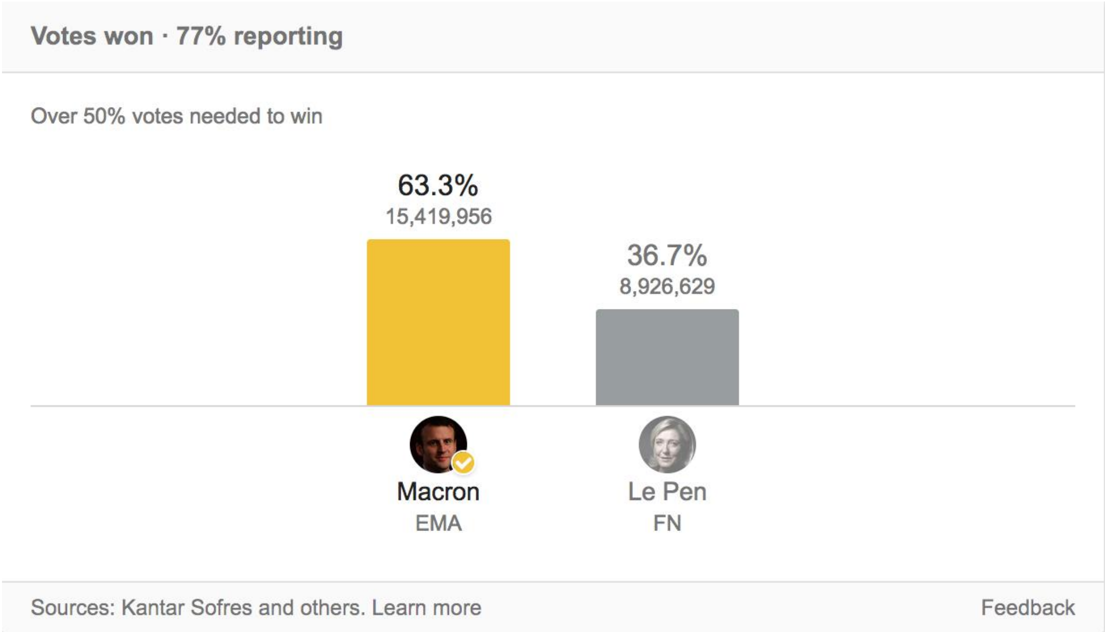
MARKET BRIEF

A Short Swing Of The Pendulum



Emmanuel macron est officiellement le prochain président de la France (my French is pas bon, pardon).

The final numbers look like they'll be close to 65% Macron and 35% Le Pen — a strong showing by the centrist candidate. At 39 years of age he's the youngest leader of France since Napoleon. I wish the guy luck… he's got a tough, perhaps impossible, job ahead of him.

Our base case played out and a hurdle has been cleared. This election's uncertainty has kept the market's enthusiasm somewhat in check. The populist narrative, though hardly dead, will swing to the background until elections in Italy early next year.

And for that I thank Zeus. I don't know about you but I'm glad we don't have to talk about another election for a while.

Markets should move higher on the news. I'm liking the way a lot of the European charts look. Our Portuguese ETF (PGAL) will benefit from Macron's victory.

US markets have been bullet proof the last few months. They're overextended, overbought, and overvalued.

But, whenever they look like they're about to pullback, they kick the few remaining bears in the teeth and trudge higher. Such is the tendency of late cycle price action where FOMO dominates. It's extremely costly to those who wait for a pullback to get in.

We'll see a 3-5% correction sometime in the next few months — I know, I know… that's a pretty bold call... but I'm gutsy like that. But right now the broader technicals we track say up remains the path of least resistance.

Here's the skinny on some of the data:

- Via Barron's " Last Monday, the VIX which was launched in 1993 and tracks the Standard & Poor's 500 options contracts, closed at 10.11. The last time it closed that low was in February 2007, preceding a brutal bear market by less than a year."
- And also via Barron's "Last week, the one month implied volatility of the Standard and Poor's 500 index registered 8%. It was the lowest level since 1988, when record-keeping began."
- From Urban Camel, "SPX has now risen 3 weeks in a row. This is a positive sign of momentum. SPX has a strong tendency to make a higher high after rising 3 weeks in a row" and "The cumulative advance-decline for both the NYSE and SPX are at or near new ATHs. According to Sentiment Trader, when this occurs while indices are a new high (like now), SPX has been higher 1-2 months later 18 of the last 19 times

So market volatility is low and investors are complacent. No reason in itself to be bearish in the near-term. Low volatility goes hand in hand with higher equity prices.

I have to say, the circle jerking over the great technology companies seems to be hitting a crescendo reminiscent of the late 90's.

And I know, things are very different this go around. Some of the tech companies are actual businesses and pretty good ones. The arguments for their sustainable MOATs through scale and networking effects are convincing. But still… my spidey senses tingle when I start to see this level of aggrandizement.

For instance, listen to this nonsense I read in Barron's this weekend, "Amazon's stock market success calls into question whether profit is still a relevant measure for growth investors, or even a worthy goal for growing companies. But for now, the outlook for the stock can be summed up with one word: higher."

Comments like that make me dry heave… Is profit still a "worthy goal for growing companies"? The fact that anybody could say that with a straight face is just a sign of the times. It's the result of low rates and cheap money for too long.

Did you know that Amazon is now worth over $450 billion dollars. And in the 20 years of its existence it has returned a whopping (sarcastic voice) $5B. It's lifetime accumulative PE is 90 — that's not a real metric, I just made it up, but that's amazing.

I'm not hating on Bezos. I'm in awe of the guy and what he's built. But also, smart people can build some pretty cool things when given unlimited amounts of free capital over years and years without expectations for anything in return. Not sure if that's capitalism as it should be.

I also see the strong hand of government crushing down on this technology oligopoly in the future. And that's not being priced in at all.

But don't listen to me, I'm the jerk who thought AMZN was overvalued at $600.

These large tech stocks are also to thank for the S&P's incessant rise. So far this year the top 10 S&P stocks are up 20% and have contributed to 55% of the index's total return. The top three alone are up 27% and contributed 33% to the S&P's ytd return. Without our tech overlords the S&P would be off to a much less exciting start to the year. So thanks I guess?

In other news, things are looking wobbly in China again.

A number of commodities, like iron ore and coaking coal, are in free fall. This is important because these commodities are weathervanes for Chinese growth.

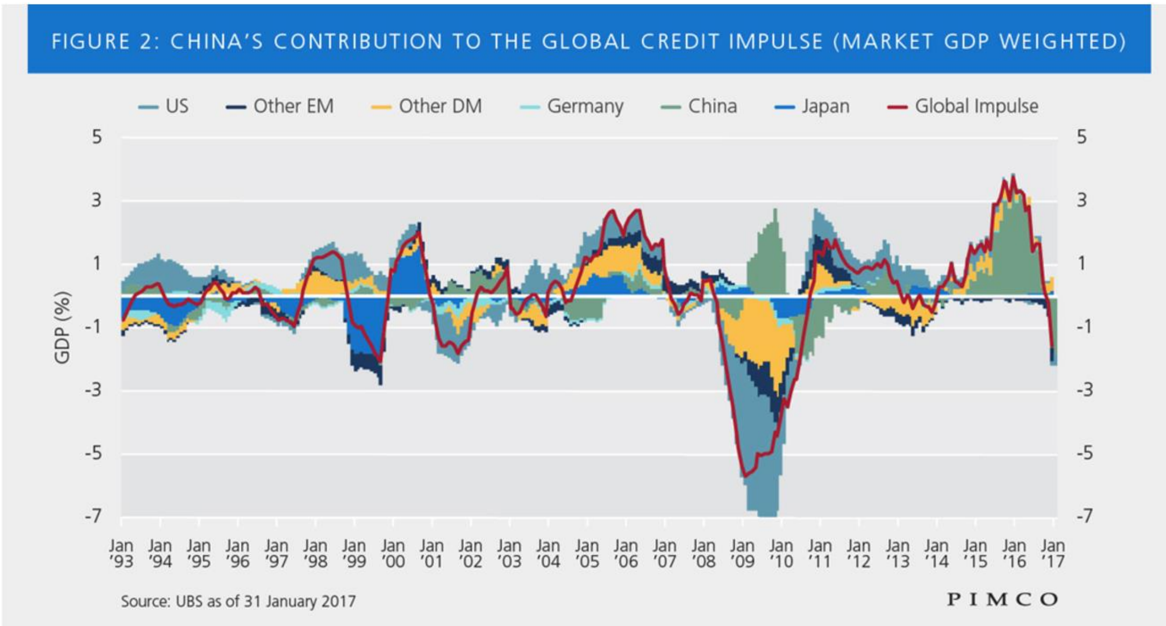
China's A-shares are also in a tumble and the price action looks bad.

