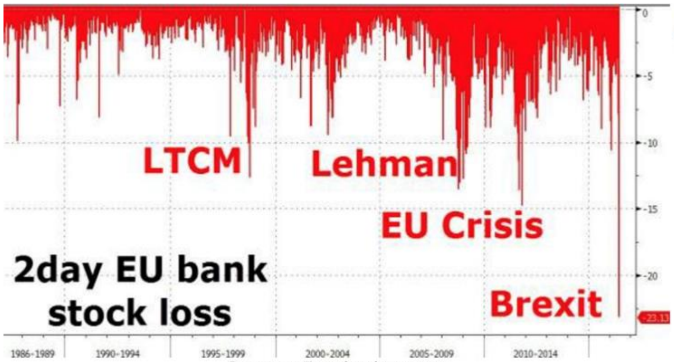
Market Brief – Fuxit

So it's been a pretty quiet week in markets... not much to talk about — I kid.

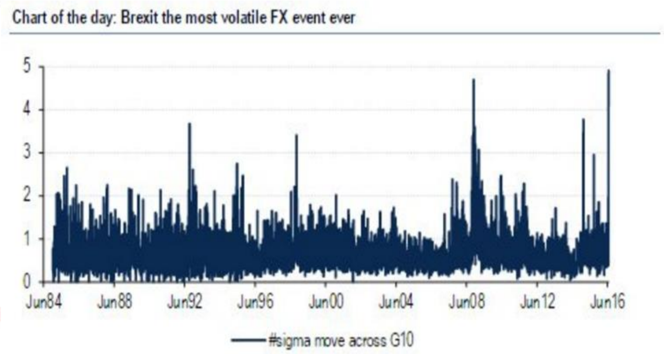
If you don't live under a rock then you've heard that the people of the United Kingdom (that name seems slightly ironic now) voted last week to leave the EU.

Markets did not take kindly to this event. Here's a quick rundown of the damage:

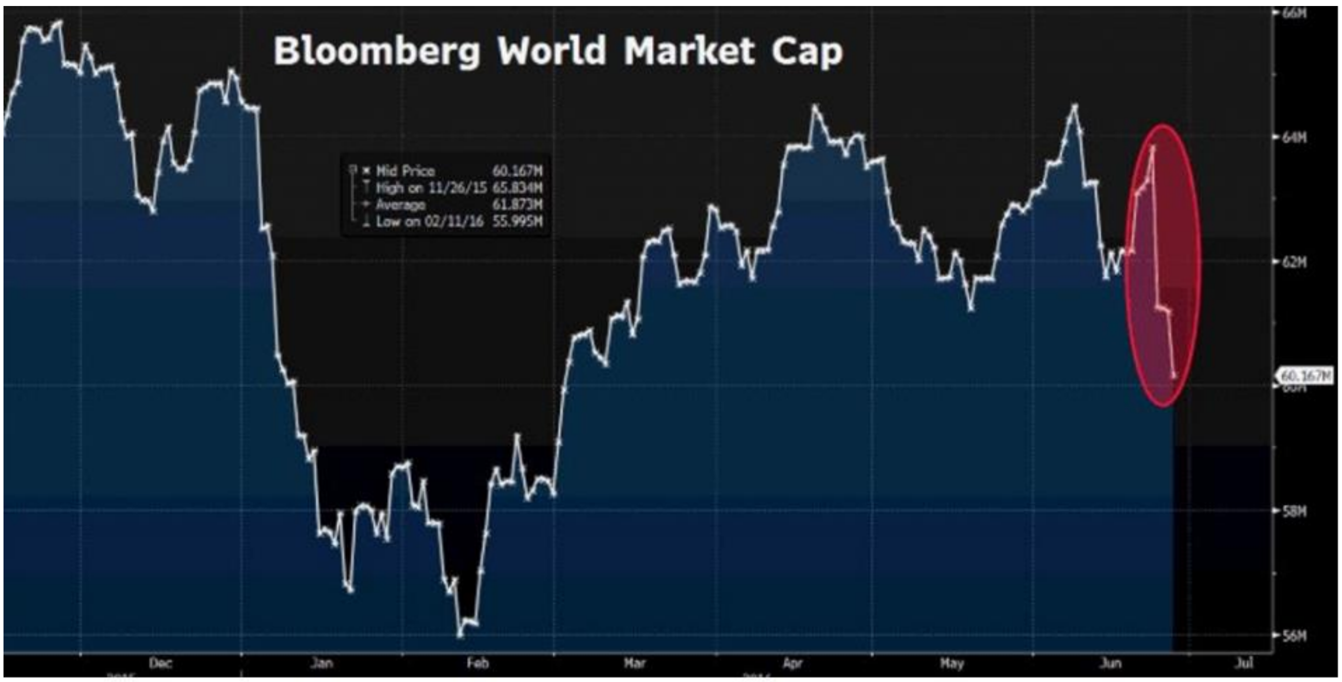
- Pound Sterling immediately plummeted 12%, making it the largest one day fall in its history
- Global oil prices collapsed over 7% and safe-haven assets rallied
- World equity markets lost over $3.6 trillion in market cap. Making it the worst two day loss on record for global equity markets (even more so than Lehman in 08' and LTCM in 98')
- A 5 sigma event occurred in G10 currencies making it the most volatile day ever in FX markets
- UK's credit has been downgraded from AAA



Source: Zerohedge.com



Source: Bank of America/Merrill Lynch



And the list goes on… European financials were beaten with an ugly stick and the Japanese yen at one point crossed the 100 level against the dollar. Needless to say, many market "records" have been made in the last few days and not the kind you want to pop a bottle of Dom for...

