01/11/21: Turds Float to the Top...

I was thumbing through "The Money Game" by Adam Smith earlier today. It's one of my favorite market books. An absolute joy to read.

I was searching for a bit about an older fund manager who went and hired a bunch of young guns when the bull market kicked into high gear (the setting was during one of the wild bulls of the 60s).

Anyways... the manager told Smith, the author, that he'd hired these green behind the ear traders because they were naive, they didn't know enough to be cynical, and they'd have *no* problem going out and buying the hot stocks.

He didn't trust himself to do the job because he'd lived through too many of these boom/bust hype cycles and had the psychological scarring to prove it. He wanted wide-eyed optimists who'd drink the kool-aid and go *irresponsibly* long overpriced stocks… assuming he'd take over the reins once it appeared the trend had run its course.

I didn't find the story, though I didn't look too hard. It might be from Biggs' "Hedgehogging" instead, I don't know. Either way, it's beside the point.

This story was on my mind because for the last 6-months or so we've been in a liquidity-driven bull market, fueled by mountains of fresh stimulus cash. This has sent everything rocketing higher. With some names, such as Tesla (TSLA) for example, breaking performance records that weren't seen even at the heights of the dot-com bubble.

Last Thursday, Elon Musk tweeted this (apparently in response to the news that FB would start taking data from its Whatsapp service).

Signal is an encrypted messaging platform. It's not a publicly-traded company. But, that wasn't going to stop traders from acting on this rich bit of alpha from the leader of today's zeitgeist. The *Bat-Signal* had been flared. Robinhooders from around the US responded with their recent government handouts (your taxpayer dollars) to load their accounts up with shares of Signal Advance (SIGL).

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This drove SIGL — which happens to be a Texas-based biotechnology OTC stock — up from $0.60 a share to as high as $70.92 a share. That's a **3-day return of over 12,000%...**

The day the move started, financial outlets began reporting the *obvious* error. Signal, as in the real Signal, started sending out tweets to make sure people knew that they in fact weren't connected with the stock SIGL.

Water off a duck's back though… trivial details to today's masters of the universe. The level of due diligence for this amazing investment, a misread tweet.

In the Marine Corps, we had a saying about how crappy leadership tended to climb the career ladder. We'd say — well out of earshot from the brass, of course — "welp… you know that turds always float to the top".

We are in a turds float to the top market.

SIGL is just one of a growing list of stocks that are benefitting from free money and zero commission trading.

This environment is perhaps the *purest* form of Keyne's Beauty Contest. The name of the game is not to identify the prettiest contestant but to pick the one that you think the others think will be picked as the prettiest.

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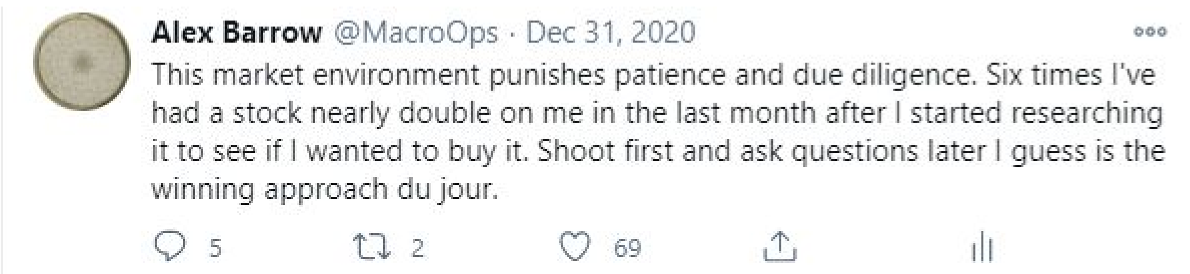
Fundamentals are dated… they're sooo 2020… what matters now is a vision, something cool and hip, preferably to do with electricity… if it's brought to market through a SPAC, even better… Does Cathie Wood's ARK Invest own it? If so, then my due diligence is done…

I'm only half-kidding here.

