Quarterly Newsletter
Walnut Hill Advisors, LLC
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"Paid to Play Idiots"

"Paid to play idiots desperately trying to "own" the "really-good-stuff" in order to show their clients how smart they were. Hedge funds trying to bootstrap some year-end "performance" to keep the redemptions away. The "Dow" appears to have traded a gazillion points up and down without actually going anywhere for several weeks. "They" really want an "up" year and have only three more weeks to accomplish that. I thought "they" might have made more progress by now but those annoying, pesky "big downs" that keep cropping up have frustrated "their" efforts.

In any case, the internals continue to stink as only a small handful of "the good stuff" manages to go up. All this nonsense is typically bearish and conforms to the classic early bear market behavior. While "they" whip themselves into an equity frenzy, the commodities continue to all apart. Without slipping into full doomsday mode, I would suggest the only time such a big commodity bust - across the board - happened while equities continued to rise was in 1928-29. By the time equities finally cracked in October 1929, all the basic commodities had been going down hard for over a year. Iron ore, coal, especially copper, and assorted other industrials were headed south. Agricultural commodities also started down. In effect, a global recession had started beneath the cover of rising stock prices (most stocks were declining in 1929 but the "super stocks" like US Steel and RCA propped up the equity fantasies).

This is not to say the 2014-15 commodity collapse is forecasting a 2016-18 equity bust (down 90%) but I think the commodity bust with its attendant leverage will spill over into some scary headlines in the financial press next year and the year after. Once the window dressing is out of the way, January might shape up to be a nasty surprise. After all, the paid to play clowns will have a whole 12 months to "figure out" their posturing and many of them are eager to exercise a little common sense by cutting back equity "exposure". If all the robots agree, we can easily see a one day, 5-10% break in the benchmark indices.

Group think on the upside is happy time. On the downside, not so happy. I continue to think all the leverage built up in the system will see a purge of epic proportions BUT, the timing is tricky. Probably stretched out for several months or more.

~"Mr Skin", retired long term successful fund manager throughout the 1960s, 70s, 80s and 90s. Nickname given to hide his identity on Bill Fleckenstein's private discussion site.

1. **Paid to Play Idiots - The End is Here**
2. **EMX Client Portal - a Powerful Tool I Provide to You!**
3. **Happy new Year and Office/Admin updates**

1. Paid to Play Idiots - The End is Here

As I finish editing this, US markets have finally appeared to have approached the time of cracking.

We were at a point where I saw, a couple of months ago, that 10 stocks out of the 500 were holding the index up. 490 Stocks were on average down. This is what we would call incredibly narrow "breadth" to use an investing term. The long quote from Mr Skin above outlines perfectly what was happening.

However, to take the other side of this argument, the market had refused to go down. I am not sure if it was just a knee jerk response from 6 years of bullish behavior brought upon initially about money printing euphoria. Which has now turned into simply 'the trend is your friend.' I don't know. But one would think it would need Thor's hammer to knock this market off its highs for any length of time. However, that hammer may have finally struck in 2016.

Of course that euphoric thinking would be absurd if we analyzed the facts. Global growth does not exist. Chinese numbers are broadly assumed to be fake. Numerous countries are in contraction. In the US, mixed signals abound and perhaps it's just the lack of any big negative catalyst (instead of many smaller ones) that kept the buyers coming back. But now some negative catalysts have appeared.

In addition, in 2014-2015 we also had the Nifty 10. Echoing earlier times (the early 1970s) when the "Nifty 50" stocks (Xerox, Polaroid, etc) rocketed to amazing heights, only to be followed by 2 crashes in the next 4 years. The Nifty 10 in 2014-2015 consisted of stocks such as Facebook, Amazon, Google, Nike, Netflix and a few medical stocks (which have mostly fallen at the time of this letter). Nike finally gave up the effort and fell after its most recent earnings report. And the FANG stocks (Facebook, Amazon, Netflix, Google) are taking hits in 2016.