This is due to two reasons: (1) the CCP is clamping down on the housing market and has tightened monetary policy to stem capital outflows and cool speculation and (2) the ginormous credit impulse — which measures the change in the growth rate of aggregate credit to GDP — has completely rolled over and gone into negative territory.

Oh and I should add in a third reason, relating specifically to iron ore. According the Reuters, China's ports are "bursting with stockpiles of the raw material and some of them are demolishing old buildings to create more storage space." Apparently the country has enough iron ore to build 13,000 Eiffel Towers… so you could say there's somewhat of a supply glut.

Towards the end of 15', China began injecting a lot of money into its system. Somewhere in the $1-3T range. This has been the biggest driver of global growth (ie, rebound in commodities and emerging markets) over the last year. The global credit impulse has now gone negative, by a lot.

There's a typical lag time between sizable moves in the credit impulse and the resulting impact in markets and the broader economy. The contraction in this one, if it fails to reverse, should start to show towards the end of this year.



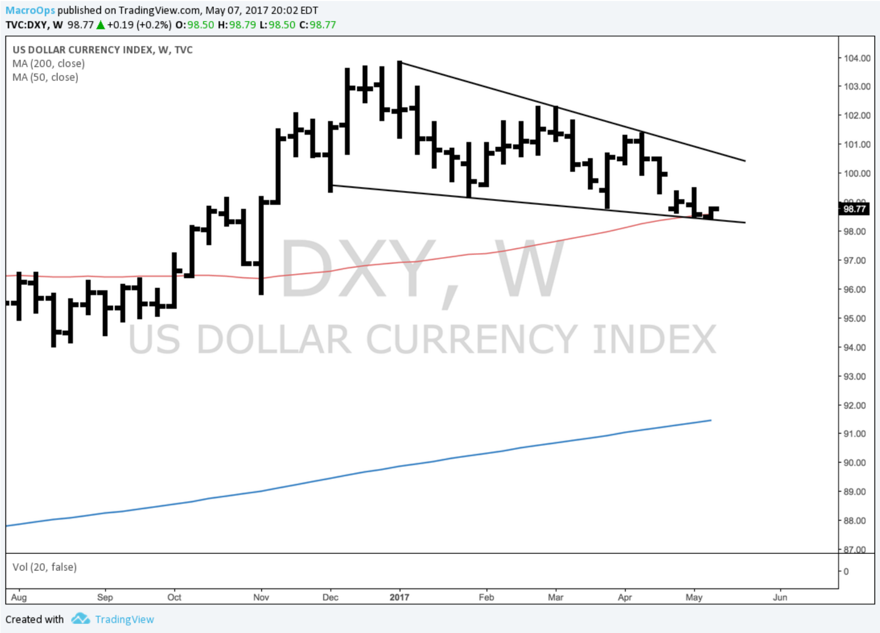
Quick note: we're going to start putting out a monthly Liquidity report where we update you guys on the global liquidity dynamics we track which will help you spot where the credit is flowing and where it's not.