I've been writing for months about how we've entered a "Silly Season" in markets. The initial conditions are set with the recent paradigm shift in the Fed, as well as fiscal policy. The Dem win in Georgia just further cements this… more kerosene on a silly fire.



There is nothing wrong with a good ole speculative frenzy. They're great in fact. You can make a lot of money if you're willing to play the game. But it's just important that you remember which game it is you're playing. It's all good to join the party, as long as you don't drink *too* much of the kool-aid.

Soros wasn't above playing false trends. In fact, he made quite a good living doing so.

So it's okay to buy the turds, as long as you know they're turds. Size right and place hard stops. Treat 'em as call options and try and catch a SIGL or two.

But, you know, keep the risk management tight. Play the technicals over the story. And don't get caught left holding the bag…

Outlook: Blue skies with intermittent violent thunderstorms

Our base case going forward is to expect a continuation of the broader bull market... But with periodic, and likely *violent*, positioning upheavals…

I was originally of the mind that we'd see a pullback/positioning shakeout begin sometime in the second half of this month. The Dem win in GA likely pushes that out a bit. It's hard for the market to dip too hard when there's another $2k in stimulus checks likely on the way.

Our long-term bull focus is in short US dollar synthetic plays (ie, commodities, emerging markets, value/small-cap, short bonds/long financials, etc…).

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In the very short-term, this play reeks of consensus and is quite overextended technically. I'd love to see a washout here before the next leg up, in order to reset sentiment. We may get one, we may not. This is a funky environment — it's silly season after all.

We'll continue to look for attractive names with good technicals and strong macro tailwinds.

As always, we'll be keeping an eye on our SQN regimes and TL Score closely in order to give us some lead on the moves.

Later this week I'll be making the case on why there's good reason (due to both demographics and policy changes) that we'll see the risk-premium on equities structurally begin to contract. As I pointed out in today's *Dozen*, risk-premia has fallen to near cycle lows. But they remain well above historic levels. This is incredibly interesting to me because if it plays out it'd mean we're more near the start than the end of a secular bull market. Think about that for a minute…

Did Bitcoin top?

A number of you DM'd me today asking if I think Bitcoin has topped. The answer is: I have no clue. Not sure anyone does…

This is why I like to take partial profits on the way up, as we did back in mid-December. Paper gains are paper gains until they're in your pocket, as they say.

With that said, put a gun to my head I'd say no, it hasn't topped. We're still sitting in our half-position, which is about 12% of our portfolio NAV. I don't plan to trim that down until we start to see risk-off begin to creep back into the market, which our TL Score will pick up.

Hedge Fund manager Bill Miller pointed out in his latest Investor Letter how "Paypal and Square alone are estimated to be buying on behalf of their customers all of the new 900 bitcoins mined each day."

With more liquidity coming from Uncle Sam and Bitcoin's still trivial share of liquid assets I'd bet that it ends up going much higher, as crazy as that sounds.

If you don't already have a position, the current level offers a decent place to test the waters if you place your stop wide and expect some vol and sideways chop as likely outcomes for the next week or two.