This vomit inducing price action is a *big* deal. To put things into perspective, here is salty veteran trader Peter L. Brandt on the matter:

> *Late Thursday evening and early Friday morning I spoke by phone to many of the old-timers (some with near 50-year trading careers) in whom I have the highest level of respect. There was a universal consensus – we have never witnessed markets like those experienced over such a brief period of time. Even though I had almost no exposure, I stayed up into the late hours on Thursday evening watching in awe a broad level of volatility exceeding anything I can remember. There was, no doubt, some serious blood-letting. In the weeks ahead we will read and hear about some horror*

> *stories. More than one trading firm will announce bankruptcy. We will not hear about the hundreds of individual speculators whose accounts were destroyed.*

News is already starting to pour in about hedge funds like H2O (yes that's a real HF name) down 15% on Friday alone and there will surely be others. I could easily go on a rant here about how that is f*cking ridiculous… how the hell do these clowns manage billions of dollars with crap risk-management like that… but I'll save that for another time.

I instead want to talk about what this means going forward but first we'll go over real quick what exactly is happening here.

I personally (as noted in last week's Market Brief) did not expect the Brexit vote to succeed, though I thought it would be much closer than what the market was pricing. I was wrong. But because of our lack of conviction either way and our defensive positioning we ended up for the day, with big gains coming from our Clydesdale (long bonds) and of course silver — in hindsight we missed an opportunity to be long volatility but such is life.

How did this vote take so many by surprise and what exactly has happened?

Five years ago if you asked any foreign policy observer which country would be the first to likely leave the EU, I assure you, the UK would not have crossed anyone's mind — but here we are.

Brexit occurred because of large generational cyclic forces that oscillate through time and shape history (we've talked about this in a previous Brief titled *Cycles*). Ray Dalio identifies this cyclic force in Bridgewater's *Five Stages of a Sovereign's Life-Cycle* (link here) and both Strauss and Howe put their spin on the idea in Generational Theory (link here).

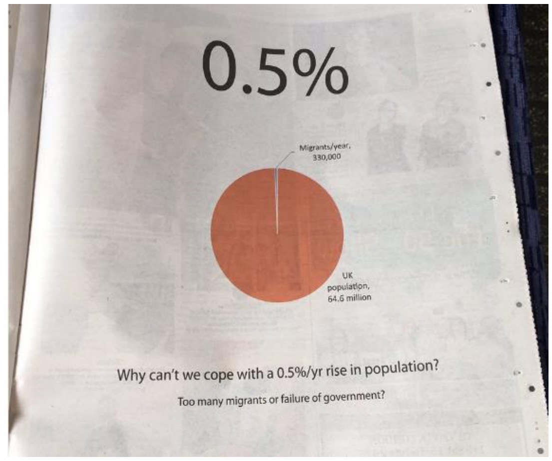
This is not some voodoo pi-theory illuminati nonsense. It's just a logical socioeconomic sequence of events that happens on a large scale of time making it imperceptible to those not aware. For those that have been following my writing for a while have heard me talk about this a number of times so I won't go into it much more here. The important thing to know is that the large secular debt cycle combined with generational dynamics has created a constant sense of anxiety and unease beneath the surface that is driving the current spikes in populist politics.

In the case of Brexit this unease found its outlet in immigration. It's been a number of years since I traveled to the UK so I reached out to fellow Operator, Jamie Mossop, and asked him to crack an egg of knowledge over our heads — he's from Scotland originally.

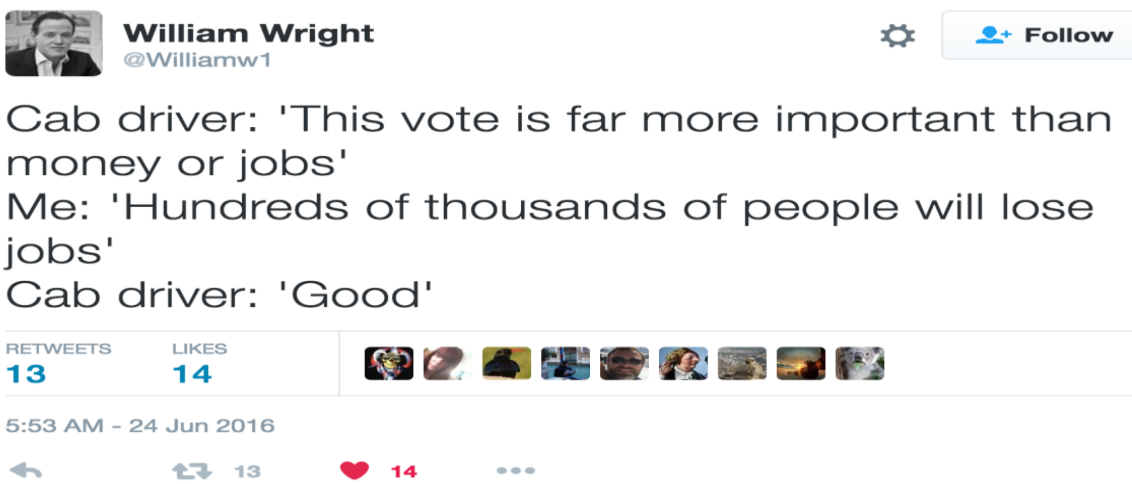
> *Why did so many British people vote to leave the EU?*
>
> *If you live in the EU, you're free to pack up your bags and move to any country you want. When I lived in Scotland, I could pack up my bags and go work in Germany, France or Italy. No questions asked. No work visa required.*
>
> *This worked great in the early days because countries were relatively similar. Italians came to work for Goldman Sachs in the City of London, English people retired to run vineyards in Italy. The flow of people generally balanced out. But things started to change in 2004, when the EU expanded. A number of new countries were added, mostly poorer countries, from the former communist areas of Eastern Europe such as Poland.*
>
> *Now the flow of people got out of whack. A large number of people moved from Poland to the UK but few moved in the opposite direction. Higher wages in the UK and, at the time, a booming housing market attracted a large number of tradesmen from Poland.*

These plumbers and builders could earn far more in the UK than they could back home. Because of this, Polish workers were able to undercut UK workers by working for less money. This led to the popular perception that Polish workers were "stealing our jobs".

Much like in the markets, public opinion is often based, more on emotion than fact. The perceived number of immigrants entering the UK is much higher than reality (see image to right). Of course, there were other influences on the Brexit vote. But the perception of uncontrolled migration was the big one.



Jamie is right on the money. This vote didn't really have anything to do with the EU… It had EVERYTHING to do with pushing back at the elites. It was the Have-Nots way of voicing their frustration with the current system — consequences be damned! The tweet below sums up the attitude perfectly:



People are angry. Incomes for the majority have been stagnant or falling in real-terms in much of the developed world for the last 30+ years… all while those at the very top have grown richer… this is an unsustainable reality which is why we're now seeing the very beginnings of it being corrected.

Side Note: Now you've probably been reading a bunch lately about how this income inequality has shown that capitalism by itself is a flawed system. This ignorant superficial biased thinking makes my blood boil like no other. The income inequality problem (and it's a very real problem) is the direct result of central bank manipulation of interest rates which causes the leveraging of debt. This inflates asset prices owned by the rich and disincentivizes investment into the real economy (capital expenditures) which would benefit the non-rich. That's it. That's the income inequality problem in a nutshell. Forget Piketty's r>g and Summer's secular stagnation nonsense… Moving on.

Here's a quick rundown on the technicals of an actual Brexit:

- The referendum was non-binding, meaning it doesn't even need to be upheld and there are a number of things that could keep Brexit from happening.
- For the process to be started an "Article 50" needs to be enacted. This is essentially where the British government tells Brussels it's leaving and a two year bureaucratic process is started to transition the country out.
- PM Cameron is stepping down and has passed the buck of enacting the Article 50 to his successor (who will likely be someone from the pro-Brexit camp). This was a political move on his part. He want's nothing to do with the process and puts the responsibility on his political enemies who may now think twice after the resulting market turmoil since the vote.

So the UK is still in the EU and will be for a good amount of time. Maybe a couple of years, maybe longer.

Knowing this, you're probably asking yourself: "well, why then are markets flipping out over something that may or may not happen at some distant point in the future?"

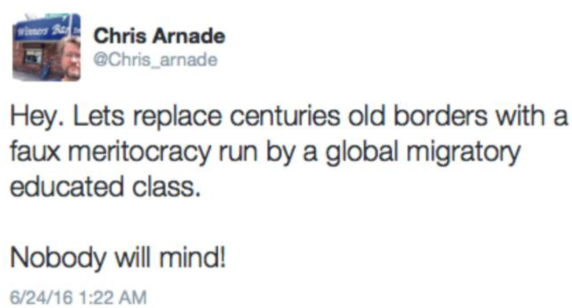
That's a very good question.

And there are two answers [1] Brexit creates uncertainty and markets don't like uncertainty and [2] It's not what Brexit means for the UK that's important but what it means for the EU.

A Forced Marriage Now Ending

The EU is a well-intentioned, idealistic, and commendable experiment that has been doomed since inception.

Centuries of war and conflict culminated in its creation with the idea of creating a super-state with a single market and open borders.



The seeds for its inevitable destruction are sown in its one size fits all monetary union and separate fiscal sovereigns. Greece does not have the same monetary needs as Germany and vice-versa.

EU believers point to the need for greater unification and moving more towards a federalist system akin to the US, handing over even greater powers to the politik in Brussels.

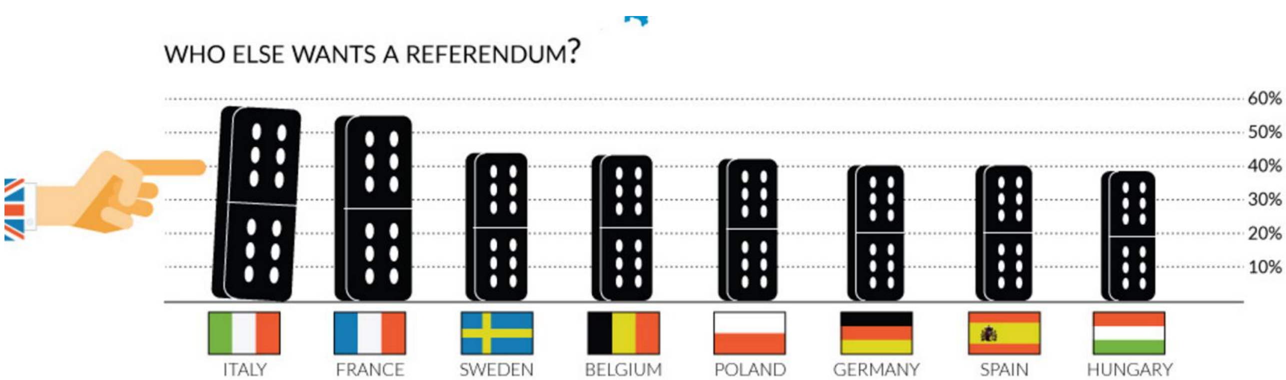
As noble as this idea is, it could never work. The EU is too vast and its peoples and cultures too diverse. The end of the EU is something we've talked about for over a year… now we're seeing the beginnings of it.

