Quarterly Newsletter
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"Peak Absurdity"

Bond bubble is building - expecting mania top but maybe we saw top this week? Unlikely but we will see.
Sign of madness - UK pound rising on prospects of a rate CUT by bank of England - gold was down that day too. We are in peak absurdity times...Have a good weekend,
~via one of my recent emails to a client

1. **Peak Absurdity**
2. **Focus on QOL: Quality of Life**
3. **EMX - reminder article on client portal**
4. **Office miscellaneous**

1. Peak Absurdity

Thank you all for reading. Though I regret to inform you that financial markets have finally done it. They've achieved Peak Absurdity. Before I delve into this matter, I will quote liberally on this topic from a successful retired money manager who will remain nameless; then share some of my thoughts. Before I do that lets recheck the thesis that's been driving how we're approaching client portfolio positioning:

This thesis has appeared many times (especially in my Youtube videos); here again is our working thesis from the 2014-2015 period again to refresh your memory:

1. Economy is weaker than many think (**check** - at least globally very weak/major mixed signals in US)
2. Stocks fall as people realize this (**check** - though we've got quite a technical bounce to highs SPX!)
3. Fed attempts to raise rates but has to backpedal after market falls "too much" (~~coming soon~~ **check**)
4. Fed tries to prop up markets, first with words, then likely stimulus. (coming later this ~~Spring or summer~~ year - timing on this wont be perfect! Though if I meant globally, Japan and Europe are engaging the "hyperdrive" on the Millennium Falcon)
5. Market rallies as knee jerk reaction to stimulus but rally fails (maybe already happened, maybe not)
6. Next big time down commences off this "failed" rally. (starting now? who knows)
7. Central banks take out the "Wave Motion gun" and blast the world with money printing & negative rates (Japan about to start "cold fusion" - direct monetization of gov't debt; