Strategic Intelligence Report

INTERMARKET VIEW: In Praise of General Conditions

Jesse Livermore, as we've written in the past, was arguably the first great macro trader of the modern era (and of course one of the greatest traders of all time). He made more than $100 million in the crash of 1929, made extensive use of both fundamentals and technicals (the patterns were in his head rather than on charts, with numerous quote boys employed in his offices to track prices on blackboards). He paid devoted attention to both "top down" macro factors (absorbing data from the newspapers of the day) and "bottom up" elements for individual stock ideas, including the repeated use of joint partnerships and deep-dive multi-year investments. He only met his trading downfall in the 1930s as a result of deliberate self-sabotage, breaking his own crucial rules aggressively and repeatedly, in a manner that suggested a part of him wanted to be rid of the fortune he had amassed. This was likely due to a combination of inherited psychological issues (a lifelong struggle with depression, passed on to at least one of his two sons) and a combination of extreme stress and guilt, born of a marriage that had fallen apart, an emotionally destabilizing robbery incident that lead to trauma and paranoia regarding security issues at the family estate (against the backdrop of a rising crime wave targeting wealthy enclaves in the 1930s), and a possible sense of unease and shame born of becoming fantastically rich by way of a market event (the 1929 crash) that saw most of Livermore's friends and half of Wall Street completely wiped out. To understand Livermore as a pioneer in trading it is necessary to separate the troubles of the man from the robustness of the method. It's the robustness of the method that stands the test of time. And at the very core of Livermore's method, as he repeated time and again by way of the pseudonymous Larry Livingston in *Reminiscences of a Stock Operator*, was the study of "General Conditions." To give a few quick examples:

Without faith in his own judgment no man can go very far in this game. That is about all I have learned – to study general conditions, to take a position and stick with it.

I still had much to learn but I knew what to do. No more floundering, no more half-right methods. Tape reading was an important part of the game; so was beginning at the right time; so was sticking to your position. But my greatest discovery was that a man must study general conditions, to size them so as to be able to anticipate probabilities.

Like the physician who keeps up with the advances of science, the wise trader never ceases to study general conditions, to keep track of developments everywhere that are likely to affect or influence the course of the various markets. After years of the game it becomes a habit to keep posted. He acts almost automatically.

We revisit this old subject (General Conditions) to highlight a subtle yet important shift in the SIR Intermarket View and its construction and main function. The term "Intermarket" as it applies to trading was popularized by John Murphy (as far as we know), representing the linkage between markets and the degree to which everything affects everything. One often finds intermarket relationships expressed via price charts, an obviously logical thing in that price is a compact and robust way to represent the movement of asset classes all around the world. It's notable that you don't have to use charts per se to do intermarket analysis, however – as mentioned Jesse Livermore tracked price action extensively, but the patterns he saw were in his head. A handful of the legendary *Market Wizards* who deployed intermarket discipline – Jim Rogers or Michael Steinhardt for example – also avoided using charts.

We think price charts are excellent and will always use them as an indispensable guidance tool. But what we are driving at is bigger than price charts, or intermarket price relationships, or awareness of market movements in general. It is a deeper emphasis shift toward the tracking of "General Conditions," in the Livermore sense of the term, with intermarket aspects serving as confirmation or disconfirmation for scenarios and forecasts and probability-weighted exposures. To state it yet more clearly, the reason to study intermarket relationships is *to grasp "General Conditions" in the Livermore style,* with price acting as a hypothesis generator and confirmation tool. This is a subtle point but an important one. Price is a kind of lens, or filter, that we use to interpret other data. The other data creates a mosaic, a kind of painted picture, which is then shaped and informed by price. In this way of operating, price is an interpreter more than a messenger. The understanding that produces big trades is an emergent property, born of data-driven hypotheses and scenario developments, which are then interpreted, clarified and confirmed by price action. This way of seeing things helps further explain how price data and fundamental data interact, and why both of them are essential to get a true handle on General Conditions. The way Livermore did it unquestionably combined both a keen observation of price and the use of top down and bottom up data – for more on the specifics, read *Jesse Livermore – Boy Plunger* by Tom Rubython – and the reason why is because, when price data and fundamental data are considered apart and then merged together, you get a new form of clarity as an emergent property. Think of a pair of scissors: If you take apart the scissor blades, each half is useless. But put the two halves together, and the ability to cut things emerges. There is a comparable scissors-like emergent property in combining price awareness with data awareness: Putting both together allows one to cut through the noise via the vetting of trading hypotheses credited or discredited via the lens of price.