Crude dropped over 11% at one point this week before reversing and putting in what looks like a short-term bottom. Technically, it's a fairly significant breakout. We're cyclically bearish on oil, but I don't feel the need to play it at these levels.

We've been using the late 90's as an analog for today's market action. It's been a useful measure and oil is no different.

The chart to the right shows crude's daily price action from its late 98' bottom into 02'. There was a lot of chop and back and forth. I think we'll see something similar in oil today.

The near-term direction is largely going to be determined by where the dollar heads next. The chart below shows the dollar on a weekly basis consolidating at the bottom of its range.



My bias is that it breaks lower for a counter-trend retrace since large specs remain overly long the greenback. We have the long pound (GBP) trade on the book to profit if that happens.

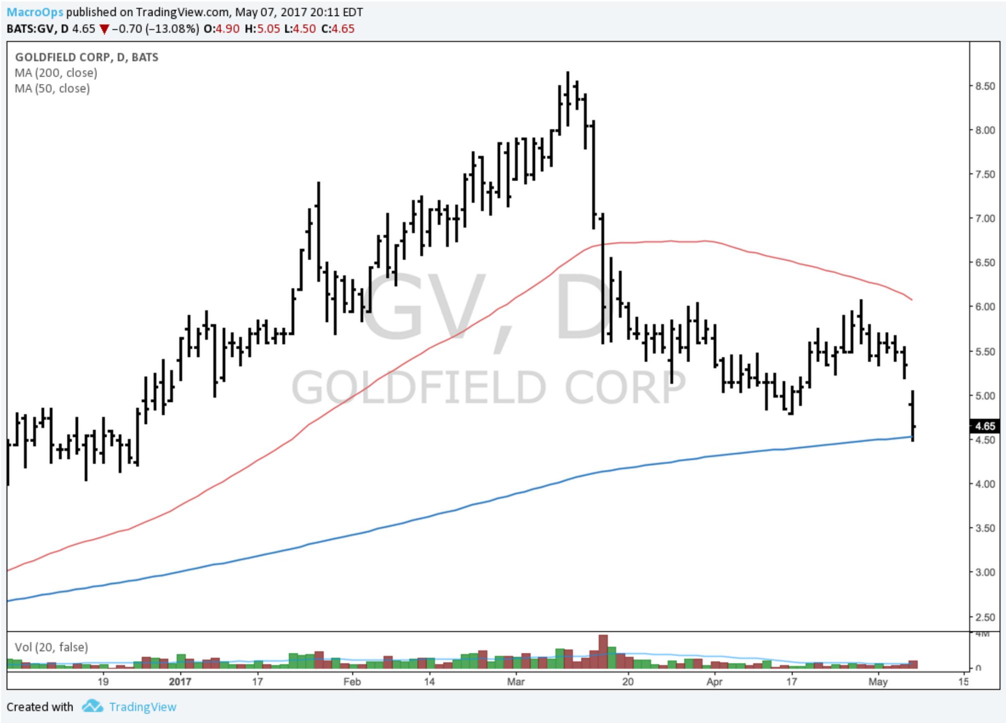
On the other hand, price action in both the Canadian loonie (CAD) and Aussie dollar (AUD) both look like they may be gearing up for another leg lower against the dollar. I'll be watching these two dollar pairs closely over the next few weeks and will be quick to put on a position if price action confirms the move. Both of these currencies have moved lower as a result of the Chinese credit impulse deflating. And that's a theme that's just coming into play but has a looong way to run…

I'm diggin into a number of companies this week. The list includes ACIA, BBRY, HDSN, and FEYE. I'll be sending out the research if any of them seem promising.

That's all for this note. Hit me up if you've got any questions and let me know if you come across any trades you like.

