They don’t even tell anyone they are going to intervene in markets, which they would deny anyway. But how is one to respond or believe in the market when it’s down 653 points one day and up 1,086 points the next day? It sure wasn’t retail investors snapping up bargains. The chart above is a one-minute tick chart and it shows the incredible rebound on December 26 and again on December 27. All of this was short-lived, as on December 28 the markets hesitated.

Unless there is further follow-through in January, this could prove to be exactly what it is—an attempt at a save that will ultimately fail.

The PPT

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

One day Jerome Powell is Dr. Evil and the next day he's Austin Powers. Except he's neither. Oh yes, and as the stock market was plunging and rallying, the 10-year U.S. Treasury note yield fell to 2.72% and gold jumped over $30 since last Friday, closing at $1,283 on Friday. Volatility in stock markets has a way of finding calmer and safer markets. In the interim some $5 trillion has been wiped out of the stock market. It is estimated that at least 85% of all stocks are down in 2018. The world's top billionaires lost over $500 billion in 2018. No worries. You won't find them standing on corners with their cups out. Instead, they will probably be in the corridors of power, seeking tax handouts.

In some respects, the DJI/Gold ratio says it all. The ratio has broken down under a 7-year up trend line. This indicates a potentially significant shift out of stocks and into gold and, by extension, silver and gold stocks. The ratio has fallen about 20% from its recent high. The DJI/Gold ratio peaked back in July 1999 at 44. At its low in August 2011 the ratio had fallen to 5.7 as gold outperformed stocks by a substantial margin from 2000 to 2011. That shifted once again and from August 2011 to October 2018 stocks outperformed gold. The ratio recently peaked at 22.4. But now that uptrend appears to be broken. The recent low at 17 roughly coincided with the peak seen in December 2015. A break of that level could send the ratio down next to the bottom of the congestion zone that formed roughly between 2014 and 2017 until it broke above the December 2015 high.

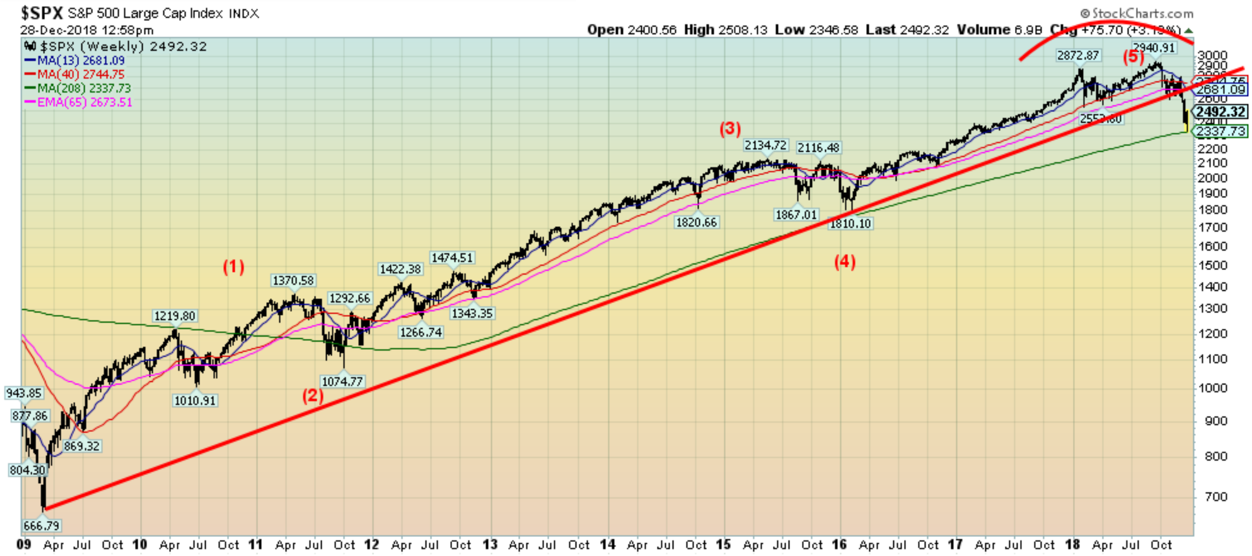
Source: www.stockcharts.com

Despite the down years from 2011 to the present, gold has been a strong performer since 2000 vs. a conservative investment in the DJI. Gold has returned 342% vs. a return from the DJI of 101%. Oh, for sure, if one had held any of the FAANG stocks they would have had superior returns compared to gold. It should be noted, however, that gold has outperformed both Facebook (FB) and Google (GOOG) since 2000. That said, it lags well behind the remaining FAANGs, especially Netflix (NFLX), the major winner. Gold only marginally lags behind Berkshire Hathaway (BRK.A), Warren Buffett's signature stock.