The price inputs and the fundamental inputs have different jobs, but their real job is to work together. A key job of price inputs is to highlight the strengths and weaknesses of various hypotheses and scenario developments that are born of the fundamental data, and also to give clues and signals as to the best hunting grounds in searching for insights. To misquote a popular misquotation from Einstein, one could argue that philosophy without science is lame, and that science without philosophy is blind. In markets one could similarly argue that price without fundamentals is lame, and that fundamentals without price are blind. The investor with no sense of price action has a very hard time discerning when they are wrong, or discerning between one market scenario being confirmed and another being disconfirmed; the trader with no sense of fundamentals, meanwhile, has a hard time sizing positions in a manner that reflects embedded risk-reward opportunity.

Small shifts can matter in large ways in the sense that, say, a slight adjustment to an experimental engine design can be a difference between the engine working "okay" or not firing up at all, versus the engine truly roaring into life. Whenever a complex system introduces nonlinear dynamics, there is an opportunity for minor changes to create dramatic changes to either the plus column or minus column. On a personal level this can mean a difference between "almost" succeeding but not quite, which is the same as failing in the long run, versus fully breaking through; or it can mean a difference between doing "decently" well and roaringly, spectacularly well. Our keen awareness of nonlinear dynamics is one of the reasons why we are highly sensitive to the potential power of small incremental improvements – in the context of things like a trading methodology and a research process – which further explains why we can get very excited by seeming micro-level "a-ha" type moments with sizable adjustment implications.

We were somewhat knocked back on our heels this week (in a good way) in respect to new insight as to how to adjust the Intermarket View to better reflect this idea: A yet stronger emphasis on Livermore's General Conditions, interpreted through the clarifying lens of price, with the routine study of intermarket relationships not "kind of" serving that purpose, or in the more-or-less ballpark of serving that purpose, but emphasizing that purpose specifically and deliberately.

Because we are slightly acronym-happy, this pathway led to a new acronym, PRICE DRIVERS, as shown in the upper right column, as a means of parsing out the various factors that go into understanding and interpreting "General Conditions" in the Livermore style. There are a dozen factors in our PRICE DRIVERS accounting, as you can see to the upper right. All of them play a role, and each area has potential to be a kind of deep input silo for the information and data that flows out. It is putting all these together which creates the emergent property that represents General Conditions awareness.

GENERAL CONDITIONS PRICE DRIVERS

- **P**RICE ACTION
- **R**OTATION
- **I**NTEREST RATES
- **C**REDIT FLOWS
- **E**ARNINGS
- **D**ANGER SIGNALS
- **R**ISK APPETITE
- **I**NTERNALS
- **V**ALUATIONS
- **E**CONOMIC DATA
- **R**ISK FACTORS
- **S**UPPLY / DEMAND

The series of incremental adjustments we worked through in recent days led to another light bulb going on, in terms of an old concept yet better understood: Why don't more people attempt to trade in the Livermore style? It's not even really a question of whether people are good or bad at it, so much as why are so few traders or investors open to doing it at all?

The answer, in our view, is related to the reason why it took more than a century for neoclassical economics to entertain letting go of "rational man" in favor of behavioral economics: It was just too hard, if not impossible, to model the messiness of actual human behavior prior to the wide availability of raw computing power. And so the neoclassical economists made do with brute force simplifications and, for the sake of math, assumed humans were perfectly rational robots. To compare that with analyzing general conditions, for Livermore to do what he did meant being aware of all of the PRICE DRIVERS factors (in his own configuration), while tracking price action in his own head besides – an exceptional feat for any human being in any era. What's different today is the 21st century ability to upload one's mind to the cloud, in respect to using cloud computing tools to packetize information flows, both incoming and outgoing, so as to track, say, a dozen different data streams making up the PRICE DRIVERS picture. This too is a big part of our work, perfecting not only our own ability to manage multiple data streams efficiently in the cloud, but creating a system elegant and robust enough to eventually be shared with, and taught to, fellow traders and investors.

And again none of this is "new" to our approach, rather being deep in the wheelhouse of the methodology and approach we've been working on for years, maybe even since reading *Soros on Soros* in the late 1990s; instead it falls more under adjustment at the margins for improved performance, which is in many ways a lot more exciting than having a "new" idea. Coming up with something truly "new" can mean having to start over or begin from an unknown square one; figuring out how to build on, or marginally improve, an already powerful complex system approach that has already been evolving for years, in contrast, is far more likely to lead to game-changing enhancements and accelerated performance breakthroughs.

Strategic Intelligence Report

In December of 2017, it is worth stepping back a moment to savor the sheer cognitive dissonance of what's happening. In recent days we found out that North Korea can be classified as a nuclear power, with new ballistic missile capabilities that can hit the continental United States. Within a short space of time North Korea is on track to miniaturize its warheads, thus becoming fully ICBM equipped – an event that geopolitically humiliates the United States, alters the nuclear war calculus permanently, and leads to widespread proliferation. Unless, of course, the USA initiates a tactical strike or ground war, or both, at risk of triggering ally casualties in the hundreds of thousands to millions. Meanwhile the depth and seriousness of the Russia probe has accelerated with a speed and force that has surpassed nearly all expectations, even among those (including us) who gave Trump a roughly zero percent chance of staying in office past 2018. There are now credible news outlets talking openly of Trump's clear signs of delusion and increasingly aggressive behavior, signaling a possible break with reality, triggered by the stress of the Mueller probe now bearing down on Trump's family (ahem, Jared, cough). Risks of a Trump temper tantrum are rising by the day, and could manifest as concrete destructive action within weeks. Take the rising possibility of a government shutdown, for example, which Trump seems to be inviting and has argued could be "good" for him. Then too there is the backdrop of what some traders call the "thin ice" paradigm, in which volatility sellers try to "diversify" their short volatility exposure by selling vol against a more and more diverse basket of assets, the rough equivalent to going ever further out on the thawing ice of a frozen lake. There is no true diversity in shorting a volatility basket, as all assets are interconnected now – it is one giant frozen lake – and when the ice cracks many will drown. This is why even crude oil has seen bizarro levels of calmness in its day-to-day trading, though Saudi Arabia is being abruptly turned upside down by a 32-year-old autocrat who has called the leader of Iran "the new Hitler of the Middle East."

But danger signals and risk factors still don't matter – yet – because liquidity is ample and the buyers literally don't care. Passive investing flows make no allowance for geopolitics or valuations or fundamentals or any situational inputs of any kind really, with quant-based flows and other robo-strategies similarly agnostic in the sense of doing over and over what's worked the day before. The available liquidity has become so much that a Leonardo da Vinci painting – a rather ugly one at that – sold for the gavel-busting price of $450 million, as the Swiss National Bank (SNB) becomes a robo-buyer of tens of billions in US equities alone, and European junk bonds yield less than US treasuries and long equity hedge funds leverage up to their most exposed levels since 2007, with valuations now at their highest levels (per Goldman Sachs) since 1900.

It's a classic case of reckless driving via the rear-view mirror.

We've been looking at this whole thing through the prism of embedded risks, the long-term debt cycle, and the turning of the business cycle, all three of which are very much in play. There are multiple Federal Reserve rate hikes forecasted for 2018, along with a likely one in mid-December. At the same time there are plans for central banks (other than Japan's) to start paring down their multi-trillion balance sheets. This is problematic for valuations at the most elevated in 117 years.

We've been watching credit markets because, when it comes time for a turn, credit markets will likely be first and equities following. We noted prior to Thanksgiving that various debt vehicles had fallen sharply below their ten and twelve month ranges and 200 day moving averages, with money flowing out of junk bonds in large volume. This indicated danger and adding to our willingness to consider risk-off ideas, such as a USD short squeeze. But then credit appetite rebounded right after Thanksgiving, as shown via HYG above, and now there is a fresh question mark. Will highly leveraged credit markets acknowledge interest rate pain is coming or won't they? How long can it be pretended otherwise if econ data stays strong?

The other major factor for markets this past week: Successful passage of the GOP tax cuts, with high odds that a final bill will be reconciled by the house and senate. Markets are very excited by the prospect of a boost to corporate profits, which led to a near-vertical spike in transports and financials, a Dow push above the 24,000 level, and anticipatory rotation out of FANG stocks into other sectors, along with a vicious squeeze in heavily shorted areas like retail. The political twist to the tax cuts is interesting: The bill is historically unpopular with voters and laden with loopholes and surprises, increasing the odds of a broad voter backlash against Republicans in 2018; and secondly, as soon as Trump signs the tax bill, Republicans will have achieved their existential objective and won't feel as pressured to tolerate his antics. The cuts could also mean the anticipation of accelerating deficits when the upcoming cyclical downturn hits, which could add to inflation fears and the possibility of an interest rate spike. Overall we don't see the merits of overstaying this bullish party, which now comes closer to its decade-plus stimulus crescendo, with a possible tax cut blow-off move at the very end. It's still party time for those who lack risk control, caution time for those who don't.