Strat Portfolio Update

Goldfield (GV)
Original Entry Date/Price: **11/15/16 — $3.10**
P&L: ***$316***
Tear Sheets
Trade Updates



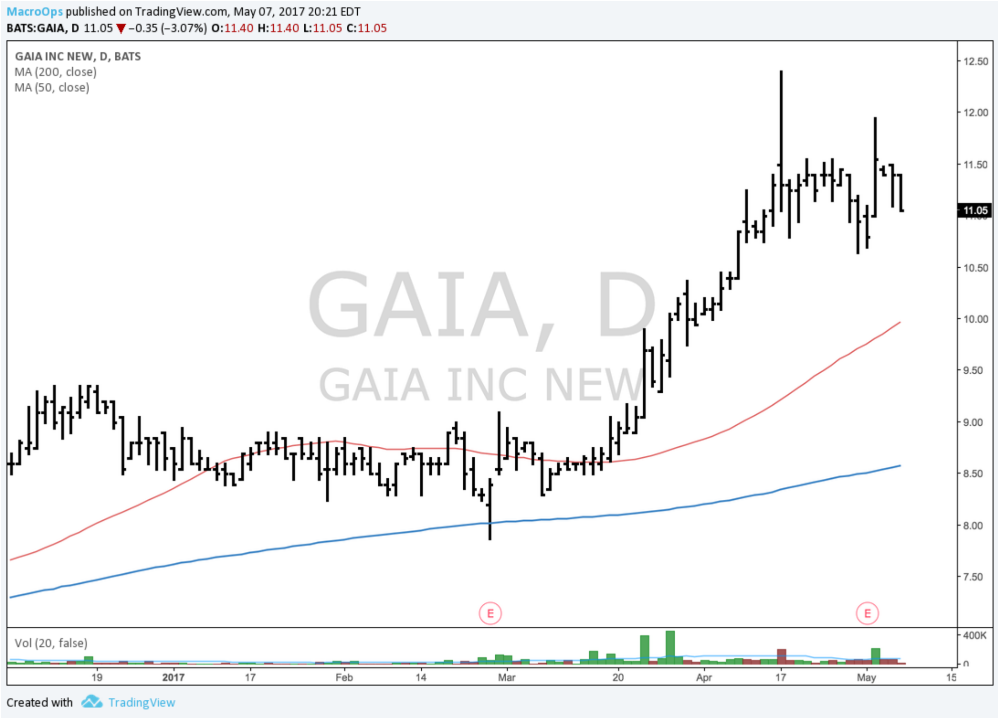
It looks like we might finally be seeing the large shakeout in the GV correction. I'd like to see a high volume dump below the 200-day followed by a strong reversal in price before adding to the position. The company came out with earnings last week and the numbers were in line with our expectations.

The stock sold off because GV saw revenues fall 14% over the year prior. One quarter is not a trend and we'd only start to be concerned if this weakness continues for another quarter or two.

The positives of the earnings release are that the company saw its 12-month backlog increase by 14% to $79.5M showing that demand for their services remains strong. The company is now trading at a P/E of 9.