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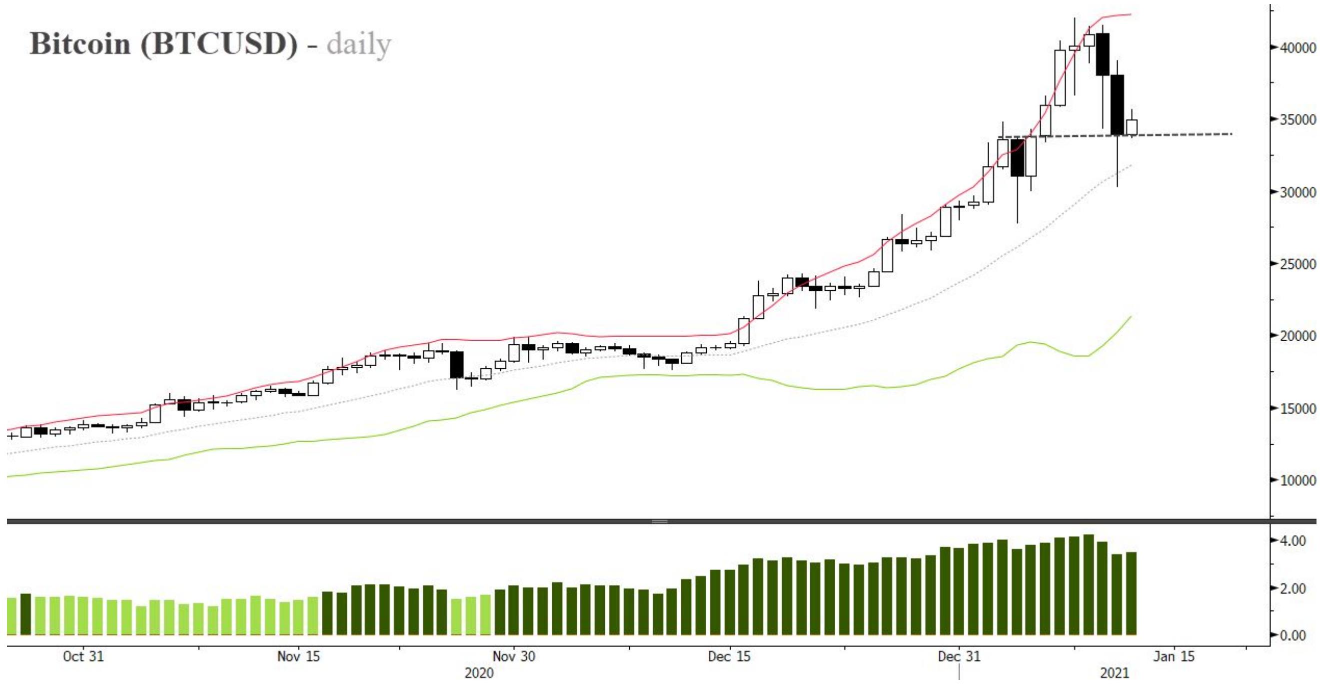
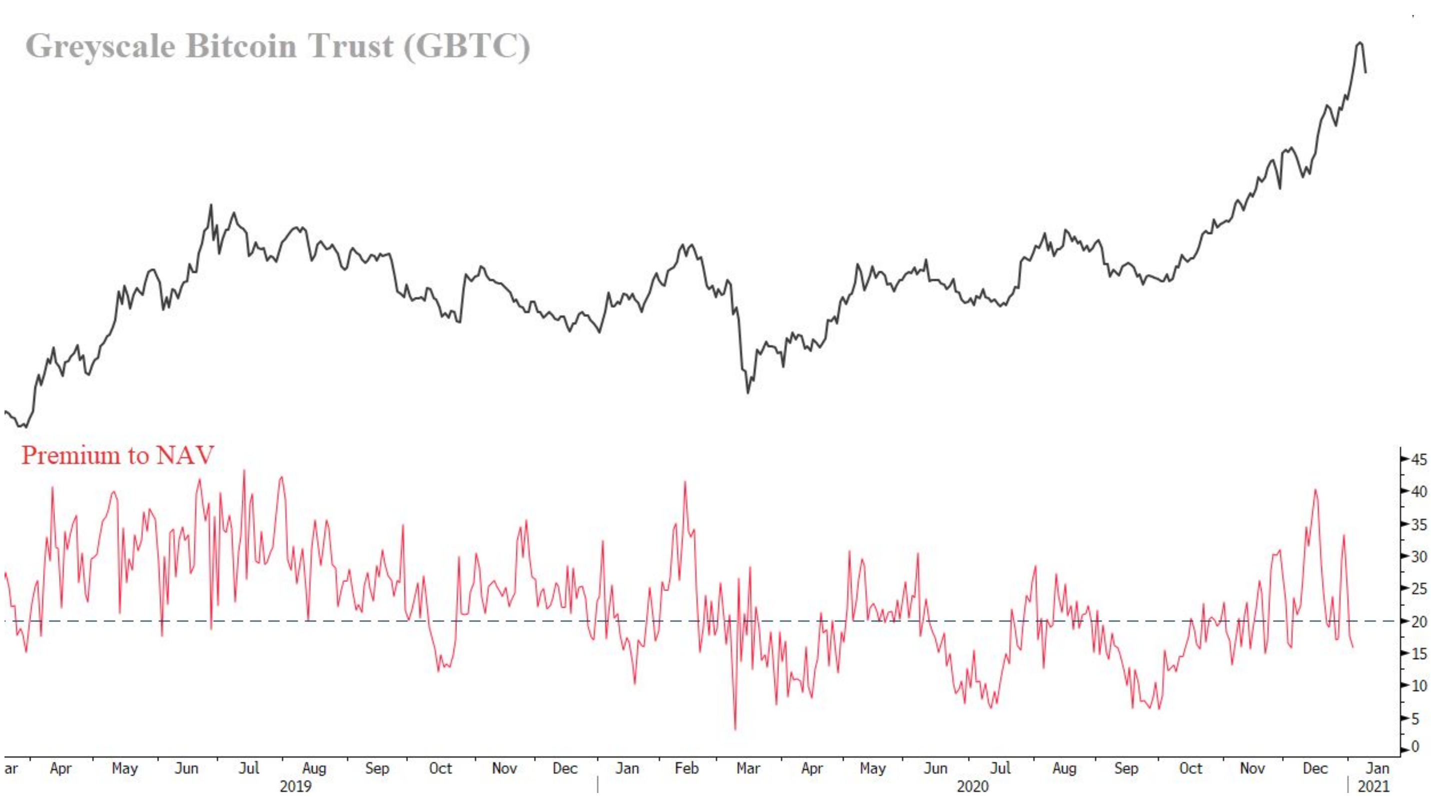


GBTC began taking orders again today so that should help support BTC. Also, GBTC's premium to NAV fell back below its historical average which has marked a good spot to buy in past up-trends.



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Are precious metals the geezer's hedge?

Precious metals got dumped on the back of the surprise GA Senate news. We got knocked out of our starter position in silver. This was a head-scratcher for a lot of people. Shouldn't more fiscal stimulus be good for gold and silver?

The answer is yes, it is. Fiscal equates to an actual increase in the money supply (unlike QE which a lot of perma metal bulls point to but which is really just the swapping of USD assets by the Fed). Precious metals tanked because yields, both real and nominal, jumped on the news. It was a surprise and has led to some repositioning cascades. For new members, you can read about our gold and silver framework [here.]

The narrative that gold is being usurped by crypto is also becoming predominant. This is a bunch of hogwash… It's *actually* bullish for precious metals longer-term as it's narratives like these that help set the technical base for larger bullish advances.

Gold and silver have the entire economic history of man on their side. They're not going to be replaced anytime soon. Besides, the total market cap of both is a drop in the bucket when compared to the potential demand for inflation-hedge / negative real-yield alternative assets.

Gold is in a bull channel. I'd love to see it come down more to the bottom support, so we can scoop up some miners on the cheap. I fully expect PMs will be one of the best-performing assets in the second half of this year.

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I mentioned the US dollar setup in today's *[Dozen](#)*. FX Funds are holding their largest short position since 2011. DXY is knocking on a *major* 12-year support level (grey zone), where it found buying interest back in September of 18'.

Here's a close-up of the weekly. That's a nice long-tailed reversal candle last week off of support, following a three-wave bear leg that began back in May.

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I would expect it to chop sideways some and build a small base before a reversal but we'll see. When positioning is like this anything can happen. We're eyeing EUR, AUD, and MXN as potential swing shorts if there are confirmed breakouts.

We have to watch real UST 10-year yields, the DXY, and LQD/IEF credit spreads. Bitcoin, gold, EURUSD, equities, etc… everything is keying off real yields. At some point, the rise in reals is going to pinch. And we'll see this feed through the US dollar, into credit markets, and finally stocks.

Natural Gas in play?

I shared a variant on this chart back in early August making the point that the natty curve suggested that gas had hit a durable bottom.

The Capital Cycle dynamics support the longer-term bull thesis for dirt cheap gas plays (that's why we own Antero Resources [AR]). Over the short-term though, this market is driven by weather concerns.