MACRO VIEW: Bitcoin, Currencies and Pot Odds

After the Nasdaq topped out in March of 2000, then crashed, a running joke was *"Please god, just one more bubble."* Then came the US housing bubble and condoflip.com, with private equity and commodity bubbles alongside, leading to a crash in 2008. The joke after that, once again, was *"Please god, just one more bubble."* Now it's 2017, and prayers are once again being answered… with a mania to rule them all, in regard to showmanship and frenzy, in today's cryptocurrency bubble.

The above chart, from John Authers at the FT, seems to show a high flyer versus something rather boring. It actually shows the return of Bitcoin (blue line) over the past year compared to the return of the Nasdaq in 1999-2000 (red line), a full year prior to the dotcom bubble peak. Bitcoin's rise has been so spectacular in percentage terms, in other words, the dotcom bubble looks like a treasury bill yield in comparison. There is no other bubble in the world like Bitcoin's. This comes down to multiple factors, including a truly global appeal, the ability to use Bitcoin for border-crossing money transfers, and the ability of hype to more effectively multiply itself in a social media enabled world. Bitcoin also has the benefit of nothing tangible being attached to it. Dotcom companies had to at least entertain the theoretical possibility of future profits. In the case of Bitcoin the idea hinges on pure momentum, with most every argument coming down to some variant of a guaranteed limit on supply, versus bottomless new demand.

The most ironic argument used to advance Bitcoin, and one that is completely wrong, is that the world's paper currencies are worthless, so why shouldn't they be replaced by a digital competitor that can't be printed. Saying that "currencies are worthless" is one of those viral arguments that smart people are happy to fall for, even those who should know better. It's not at all logical to say paper currencies are worthless, unless you think that all stocks and bonds are worthless too. People like to say that currencies are worthless because a central bank could hypothetically print an infinite amount at will. Yet it's also true that a public company could theoretically issue an infinite number of shares at will, or sell a crushing amount of new debt at will – yet we still value stocks and bonds.

Imagine if Satya Nadella, the CEO of Microsoft, a company with a $650 billion market cap as of this writing, lost his mind and said *"Next week we're going to issue seven trillion shares of Microsoft stock,"* and the company did it and dumped the shares on the open market, and the value of the stock fell to eight cents. Is it theoretically possible this could happen? Of course. What is the probability of this happening? It is zero, because a tiny number above zero (e.g. 0.0000000000001%) is rounded to zero. In a similar fashion, the odds of a central bank, tasked with managing a major currency, taking action to print enough currency to make the currency "worthless" overnight is roughly zero. It is true that currencies can enter an inflationary death spiral – see Venezuela and Zimbabwe – but you get ample warning before this happens, and death in a currency generally coincides with a rapidly dying economy.

It's kind of weird. If we acknowledge that central bank policy can erode perceived value of a currency at the margin, which is true – the same way that poor corporate management can erode the valuation of a company – that implies currency has some kind of value to be eroded in the first place. Which it absolutely does! A unit of currency is a claim on the assets of a country, in the same way that a share of stock is a claim on the assets of a company. If you have a pile of dollars, you can use them to buy shares of Google or Apple, or California real estate, or US shale output. You can also use those dollars to pay wages to employees, or pay US taxes. This is what gives the dollars value. A currency also gains value via guaranteed sources of demand. The guaranteed demand for US dollars is deep into the trillions, because trillions of dollars in taxes every year are required to be paid in dollars, and trillions of dollars in global trade are transacted in dollars, and trillions worth of debt service payments are made in US dollars. One can see a direct connection between the global desirability and demand for a currency and the economic output of the country that issues that currency. One can also see a clear connection between the perceived stability of a currency and the demand for international debt transactions in a currency.

In a sense one could say currencies have brand value, which is an odd idea, except for the fact that large consumer-facing companies like Ford and Apple have brand value too. One can also see a correlation between the long-term health of an economy and the attractiveness of the currency: When an economy is healthy and growing, more assets are accruing in that currency and more transactions are being made in that currency, increasing demand. Currencies have value because they are exclusively issued by sovereign governments with taxing power over national economies, which produce things of value. The observation that a currency could theoretically be printed to infinity has no bearing on its present worth.