The discontent with the status-quo is not isolated to just the UK but is palpable across the entire modern world. It's becoming very recognizable in the rise of Europe's more extreme political parties. Populism is becoming, well, popular.

And the real concern with Brexit is that it will lead to Frexit, Nexit, Spexit, Dexit and so on… I don't know what's worse, the possibility of complete EU disintegration and all the economic chaos that will accompany it or all the horrible word blending we'll have to endure from the media as a result.

The Palindrome (George Soros) recently gave his thoughts on the matter (emphasis added is mine):

> *Britain eventually may or may not be relatively better off than other countries by leaving the EU, but its economy and people stand to suffer significantly in the short to medium term. The pound plunged to its lowest level in more than three decades immediately after the vote, and financial markets worldwide are likely to remain in turmoil as the long, complicated process of political and economic divorce from the EU is negotiated.* ***The consequences for the real economy will be comparable only to the financial crisis of 2007-2008.***
>
> ***But the implications for Europe could be far worse. Tensions among member states have reached a breaking point, not only over refugees, but also as a result of exceptional strains between creditor and debtor countries within the eurozone.*** *At the same time, weakened leaders in France and Germany are now squarely focused on domestic problems. In Italy, a 10% fall in the stock market following the Brexit vote clearly signals the country's vulnerability to a full-blown banking crisis – which could well bring the populist Five Star Movement, which has just won the mayoralty in Rome, to power as early as next year.*
>
> *That is where we are today. All of Europe, including Britain, would suffer from the loss of the common market and the loss of common values that the EU was designed to protect. Yet the EU truly has broken down and ceased to satisfy its citizens' needs and aspirations.* ***It is heading for a disorderly disintegration that will leave Europe worse off than where it would have been had the EU not been brought into existence.***



A survey published by the ECFR found that these populist parties are currently calling for a total of 33 referendums concerning national sovereignty in the coming year. Another recent survey by the Pew Research Centre found that only 38% of France had a favorable view of the EU and the Netherlands (current holder of the EU Presidency) would vote to leave by a margin of 3% if the vote were held today.

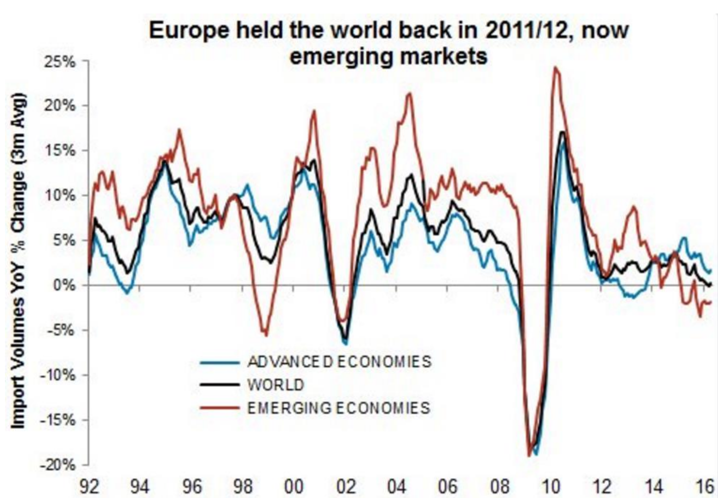
This is not only bad for markets (and it's very bad), but it's horrible for the future of the global economy, not to mention geopolitics — you know who's loving this wave of populism? Putin. This transition to every state for itself is exactly what him and other anti-western dictators kneel by their bedsides and pray for every night.

The EU is going to do everything it can to stop this contagion from rippling out of the UK. It will try to accomplish this by making things economically difficult for them. Here's what Ben Hunt said in his latest note on the subject:

> *What's next? From a game theory perspective, the EU and ECB need to crush the UK. It's like the Greek debt negotiations … it was never about Greece, it was always about sending a signal that dissent and departure will not be tolerated to the countries that matter to the survival of the Eurozone (France, Italy, maybe Spain). Now they (and by "they" I mean the status quo politicians throughout the EU, not just Germany) are going to send that same signal to the same countries by hurting the UK any way they can, creating a Narrative that it's economic death to leave the EU, much less the Eurozone. It's not spite. It's purely rational. It's the smart move.*

An eye for an eye will make the whole world blind… there will be no real winners here.

The impacts of the move to isolationism and protectionism is becoming visible in the numbers. As per the WTO, since 2008, G20 economies have introduced 1,583 new trade restrictive measures while only removing 387. Between October 2015 and May 2016, they introduced 145 new protectionist measures, the worst seen since the WTO began monitoring G20 economies in 09'.