Steven Hallett, our resident meteorologist/quant wizard, wrote this in response to J Ed's remarks for a potential polar vortex trade in the #commodity channel.

> "Although it hasn't been too abnormally wintry and cold across the United States as a whole this winter, the Polar Vortex (cue ominous music) is likely to come knocking in the next one to two weeks. Contrary to popular belief, the Polar Vortex is not ephemeral and is rather persistent across the high latitudes of both hemispheres. In each hemisphere's winter season, the vortex is at its strongest and tends to keep the coldest arctic air right under it. However, in

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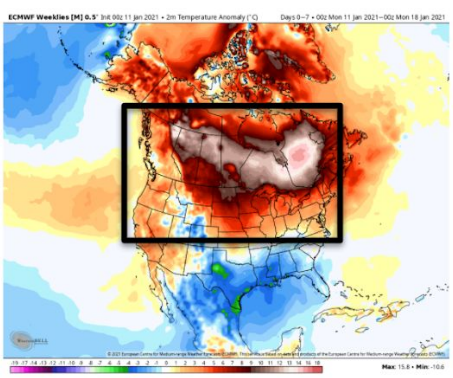
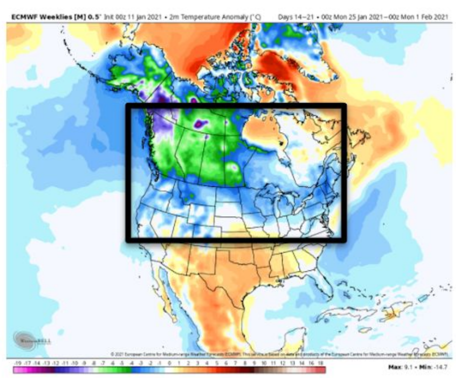
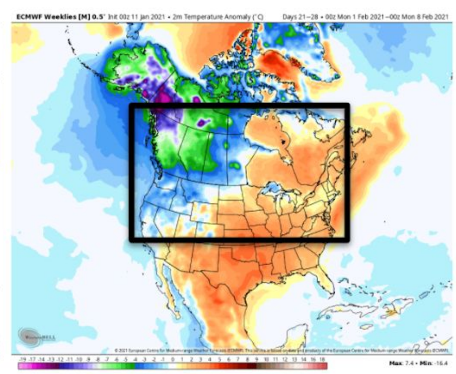
the last few weeks, it's been tossed around and bullied quite a bit by other happenings in the atmosphere. When this happens, a split of the polar vortex tends to occur causing it to separate into "lobes" (think mini, weaker versions of the main polar vortex). Recent runs of the European Weather Model indicate an increasing chance for one of these lobes to descend into Central Canada, and bring colder weather to the northern half of the United States.

“The image below shows forecasted temperature departures relative to average for the next month, separated by weekly averages. A lobe of the polar vortex is most likely to come knocking in the next few weeks (center image). Note the marked shift from largely above average temperatures (this upcoming week), to largely below average temperatures. However, it is important to note that the atmosphere is in a La Niña state. When the atmosphere is in a La Niña state, it is rare for the polar vortex (or any lobe of it), to overstay its welcome. This is shown via the rightmost panel in the temperature departure forecast for weeks three to four.

“In conclusion, the most likely solution at this time is to expect a spike in natural gas demand in 10-14 days. This demand spike will be rather short lived, at this time it is unlikely that this demand spike will extend past one week. It is advisable to play the runup to this event, however not hold too far beyond peak demand unless another update is sent out due to event extension.”


Week 1 Forecast (days 0-7)


Week 2-3 Forecast (days 14-21)


Week 3-4 Forecast (days 21-28)

We’ll watch this story develop. The charts look good in the space, and supply conditions are tightening, so we’ll see…

I’ll end this note here. Brandon and I are working on some exciting reports, digging into some plays in our two favorite emerging markets: Malaysia and Mexico. I’ll be sending out a write-up soon, updating our long-term bull thesis on both.

Until then, keep your head on a swivel…

Your Macro Operator,

Alex

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