Here is an exercise that can help clarify why currencies have value: Imagine a scenario in which the US dollar suddenly lost ninety percent of its value overnight, without any actual physical assets being harmed. (No nuclear war, EMP power grid destruction, zombie apocalypse etc.) This is really an impossible scenario because, if the USA's currency suddenly threw a 90 percent off sale, then all of the assets available to buy in USA currency would be 90 percent off too. That means the sovereign wealth funds administered by other countries could hoover up the equity shares in all of America's premier companies, and bid up prices in all of America's premier real estate holdings, at a cost of ten cents on the dollar. But of course, if a swooping down of global investors led to a raid on American assets, all of their buying would create demand for US dollars, which would then just push the value of the currency back up again. As long as a currency issued by a sovereign nation can be used to purchase the assets of that nation, the value of the assets acts like a kind of arbitrage floor. If a country is rich in assets and desirable holdings, its currency will have value as a purchasing mechanism for such.

Are we saying that currencies can't fluctuate, or that value in a currency can't be eroded? No of course not. The value of a currency can move around, sometimes a fair amount. But the key idea here is that there is real worth in a currency, just as there is real worth in the shares of a public of company, if that company generates profits or owns valuable assets. If a person says that currencies are worthless, or that a currency is only worth what people think it is worth, that's a nonsense statement. To say that the value of "everything" is subjective is to make so broad a statement as to be pointless. But to say currencies are worthless in a way that, say, shares of stock or debt certificates are not is to say something false. The thing that a unit of sovereign currency, a share of stock and a debt certificate have in common is that all three are attached to a store of value or a source of cash flow somehow, with rights of attainment backed up by the rule of law attached. Value of such claims can fluctuate, but it is real and has parameters.

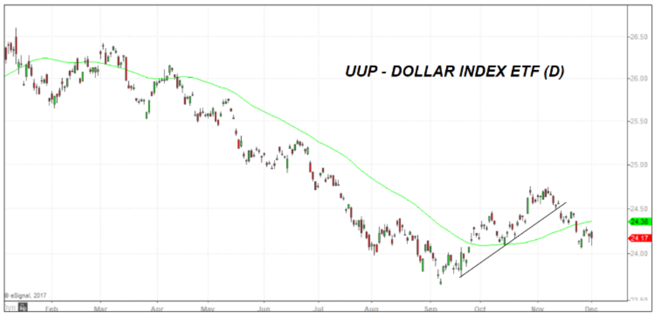
This is true for *sovereign* currencies, because such currencies are intrinsically tethered to taxation and trade and economic output and purchasable assets. It is not true of Bitcoin, which is tethered to nothing. Bitcoin competes because of the flip notion that all currencies are worth nothing, but again that isn't true. It is also said that Bitcoin is valuable in that supply is strictly limited. There will only be a maximum of 21 million Bitcoins in the world, and many of those are already lost, so that makes Bitcoin scarce. Really? What about endless forks and brand variants? What about all other crypto competitors which can be spun out? What if someone says they've made cryptocurrency X, which is better than Bitcoin – it takes less energy to mine, the ledger is more secure, and there will only be 20 million tokens instead of 21 million. Or whatever it is.

Or imagine if, say, all the EU member countries got together and said, "The new euro-X cryptocurrency will have a max of 10 million tokens, and is guaranteed to be accepted by tax authorities in all EU member countries, and losses by theft or exchange failure are guaranteed against by the ECB, and by the way all Bitcoin transactions will now have a 25% VAT tax whereas euro-X transactions will have none." It will be fairly easy for central banks, or even large companies, to replicate the desirable properties of Bitcoin if desired, with real safety features and legal authority on top. This is why, in our view, the fantastical projections for Bitcoin are based on nonsense. Could it go to $40,000 or $80,000 or half a million? Possibly, but why? Based on what? One has to assume no competition of consequence will arise, that a power drain equivalent to the output of more than 159 countries will be ignored, and that money laundering aspects will be ignored by authorities.

The best argument for Bitcoin reaching, say, $100,000 is now a variation of greater fool theory. It is the notion Bitcoin has so much momentum, and such powerful branding value, that grandmothers will continue to buy it, and that momentum alone will propel the price far higher with no impediments. On this logic you buy in the assumption a greater fool will buy at a higher price, and then wait for the fool to come along.