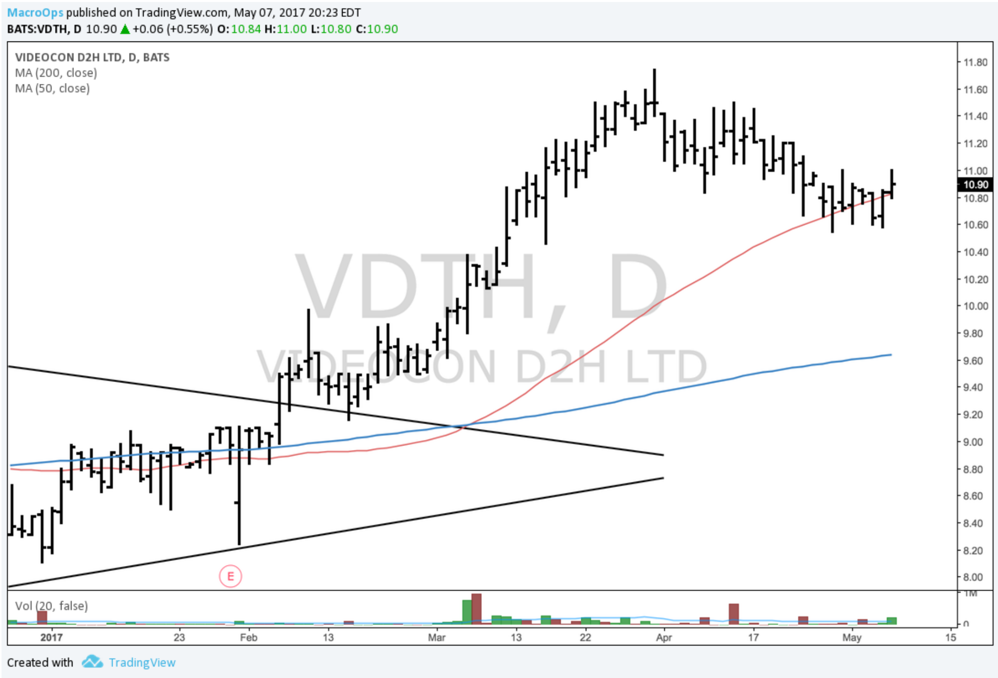
Gaia (GAIA)

Original Entry Date/Price: **3/23/17 — $9.74**
P&L: ***$11,532***
Tear Sheets
Trade Updates



Nothing has changed since our last update. The stock is consolidating after a strong up move. The growth prospects for this company are promising but it's going to take another quarter or two before the market really wakes up to that fact.

Videocon (VDTH)
Original Entry Date/Price: **3/23/17 — $11.27**
P&L: ***($1,264)***
Tear Sheets
Trade Updates



Nothing new on the VDTH front. As with GAIA, the stock is consolidating after a large move. Earnings aren't until later this month.

Portugal ETF (PGAL)
Original Entry Date/Price: **4/25/17 — $10.57**
P&L: ***$2,558***
Trade Updates

PGAL, the Global X MSCI Portugal ETF, has made a strong move higher since our entry. This stock should benefit from the Macron victory and the "European Recovery" narrative that seems to be gaining traction.

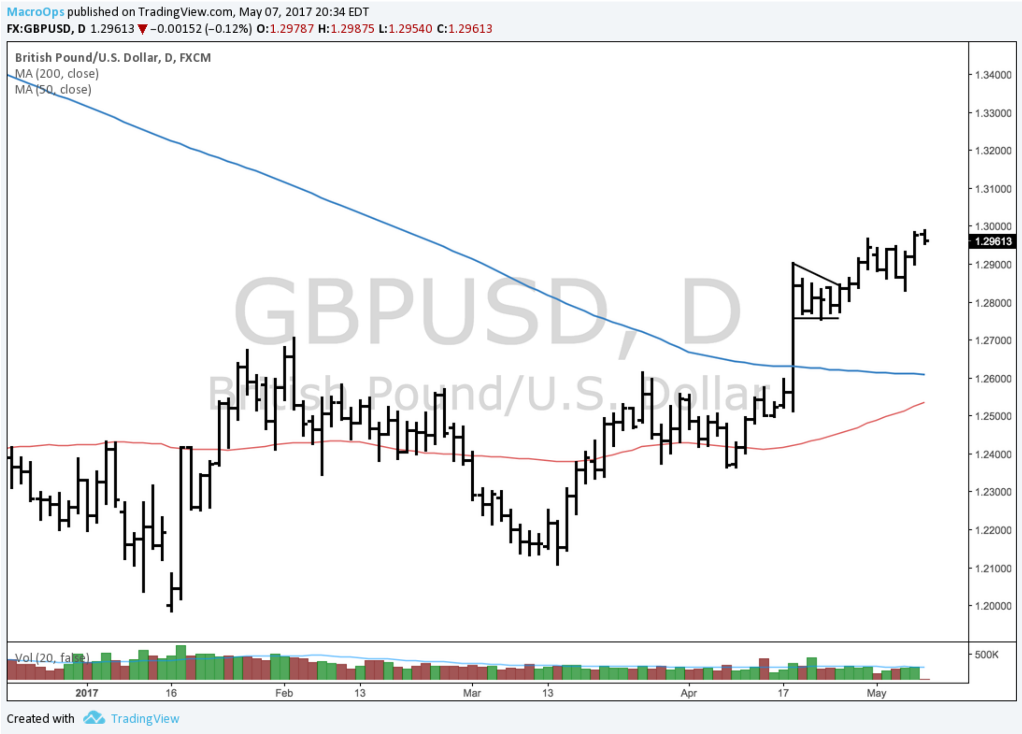
Neonode (NEON)
Original Entry Date/Price: **4/25/17 — $1.73**
P&L: ***($8,500)***
Trade Updates