Gold is starting to look interesting since breaking above $1,250/$1,260. Following months of trying, silver has also broken out above $15. Gold, silver, and numerous gold stocks have given buy signals, even as the broader stock market fell starting in October.

Source: www.stockcharts.com

Gold appears to be forming a potential complex head and shoulders bottom over the past six years. Currently, the neckline comes in around $1,350. A firm breakout could project gold up to around $1,740 with potential minimum objectives up to $1,500. Gold could also be breaking the downtrend line from the September 2011 top of $1,923. That line currently comes in near $1,300. So, it is important for gold to break above $1,300 to suggest the run towards $1,350 where, initially at least, we might expect a pullback of some significance. Once above $1,350 and especially above $1,370/$1,375 gold could move up towards $1,500 quickly. We should note that gold in Canadian dollars continues to rally and is up 6.7% in 2018. Gold in Canadian dollars is also now only $158 off its all-time high set in 2011. Gold in US$ is $640 under its comparable all-time high. We have objectives of Cdn$2,000 for gold in Cdn$, a new all-time high.



Source: www.stockcharts.com

The S&P 500 has broken down under its uptrend line from the March 2009 low. This is a significant development and suggests to us that the stock market has entered a bear market. The recent decline saw the S&P 500 fall just over 20% from the top in late September 2018. The index is now rebounding off of the 4-year MA. It is noteworthy that following the top in October 2007 the S&P 500 tested the 4-year MA in January 2008 and again in March 2008 before making a good rebound into May 2008. In June 2008 the S&P 500 broke the 4-year MA and swiftly collapsed into lows in November 2008 and March 2009 following the collapse of Lehman Brothers in September 2008.

It is possible the current market follows a comparable pattern; however, that remains to be determined. If we are entering a longer-term bear market it is not unusual to see the index test the 4-year MA on a couple of occasions and even put in a strong countertrend rally before breaking this key support zone. Considerable resistance would be seen up to 2,700 for the S&P 500. However, above that level a better rally could develop. Given the action this past week and the probable intervention of the PPT odds favour at least a rebound going forward before another crisis develops. In watching the bizarre action this past week, we realized as well that the bearish sentiment indicators are not yet at levels more associated with a major low. That suggests to us that once this countertrend rally completes, we could see new lows.

The problems that emanated from the 2008 financial meltdown were never resolved. They were just papered over. Years of ultra-low interest rates, quantitative easing (QE), and massive debt growth brought at best, on average, sub-par 2.2% growth annually. The stock market has been fuelled by monetary inflation that created an immense bubble. The stock market is often considered a leading indicator as to where the economy is headed. A rising stock market signals the economy is doing well, whereas a falling stock market signals economic trouble ahead.

The stock market volatility of the past year and its collapse from record highs—set against the backdrop of trade wars, political dysfunction, Great Power conflicts, the rise of nationalistic right-wing parties, and attacks against democracy and immigrants, deepening climate wars and more—are signs of a deeply troubled world.

Upcoming economic numbers will be closely watched for signs of a slowdown. Japan and the EU are already demonstrating signs of one. It is unknown what the impact of the U.S. government shutdown will have going forward as it drags through its first week with no sign of a compromise on either side. We learned that if this were to drag through February, funds for food stamps could run out, impacting 38 million people. Trump has also threatened to close the entire Mexican border if he doesn't get funds for his wall. Whether he has the legal authority to do so is moot. According to some, all he has to do is claim it is for "National Security" reasons. The economic impact would be felt on both sides of the border, a border that sees over $500 billion in trade. The economic impact would be felt on both sides of the border, especially Mexico but also significantly in the U.S.

Trump is now worrying markets. His attacks on the Fed have been unprecedented. His grasp of economics, law and even common sense is shaky at best. As columnist Thomas Friedman points out, during Trump's first year of his Presidency the markets ignored his ramblings, his lies and more as it was merely background noise to rising profits and a rising stock market. But he can now no longer be ignored. Trump has fired or seen resign most of the what one might term the adults surrounding him and replaced them with a B team that one can only describe as "yes men" and all feel beholden to him for their lofty position.