Does it ever make sense to make a bet on pure speculative possibility – just the sheer raw possibility that something can go up a hell of a lot? Certainly, based on pot odds. Imagine if you were given the opportunity to invest in asset XYZ, which has a one percent chance of a thousand-fold return and a 99 percent chance of going to zero. Betting $100 on XYZ would be rational because the bet would carry an overwhelmingly positive expectation: Ninety-nine times out of a hundred you lose, but the one time you cash out for 100K means positive expectation of more than $900 per wager. In order for that kind of math to work, though, the potential upside has to be multiple orders of magnitude, to make up for the highly likely probability of a total loss. With Bitcoin trading in the vicinity of $10,000 that opportunity seems lost – the potential upside return multiple from here can reasonably be deemed less than 10X, possibly far less than 10X, as juxtaposed against the possibility of getting crushed. And if one is hoping for a more prosaic Bitcoin return from these levels, say something like 50-100%, there are opportunities in Las Vegas to make wagers that are 50/50, or otherwise quite close to that, with free drinks and room comps added in besides. The chances of Bitcoin seeing substantial competition, even from central banks themselves, seem high enough to be a near certainty; the chances of Bitcoin itself becoming a legitimate currency, on the other hand, seem roughly zero. In the great South Sea stock bubble, circa 1718-1721, the stock appreciated by 800 percent in the final few months before collapsing. Even Isaac Newton – the father of gravity – got suckered into that one.

TACTICAL VIEW: Tax Cut Roulette



For the dollar, passage of the GOP tax cuts – they haven't reconciled the house and senate versions yet, but will almost certainly get a bill onto Trump's desk – is like the wheel spin on the classic TV game shows. It could be bearish for the dollar or strongly bullish, and it's impossible to tell where the spinning wheel will ultimately land. The uptick of optimism for corporate profits is US dollar bearish, as the dollar keeps on serving as a global funding and borrowing currency with investor flows going out. But the possibility of a repatriation for the multi-trillion corporate cash hoard sitting overseas (those big piles Apple, Microsoft, Cisco etc. are sitting on) is big enough to push the USD higher, if the tax-amnestied cash comes home to be pumped into dividends and buybacks.

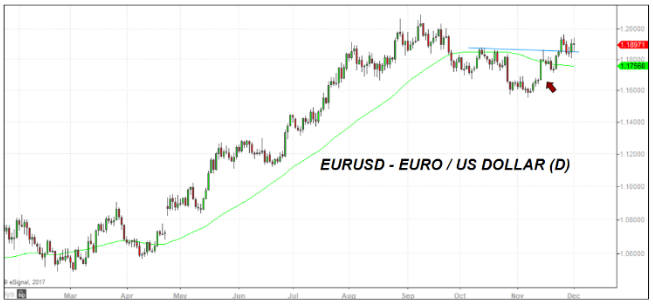
Before Thanksgiving we saw a rising US dollar and cratering junk bond market (on high volume no less) as potential signs of danger, but after Thanksgiving those flows were reversed. Buyers stepped back into credit markets, creating another V-bottom type formation, and the dollar began to slump. That coincides with the dollar's failure to maintain its trend push higher. It looked as if the USD's dominant downtrend of 2017 might have been over, with a new bullish trend developing even as credit markets grew shaky. But the upside trend was broken, the dollar index now back below its 50 day average.

The Republican tax plan will be a boon to corporate profits, but not to US economic growth. Large public company CEOs have already signaled they intend to give tax windfalls back to shareholders in the form of dividend boosts and buybacks, rather than invest in jobs or capital expenditures. This will add fuel to the positive corporate profits outlook even with corporate profits more or less at their best levels ever, while the cuts later add to an exploding US deficit. The nonpartisan Joint Committee on Taxation, the official scorekeeper on tax matters, has estimated the tax plan will cost $1 trillion. The Congressional Budget Office estimates a cost of more than $1.4 trillion by 2027. But these could be lowball numbers, because nobody really knows what hidden loopholes await in a monster of a bill (close to 500 pages) written in the dead of night at the speed of light (compared to normal congress proceedings). There will be big loopholes hidden in this thing. Some of those loopholes could be big enough to drive a Mack Truck through, with professional tax lawyers compensated to find and exploit every single one of them. One quick analysis has already suggested tens of millions of businesses with a "pass-through" status will move from an LLC designation to a C-Corp designation, to capture the extra tax-savings-spread on profits not paid out as salaries. There are surely yet other loopholes, some of them industry-specific, that could bear a cost of tens of billions to hundreds. We probably won't know about the major loopholes or the unintended consequences, though, until after the bill becomes law, because the house will do everything possible to get it reconciled immediately (they want to beat the clock on Alabama's special election).