This is one of the many reasons we see global trade slowing down to recessionary levels.

And let me remind you that all this is happening while global total debt-to-GDP is at its highest point in the history of the human race, sovereign debt is yielding NIRP and ZIRP, and asset prices are inflated to record levels around the globe.

We are living inside a powder keg and the British were the first to light up for a smoke… they will soon be followed by the French, Spanish, Greeks, Italians.... KABOOM is in our near future.

Where We Are Right Now

I wrote in the hub after the Brexit vote that the most important price action following the vote was the move in the yuan. I've been talking about the yuan for a while now and it continues its creep lower against the dollar. In addition, Chinese officials high up the chain have been giving cryptic hints of easing the peg. Like I've said before, this is inevitable. The Chinese will have to leave the peg whether they choose to or not. It's simple economic physics at this point. And the macro chess pieces are lining up for it to happen in the near future.

As volatility increases, the Shanghai Accord will falter and countries will put domestic concerns well above international ones. This means the currency wars are coming back in force (I know I may sound like a broken clock on this one but macro moves slow, until it doesn't).

I've said before, I think the country to watch is Japan. They will likely be the first to act. And they have recently been indicating this. A few weeks ago the Japanese Minister of Finance came out and declared the ¥100 mark of the USDJPY cross to be the line of departure for monetary action — and like I said earlier, this line was crossed immediately following Brexit.

After that event, the conversation escalated all the way to President Abe who stated to the press on the 27th that he had ordered the Finance Minister to watch the currency market "ever more closely" and authorized him to take steps if necessary to counter further yen strength.

The Japanese have elections coming up next month which is one of the reasons they've held off from doing further monetary stimulus. Once these are out of the way, we will likely see a very dramatic move on their part, especially if the yen continues to strengthen.

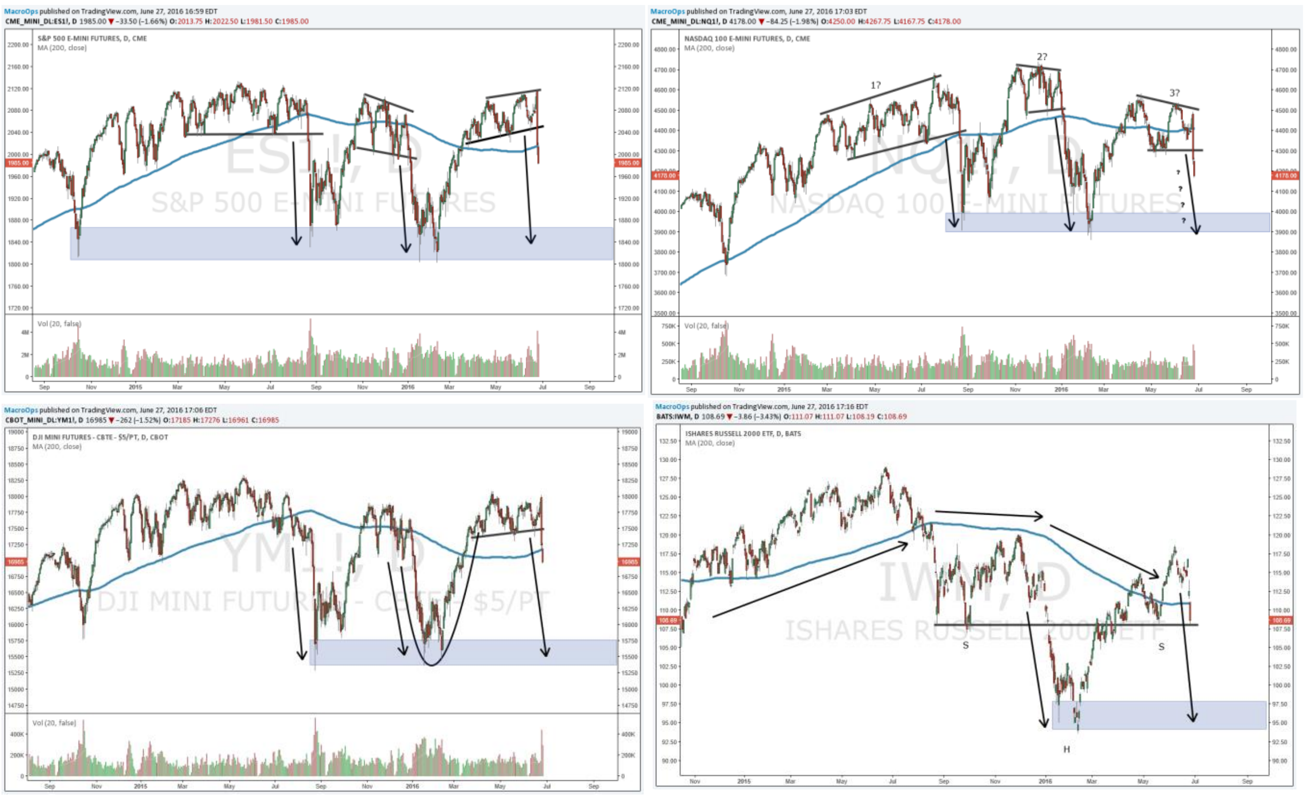
I don't think Brexit is our Lehman moment, its immediate impact is less tangible. The second and third order effects that will result because of it are what will matter.