Markets are no longer ignoring this. Shutting down the Mexican border would be economic suicide but a wall while just a political stunt (an expensive one) gets his base cheering. Yet as we enter the New Year the idea of impeachment is no longer just a thought. It could soon become reality with all of the accompanying circus. If we thought 2018 was a volatile year, 2019 might be worse.

The first economic numbers of importance are out next Friday, January 4 with the release of December's employment numbers. The market is expecting U.S. nonfarm payrolls to be up 160 thousand, a number in line with November's nonfarm payrolls. The headline unemployment rate (U3) is expected to remain at 3.7%. Faltering economic numbers would be fuel for the stock market to move lower once again. But one thing is clear after this week: if the stock market were to plunge again, the PPT is prepared to act. They may be the last line of defense and Mnuchin the last remaining adult in the Trump administration. Well for the moment at least.

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

ENRICHED
INVESTING INCORPORATED

MARKETS AND TRENDS

	Close Dec 31/17	Close Dec 28/18	% Gains (Losses) Week	YTD	Trends Daily (Short Term)	Weekly (Intermediate)	Monthly (Long Term)
Stock Market Indices							
S&P 500	2,673.63	**2,485.74 (new lows)**	2.9%	(7.0)%	down	down	up (weak topping)
Dow Jones Industrials	24,719.22	**23,062.40 (new lows)**	2.8%	(6.7)%	down	down	up (topping)
Dow Jones Transports	10,612.29	**9,109.13 (new lows)**	2.6%	(14.2)%	down	down	neutral
NASDAQ	6,903.39	**6,584.52 (new lows)**	4.0%	(4.6)%	down	down	up (weak topping)
S&P/TSX Composite	16,209.13	**14,222.00 (new lows)**	2.1%	(12.3)%	down	down	down (weak)
S&P/TSX Venture (CDNX)	850.72	**552.09 (new lows)**	4.1%	(35.1)%	down	down	down
Russell 2000	1,535.51	**1,337.92 (new lows)**	3.6%	(12.9)%	down	down	neutral
MSCI World Index	2,046.47	**1,703.29 (new lows)**	0.5%	(16.8)%	down	down	down (weak)
NYSE Bitcoin Index	14,492.18	3,611.04	(10.5)%	(75.1)%	down	down	down
Gold Mining Stock Indices							
Gold Bugs Index (HUI)	192.31	158.15	1.1%	(17.8)%	up	neutral	down
TSX Gold Index (TGD)	195.71	183.50	1.9%	(6.2)%	up	up (weak)	down (weak)
Fixed Income Yields/Spreads							
U.S. 10-Year Treasury yield	2.40	2.72	(2.5)%	13.3%			
Cdn. 10-Year Bond yield	2.04	1.97	(3.0)%	(3.4)%			
Recession Watch Spreads							
U.S. 2-year 10-year Treasury spread	0.51	0.20	25.0%	(60.8)%			
Cdn 2-year 10-year CGB spread	0.36	0.09	12.5%	(75.0)%			
Currencies							
US$ Index	91.99	95.96	(0.5)%	4.3%	down	up	neutral
Canadian $	0.7990	**0.7340 (new lows)**	(0.5)%	(8.1)%	down	down	down
Euro	120.03	114.46	0.3%	(4.6)%	up	down	neutral
British Pound	135.04	126.97	0.5%	(6.0)%	down	down	down
Japanese Yen	88.76	90.78	0.5%	2.3%	up	neutral	neutral
(weak							
Precious Metals							
Gold	1,309.30	1,283.0	2.0%	(2.0)%	up	up (weak)	neutral
Silver	17.15	15.44	5.0%	(10.0)%	up	neutral	down
Platinum	938.30	789.60	(0.8)%	(15.9)%	down	down	down
Base Metals							
Palladium	1,061.00	1,183.40	2.1%	11.5%	up	up	up
Copper	3.30	2.68	0.4%	(18.8)%	down	down	neutral
Energy							
WTI Oil	60.42	**45.33 (new lows)**	(0.6)%	(25.0)%	down	down	down (weak)
Natural Gas	2.95	3.30	(12.0)%	11.9%	down (weak)	up	up

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.

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

Disclaimer

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.

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