The tax plan has the twin effects of delighting Wall Street in the short term, with an immediate boost for 2018's earnings and a possible mass repatriation of offshore cash to pay for more buybacks, and horrifying responsible economists, who see a major giveaway to corporations, at the very height of the business cycle, as a deficit-exploding act of nihilism that will mean lost revenues and a worsening shortfall, forcing a call for safety net spending cuts just as a new downturn hits.

If life were more simple, we could simply observe the frenzy of bullishness and FOMO (fear of missing out) and conclude that congress has just poured another three bottles of vodka into the punch, so why not look for blow-off upside trends as this juiced bubble goes out in a multi-month blaze of glory. The trouble is that too many serious dangers loom, of the kind that could hit in a matter of days or weeks. For instance, we want to be more relaxed and excited about the market's upside potential, but it is hard when the president himself is a ticking time bomb of political risk. The president may have found out by now that Mueller has him trapped in a box. The strategy of pardoning Flynn or Manafort is no good, because Mueller has a roster of state-level charges in reserve (which a president can't pardon) that could put either man away for decades. Flynn, meanwhile, is likely to have told Mueller all that he knows with total honesty, as Flynn's plea deal hinges on absolute fidelity to the truth. And Flynn clearly has much to offer Mueller on the small handful of targets higher up the food chain, which can only mean names like Kushner, Pence, Sessions, Trump Jr., and of course Trump himself. Then too, Mueller executed another masterly chess move interviewing Jared Kushner, and other key figures, prior to revealing the Flynn deal; in result, Kushner and others almost certainly lied to Mueller in areas where Flynn will catch them out. This is a classic 'roll-up' operation, where you squeeze witness after witness like rolling up a toothpaste tube. Eventually the circle of trust is shattered, and witnesses rat each other out (or give up the top man) in order to reduce their own prison time.

It's unclear how much of this Trump understands, but that is because it's unclear whether Trump even remains in touch with reality. Trump's Twitter feed can be seen as something of an 'unhinged' index, with the Tweets growing more crazy and bombastic the more unhinged Trump becomes. We can't help but point out, again, that an increasingly frustrated and angry president, with a penchant for creating distraction and causing drama as a diversion strategy, still retains the options of: Starting a preemptive war with North Korea; provoking China as a means of blame for North Korea; trashing NAFTA; facilitating a government shutdown (which could happen before Christmas); pulling a new DOJ stunt in an attempt to fire Mueller (thus triggering a constitutional crisis); or any combination of the above, including publicly losing his mind.



We were interested in shorting the euro (EURUSD) if it saw a break of the November 14th lows, indicating a reversal at the 50 day MA. That never happened – instead the euro moved higher as the dollar again weakened. This may have been in part due to events in Germany. Our interest in newly shorting EURUSD, after being bullish on the euro for most of the year, came when it looked like Angela Merkel could lose power, dealing a fatal blow to the political stability of the Merkel-Macron axis. Now, though, Merkel's party is back in coalition talks, leaving her weakened but not sidelined. The euro may yet shake off its weakness and return to strength against the dollar, which now looks soft again on multiple fronts. Yet the USD is truly in a wildcard state, for reasons noted relating to corporate cash repatriation. These are strange times indeed.

We've added to our Tesla (TSLA) short, and conviction levels have grown for reasons other than the price pattern (which is beautiful in and of itself). Tesla is really, really in trouble in respect to production. And its competitors are really serious.

Jim Chanos, the legendary short seller who uncovered Enron, and who is now short Tesla, says it like this: *"Put it this way. If you wouldn't be short a multi-billion-dollar loss-making enterprise in a cyclical business, with a leveraged balance sheet, questionable accounting, every executive leaving, run by a CEO with a questionable relationship with the truth, what would you be short? It sort of ticks all the boxes."*

You don't have to be a Musk-hater to want to be short TSLA though. We like Elon Musk and hope that Tesla succeeds. We simply don't see how that's possible without raising billions and billions in new capital, and trashing all profit projections in the process, putting the share price under severe distress.