Like I said last week, the narrative/sentiment that has diverged market pricing away from true fundamentals is being chipped away at and it's growing ever more fragile by the week. Once the narrative falters there will be nothing left keeping prices inflated… and it's going to be a roller coaster from hell when it finally reverses.

The key over the next few weeks will be playing light and nimble and only swinging at the fat setups when they come. We'll likely see a lot of swing back and forth as markets try to digest what has happened. Wait for signaling and be patient. We'll probably be taking some cracks at long dollar over the coming weeks once price action lines up to give us favorable entries.

Technical Damage

U.S. Equity Indices



Brexit volatility caused significant technical damage to all US equity indices. On the top left is the E-mini S&P 500 futures. We can see the same breakdown out of a multi-month consolidation that's occurred since the summer of last year. A retest of support near the blue shaded rectangle is probable.

The NASDAQ pictured on the top right has the same breakdown pattern as the ES, except it has put in a decisive lower high in its right shoulder. This makes it a more attractive short candidate.

On the bottom left is the DOW. It has the same breakdown pattern as well, but the picture is more muddled. A retest of support is still likely, but there's not enough clarity for us to pull the trigger on a short.

And finally on the bottom right is IWM, the small cap ETF. Small caps have taken a different path than their large cap counterparts. The overall chart is much weaker than large caps. They've been consolidating well off the highs. An inverted head and shoulders pattern is now forming. There's a lot of technical clarity here. That right shoulder is clear and critical. There are three possible scenarios we see playing out:

1. Small caps immediately break the right shoulder and the bear market correction we've been looking for begins.

2. Small caps bounce off the right shoulder and continue to consolidate sideways. This postpones the bear market correction until fall which is right around US election season.
3. Small caps V-bounce off the right shoulder and actually break out, completing the inverted head and shoulders. This is our "red team" scenario that will occur if the U.S. macro fundamentals bounce hard from neutral into positive territory. At this point, this path seems highly unlikely, especially going into elections. But we think a breakout of this inverted head and shoulders in small caps will technically signal another risk-on window.

Pound

The most significant technical damage occurred in the British pound sterling, known as "cable" in the trading community. This currency cross has formed an incredible 20+ year head and shoulders pattern that officially completed itself in the post Brexit fallout. Finding a low risk entry point in the current high volatility is tough. We will wait for things to settle down a bit before considering a position. Selling rallies back into the support is the best way to take a shot at this massive and rare breakdown.

European Banks

European banks look like death. Banco Santander on the top left has failed a retest of its 2009 support and hit fresh new lows. Deutsche Bank has completed almost the exact same pattern. We were short DB in the week before Brexit, but a low volume rally forced us to control our risk and exit our position before the event.

In the top right you see the Italian bank Intesa Sanpaolo. It was in a little more trouble than the other guys during the first Eurozone crisis in 2011 where it breached 2009 lows. Now it looks like the bank’s equity holders are hoping on the same hellish ride again.

And finally EUFN on the bottom right, which is the European financial sector ETF, is very close to testing 2011 Eurozone crisis lows.

These charts are worth paying attention to, but it’s hard to get short at these levels. Oversold markets have a tendency to spike and retrace hard before falling again. We’ll wait for the market to settle a bit and give us a low risk entry point after a relief rally.

But even if we do get the relief rally, it won’t justify an immediate entry. When things get this bad, especially for systemic institutions like the big banks, you have to be careful of massive government intervention. They can “ban” short selling and do “whatever it takes” to keep the banks from going belly up. So you if you want to dip in short you have to be hyper aware of what the ECB and European governments decide to do with this creeping crisis. Don’t feel bad if you miss the short. If Europe figures a way out, the banks will be fantastic longs, paying out incredible multiples of their risk.

European Stocks

An easier way to short Europe is through the broad index. Pictured above is the Eurozone ETF issued by IShares. A huge trend line spanning back to the 2009 lows has just been breached. Technically speaking, this sets us up for another revisit of 2009 financial crisis lows. We'll play this theme in the ESTX50 futures market — our preferred way to get short Europe.

A quick counter-trend rally back into the trend line support break would be an ideal place to sell this market.

And Now For A Sober Look At Cryptocurrencies…

One of our best trades this year was in the cryptocurrency Bitcoin.

We caught it breaking out of a long term triangle pattern and rode it to the very top of its trend. We then successfully exited our position right before Bitcoin began breaking down last week.

For those unfamiliar, Bitcoin is a digital asset and payment system — a virtual currency. It's considered a cryptocurrency because it doesn't require a central bank to handle its transactions.

It's all self-contained through technology that encrypts and records a ledger over a distributed computer system. This technology is called the *blockchain.*

The benefit of blockchain technology comes from its transparency. Everybody can see every transaction. The whole system is also decentralized. There's no single institution or bank that controls the transferring of assets back and forth. This (advocates claim) removes the possibility of corruption, theft, and a whole host of other common problems that come with your standard financial system.

Bitcoin and its fellow cryptocurrencies (a number have been launched since) have become popular as alternatives to the standard fiat currencies of governments around the world. In some ways they're treated in a similar way to gold and other precious metals. Don't trust the government? Scared of inflation or other market problems? Then pile into these alternative currencies.

Tyler actually produced an entire SitRep discussing Bitcoin, blockchain technology, and its benefits. If you're interested in learning more, you can check out that presentation here.

Now we like the idea of Bitcoin. Its blockchain technology is impressive and can be used in a variety of different applications.