NEON comes out with earnings before the market opens on Tuesday. There's a good chance we get knocked out of our first go at this trade. Depending on how the earnings turnout, we'll make the decision whether to take another swing or not. We'll send out a note after the results.

Stratasys (SSYS)
Original Entry Date/Price: **4/25/17 — $24.45**
P&L: ***$1,835***
Trade Updates

The stock continues to show strength. It reports earnings in two weeks which will make or break the trade. We'll be jamming up our stops before the event. This is purely a technical and sentiment trade. The fundamentals don't support the bullish thesis at the moment. This could change if the company shows an improvement in their business when they report.

Pound Futures (GBPM7)
Original Entry Date/Price: **4/25/17 — $1.2865**
P&L: ***$9,192***
Trade Updates



The pound (GBP) is above our entry. This week should indicate whether the dollar bull market is set to resume or suffer a shakeout. I added a small amount to the position going into the weekend (I didn't send out a trade alert due to the small size and short-term duration of the trade). We'll be quick to cut or add to our pound position accordingly and let price be the tell.

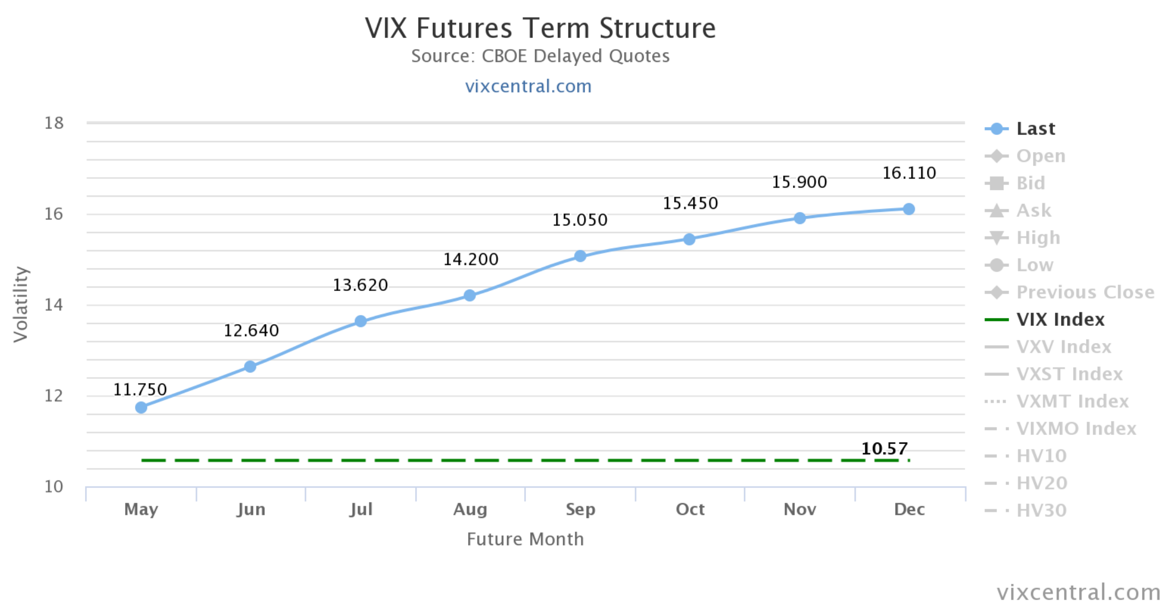
Vol Portfolio Update

June VIX Futures/SVXY
Entry Date: ***3/20/2017***
Entry Price: ***$15.00***
P&L: ***$43,082***
Trade Updates

As VIX ventures into record low territory, the short VIX futures position continues to crush it. Macron's win will keep vol contained so we expect this cycle to be another huge winner.

Earlier this month we took half profits because VIX started to trade in the 10 handle.

Risk/reward is not nearly as attractive when vol gets down to these levels. But that doesn't mean going long vol is the smart move either. The term structure is still in steep contango, making longs an expensive trade to hold. It costs 7.5% a month just to stay long!



SPX Calls
Entry Date: ***4/12/2017***
Entry Price: ***$12.80***
P&L: **$6,460**
Trade Updates