Over the last twelve months or so, *Bloomberg* reports, Tesla has been burning up its cash at $8,000 per minute, or roughly $480,000 per hour. And yet, for that insane amount of cash burn, Tesla is hopelessly far from its production volume goals and appears to have serious quality control problems. Tesla employees report that more than ninety percent of Model S and Model X vehicles have defects that require fixes before leaving the factory. The rate of post-assembly-line defects for Toyota is less than ten percent, and Tesla has yet to scale up its output by the order of magnitude necessary to meet its goals, while hoping to start a truck assembly line besides!

Speaking of trucks, energy scientists crunching the numbers on Musk's promises for electric truck performance now find themselves scratching their heads, because the output Musk has promised seems to defy the basic laws of physics. They're quick to point out Musk isn't necessarily lying; it may be that there are new innovations for the truck components that are so cutting edge analysts don't even know how to think about them yet. But still, one wonders how much of it is blue sky.

Then too, stodgy old competitors, like General Motors, have made it clear they aren't screwing around. GM is a lumbering giant compared to Tesla, which makes one anticipate slow movements. But GM has become a force in self-driving tech thanks to a billion dollar acquisition, and has followed up its plans for the first mass-production self-driving vehicle with a promise to roll out a self-driving taxi service in multiple major US cities by 2019, charging rates less than $1 a mile by 2025.

Tesla jump-started the public's imagination when it comes to electric cars, but supplying whole fleets of electric vehicles to public municipalities is all about functionality at scale. It may be that, by the time the Model 3 is produced in anything like true mass volume, the self-driving Chevy Bolt is dominating landscapes based on availability and affordability. There are also numerous other large auto makers, e.g. Volkswagen and Ford, committing to mass electric vehicle production. Tesla still has a future ahead of it, but the future of the electric car now looks to be dominated by established players with the ability to operate at scale. Tesla's valuation, given cash burn and production troubles, should probably be half what it is.

CURRENT POSITIONS

Long/ Short	Ticker(s)	Vehicle / Area / Industry Group	Description / Strategy	Analysis PDF Links
SHORT	SLV / SI	Silver	Silver prices could fall sharply in an unfavorable environment for precious metals, with Bitcoin taking away speculative market share.	**11-06-17**
SHORT	TSLA	Tesla Inc	Tesla could lose one-third to one-half its value as production problems mount, competition increases and credit markets turn harsh for capital raising.	**11-21-17** **11-02-17**
LONG	EURGBP	euro currency / British pound	Similar thesis for Brexit weakness in the pound. Whereas GBPUSD declines when the pound weakens vs the dollar, EURGBP rises as the euro strengthens relative to the pound.	**10-19-17**
LONG	USDCAD	USD vs Canadian dollar	All the various commodity currencies look vulnerable as the US dollar goes into a potential risk-off strengthening pattern.	**11-09-17**
SHORT	AUDUSD NZDUSD	Aussie, Kiwi dollars vs USD	All the various commodity currencies look vulnerable as the US dollar goes into a potential risk-off strengthening pattern.	**11-09-17**
LONG	USDJPY	US dollar / Japanese yen	The USD could gain a rate hike edge on the yen, or rocket higher against all comers on a short squeeze.	**10-12-17**
LONG	TAN	Guggenheim solar ETF	Moderate long position from breakout with add-on. Boom-bust solar industry capturing imaginations as solar shows potential for waterfall expansion uptake.	**06-23-17** **06-14-17**
LONG	EURJPY	Euro currency / Japanese yen forex pair	Sizable position, moderate starter plus multiple add-ons as Europe sees investor capital flows and yen is treated as a funding currency in a bullish backdrop. Took half profits on 10-30-17.	**10-30-17** **09-12-17** **08-24-17** **06-16-17** **06-09-17** **06-02-17**

RECENTLY CLOSED POSITIONS

Bull / Bear	Ticker(s)	Vehicle / Area / Industry Group	Description / Strategy	Analysis PDF Links
SHORT	XLP	Consumer Staples ETF	Short squeeze in retail and staples plus no fear of coming rate hikes meant excursion point was hit.	**09-01-17**
SHORT	GBPUSD	British pound / US dollar	Brexit continues to be a slow motion train wreck, but optimism for EU talks and USD weakness made GBPUSD rise enough to hit our risk point.	**10-30-17**