We're also fans of the engineers who created it and maintained it for this long. The whole "Silicon Valley" mentality of disrupting standard systems and finding new and better ways to do old things is inspiring. This attitude is what created cryptocurrencies in the face of centuries old banking systems. This ability to think outside the box, dismissing all previous assumptions, is one that's also useful to take and apply to our own market analysis as investors.

But here's the problem. A lot of times these engineers take the disruption mentality *too far*…

I'm sure you've heard some of the ridiculous Silicon Valley techno utopian fantasies that float around from time to time. Our favorite is the "tech island" concept that gets proposed every few years. It usually comes from a group of techies whose heads get too big as they start spouting off the benefits of a sovereign island with no rules and regulations. Just innovation.

They completely disregard the benefits of the institutional structures our society has built thus far. They take the concept of disruption and stretch it, claiming that everything that's been created in the past is wrong and needs to be redone.

But this makes no sense. There's usually a reason certain systems are in place and have been in place for a number years. While having the disruption mentality may give you fresh eyes to find solutions to old problems, taking it too far becomes harmful to the process. You become the obnoxious intern fresh out of college lecturing 30 year veterans on how to do their jobs. Sure you can make suggestions for improvement, but in reality you don't know shit compared to them and you need to learn.

Tesla may have completely turned the auto manufacturing process on its head and revolutionized the industry, but do you think Musk completely disregarded Henry Ford to do so? Hell no. He was a dedicated student of the man. Musk studied past manufacturing process down to the tee, broke out the first principles, and built from there. He's far from ignorant and understood the old way was in place for a reason, but could be reinvented and improved upon.

The impractical side of the disruption mentality is a problem. It creates unrealistic beliefs that lead to booms and busts. And that's exactly what we're seeing in the cryptocurrency space.

The advocates of these currencies have come to the point of pushing fantasies. Their long-term goal is to create a system completely free of human intervention — with machines doing everything. In their minds, the humans are the problem and rigid automation is the solution to creating a "perfect" system.

A large percentage of cryptocurrency investors believe in this vision to some extent. This belief is part of the reason you'll see massive runs in the price of these assets. But it's also why you'll see crashes too.

A potential crash is what we saw coming in the space right before we exited our Bitcoin position and prices dropped.

The problem wasn't actually in the Bitcoin market though, but instead in the Ethereum market, another cryptocurrency. This market works in a similar way, with investors exchanging Ether instead of Bitcoin.

The story of the crash starts with the creation of a new "revolutionary" kind of venture capital firm — the Decentralized Autonomous Organization (DAO). Its goal? To be the first VC with no executives. Computers would run everything. (Because humans are the biggest problem right?)

The firm used Ethereum technology to run its operations. Investors would join the fund by submitting Ether to it. Once they bought in, they would receive voting rights in proportion to their investment. Companies that wanted to be funded by the VC would submit their proposals which all the DAO investors would vote on. Whichever proposal won the voting round would be accepted and funded. All this was carried out through Ethereum technology.

It was a decentralized, democratic system with full transparency — a brand new kind of investment firm. People considered it a beautiful extension of the technology that undermined cryptocurrencies. It excited them. And they piled in. DAO quickly raised $152 million from investors around the world.

But then the unthinkable happened. The fund was robbed. A hacker exposed weaknesses in DAO's Ethereum construct and stole over $50 million.

The hacking successfully put an end to the DAO. And what's more, it casted doubt on the security and durability of the entire Ethereum system. The beliefs of cryptocurrency investors took a beating. And that beating transferred to virtual currency prices.

This was when the price of Bitcoin started to fall and we exited our position. But Bitcoin's drop was minor compared to the drop in Ether prices. The price of Ether was nearly cut in half from the incident.

A nearly 50% drop in two days? That's rough…

And it's also a great example of what we mean by techno fantasies creating booms and busts. But it's nothing new. It's really the same thing that drives all bubbles and busts. Hope, greed, and fear.

This isn't even the first time cryptocurrencies have run into problems like this. You may have heard of the collapse of Mt. Gox in 2014. It was the world's largest bitcoin exchange that had to shut down after being robbed of over $450 million worth of bitcoins.

But it's funny because even though the same lessons are taught in each one of these fiascos, people never learn. The DAO experience is a good reminder.

The first lesson is in the unavoidability of human intervention in the systems we create. Soon after the DAO robbery, Ethereum developers were actually able to catch the hacker and freeze the funds he stole.

Great. Problem solved right?

Nope.

This is where a giant debate erupted among the Ethereum community. Returning the stolen money to investors would require a manual change to Ethereum's underlying technology. This is a huge deal because it would require human intervention. Which would defeat the whole purpose of a completely autonomous system right? It would ruin the system's sanctity and fly in the face of the principles it was built on. This made the decision a polarizing one. It's ironic because the community is now stuck in political battle, just the kind they hate and created cryptocurrencies to avoid.

It's stupid to think that we can avoid all intervention in a system we created ourselves. There are always inherent human biases that go into the construction of anything. In that sense, nothing we create can be "perfect" and free of human touch. This fact will almost always cause the need for a human to step into a system at some point down the line.

Part two of this unavoidable human intervention concept is the legal side of the DAO robbery. Who's responsible for the stolen funds? Should the developers of the DAO be held accountable? They're the ones that made the shitty code with the holes in it right? But wait a minute… they were just developers! The system was completely run by machines! The goal was no executives remember?

Ha… good luck telling that to investors.