Until late last week, the SPX had been chopping sideways in an extremely quiet range. Our calls were still break even with only two weeks left to go so we sold half. A weak start in this buy the dip trade generally isn't a good sign.

But now that the French elections are over, we expect the SPX to continue its ascent into fresh new highs. Our remaining exposure should expire with a nice profit.

FXE (EURUSD) Straddles
Entry Date: ***4/21/2017***
Entry Price: ***$7.20***
P&L: *(****$3,052)***
Trade Updates

Nothing new in this trade. We continue to hold for the long term and hope for a breakout either way in the EURUSD cross.

Right now it looks that break will be to the upside.

FXE Put Backspreads "Le Pen Hedge"
Entry Date: ***5/5/2017***
P&L: ***$0***
Trade Updates

Our plan is to take this trade off tomorrow morning for scratch. The Euro will likely open unchanged from Friday's close which means we'll avoid taking any meaningful losses.

Portfolio Snapshot

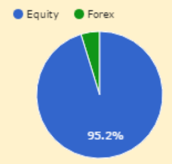
Strategic Ops

NAV $1,172,651

Asset Class	Position	Size	Cost Basis	Risk Point	Open Risk	Target	Notional	Beta
Equity	Goldfield GV	1,000	$3.89	$2.52	$1,370.00	$4.50	$5,250	1.0694
Equity	GAIA	7,600	$9.88	$8.50	$10,488.00	$13.75	$79,040	0.4497
Equity	Videocon VDTH	2,900	$11.27	$9.26	$5,829.00	$17.45	$32,335	0.7855
Equity	Portugal ETF PGAL	8,000	$10.57	$9.98	$4,720.00	$11.75	$85,040	1.0467
Equity	NEON	39,545	$1.73	$1.36	$14,631.65	$2.50	$60,504	0.8957
Equity	SSYS	1,546	$24.45	$21.44	$4,653.46	$31.50	$40,528	1.4414
Forex	Pound Futures (GBPM7)	16	$1.2865	$1.2844	$2,100.00	$1.3300	$1,050,127	0.3216

Metrics

Exposure Breakdown	
Equity	$41,692.11
Commodity	$0.00
Fixed Income	$0.00
Forex	$2,100.00



Total Open Risk
$43,792.11
3.73%

**Updated 5/7

Volatility Ops

NAV $1,301,691

Asset Class	Position	Size	Cost Basis	Notional
Volatility	June 21st VIX Future	-18	$15.00	-$543,600
Equity	SPX May 18 2390 Call	9	$12.80	~
Forex	FXE Jan 2018 104 Straddle	80	$7.20	~
Forex	FXE May 19th Put Backspre	90	-$0.30	~

Scenario Analysis/Stress Tests

Max Loss -$350,000

**Updated 5/7