Bottom line (to quote one of my clients' Jeff favorite term): There have been so many reasons to be bearish but the market just wasn't going down. So needless to say, numerous efforts on our part to get short and play for difficult market conditions had failed in 2015. However, things are finally changing in 2016. I am strategizing some direct and indirect bearish plays. Let me lay it out. Of course this goes along with themes I have discussed before

Direct Bearish Plays

I have repeated the thesis many times (especially in my Youtube videos) but here is our working thesis from the 2012-2015 period again to refresh your memory:

1. Economy is weaker than many think (check)
2. Stocks fall as people realize this (check)
3. Fed attempts to raise rates but has to backpedal after market falls "too much" (coming soon)
4. Fed tries to prop up markets, first with words, then likely stimulus. (coming later this Spring or summer)
5. Market rallies as knee jerk reaction to stimulus but rally fails (coming right after Fed)
6. Next big time down commences off this "failed" rally. (Soon after the "Fed rally")
7. Central banks take out the "Wave Motion gun" and blast the world with money printing and negative rates (coming when markets really tank)
8. Gold goes wild (when average people see that the "Wave Motion Gun" is a disastrous financial policy by central banks)

In summary our direct plays in response to our Thesis are bonds initially, shorting stocks & volatility bets, and owning gold/gold stocks.

Indirect Bearish Play

With risk of acting "too cute" with strategy, I am aiming for higher yielding dividend ideas that also represent deep value. These are somewhat rare in this market (which hasn't been this overvalued using Professor Schiller's cyclical PE ratio since 2000).

Reasoning - the Fed is not going to start an extended rate hike cycle. The US and world are so addicted to low rates (Euro bank, Swiss Bank and others now offer NEGATIVE INTEREST RATES on deposits) that the risk of high rates is overblown. They couldn't possibly raise rates without crashing the system.

So investments with yields will look very attractive in a no growth environment. Like real estate - you don't worry about swinging house prices if you can collect fat rent while you wait. I will attempt to do the same while keeping an eye out for distress and further misbehavior by central banks.

2. EMX Client Portal - a Powerful Tool I provide for You!

In 2015 I introduced the EMX client portal for our clients. This online tool is a powerful assistant to you in keeping your life organized. Here's what EMX offers for you:

- one stop aggregation and login to see all investment accounts, bank accounts, mortgages, credit cards, annuities, insurance contracts, company benefits and more - as long as they have an online login (1000's of firms are linked to EMX).
- A secure online vault to store copies of important documents - legal documents, insurance contracts, tax returns, appraisals of valuables, and more. No more leaving papers around the house for people to see. Let only your chosen alternate decision makers know how to access your vault.
- An expense and budgeting tracking system - if your credit cards and bank accounts are linked, you can track your expenses and budget effectively without writing for hours.
- Precise Financial Planning - EMX links with my financial planning software and having everything linked allows me to keep an up to the minute accurate financial plan for you. I also can stress test your plans with various scenarios such as: illness, premature death, savings changes, job promotions, changes in investment return assumptions and more.

If you haven't started fully using the EMX system yet, call me immediately. It's a valuable tool and with its advisor integration, much better than Mint without all of the marketing solicitations. or email me and I'll get you set up.

Resolution: Lets make 2016 the year of financial organization!

3. Notes

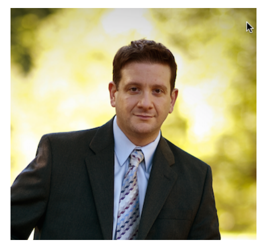
Happy new year! As always it's a blessing to have you all in my life. Also again, **[Check your emails to make sure my EMAIL newsletter is not going to SPAM ok]** (unless you want it to!). And please share feedback - thanks!

Link to Newsletter archives: http://us2.campaign-archive1.com/home/?u=498f82706d05927cd2f0f72f2&id=b3116cb209

Also, don't forget that we move our office: **90 Concord Ave 3rd floor Belmont, MA 02478**. Our phone and emails are the same. Drop by and visit!

FYI: clients can call me directly with any questions. My extension forwards to my cell phone if I'm not in the office.

Warmly,



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