When shit hits the fan, people want someone to blame. Chalking it up to computer problems is not going to work. Emotions come into play, people get pissed, and a machine does not suffice as a scapegoat.

This leads us to the second lesson behind the DAO failure — regulation. As we discussed before, the Silicon Valley crowd loves to push the disruption mentality too far and pontificate about things like tech islands without any rules or regulation. Where pure innovation can supposedly flourish. This same mentality carried over into cryptocurrencies. The thought was that a completely machine based system wouldn't need regulation liked standard banks. This would lead to fewer costs and a far better efficiency.

This is a nice sentiment. But in reality, regulation is necessary. Now we agree overregulation is bad, which is what much of the financial system is suffering from now, but zero regulation is just as dumb. To think cryptocurrencies could somehow avoid *any* type regulation is stupid. And it again goes back to what happens in cases of fraud and stolen assets. There needs to be rules in place so that the right people are prosecuted and victims compensated.

It's funny because the cryptocurrency community is starting to realize this. They're starting to realize why the original banking system is there in the first place with all its rules. Turns out not all parts of the system are worthless and in need of "disruption". Surprise, surprise…

We're now seeing posts like the following in various cryptocurrency circles:

> "We are an anonymous collective concerned with the lack of regulation in the cybercurrency sector.
>
> We have contacted the SEC (Securities Exchange Commission) to raise awareness of the developments in Ethereum and specifically concepts like the DAO. While we generally support the innovations in cryptography and cybercurrency, the current "wild-west" environment presents dangerous pitfalls for potential investors, as the DAO attack has shown. As such, regulation is required to protect investors in the United States and abroad. We are currently in contact with investigators at the SEC, the ESC (European Securities Committee) and the MAS (Monetary Authority of Singapore) to explore this matter.
>
> We urge the community to reach out to both the above mentioned authorities, as well as their own national regulators to explore possible measures to protect investors and to establish liability for fraudulent investment schemes. Please see below an excerpt of a Tip Complaint Referral Form Submitted to the SEC. Further information will follow shortly."

Ha! Crawling back to some form of regulation huh?

So why is the silliness in the cryptocurrency space important to us as global macro investors? Well first off because this virtual currency is another market we trade.

But more than that, this is a wonderful exercise in getting into heads of investors and determining why booms and busts occur. Our meta-view of this entire cryptocurrency situation helped us ride Bitcoin to highs and jump out before it faltered. We understood the investor motivations and false beliefs helping to drive the boom. And we knew any crack in that belief, such as another hacking incident, would send prices in a downward spiral.

It pays to be one level above the hope, greed, and fear that drives markets. Being objective and rational, while still understanding the emotional pushes and pulls that affect other investors, is the key to success.

That's all for this week!

Don't forget to check out the updated [Targets page].

We'll see you in the Comm Center!

-Alex, Tyler, and Anish

Portfolio Snapshot

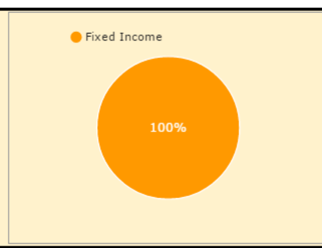
Macro Ops Strategic Portfolio

NAV $974,098.47

Asset Class	Position	Size	Cost Basis	Risk Point	Open Risk	Target 1	Beta (1yr)	Notional
Fixed Income	TLT	5000	$132.87	128.98	$19,450.00	146.00	-0.32	$667,000

Metrics

Exposure Breakdown	
Equity	$0.00
Commodity	$0.00
Fixed Income	$19,450.00
Forex	$0.00



Total Open Risk	Portfolio Beta
$19,450.00	-0.22
2.00%	

*Updated 6/26

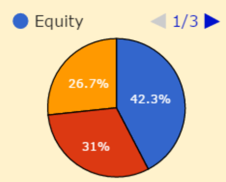
Macro Ops Tactical Portfolio

NAV $991,168.14

Asset Class	Position	Size	Cost Basis	Risk Point	Market Price	Open Risk	Target 1	Notional
Fixed Income	US Bonds (ZBU6)	2	166'16	164'19	173'16	$17,820.00	171'27	$667,000
Equity	Pampa Energia (PAM)	6800	24.40	23.31	27.29	$27,064.00	27.76	$174,896
Equity	Inverse Bios (BIS)	3,500	44.43	42.35	42.70	$1,225.00	53.92	$156,380
Commodity	Silver (SIN6)	1	17.05	16.36	18.47	$10,550.00	18.47	$173,300
Commodity	Coffee (JO)	5650	21.31	20.00	21.80	$10,170.00	24.30	$118,932

Metrics

Exposure Breakdown	
Equity	$28,289.00
Commodity	$20,720.00
Fixed Income	$17,820.00
Forex	$0.00



Total Open Risk
$66,829.00
6.74%

*Updated 6/29

Macro Ops Income Portfolio

NAV $1,022,285.96

Asset Class	Position	Size	Cost Basis	Max Profit
Option	Aug 18 1960 Put	-10	$19.08	$19,080.00
Option	Aug 18 2016 2175 Call	-10	$9.18	$9,180.00
Option	Aug 18 2016 1465 Put	10	$1.56	(Hedge)

Scenario Analysis/Stress Tests

Worst Case	Worst Drawdown
SPX-10%	-$100,000
SPX-20%	-$250,000

**Updated on 6/26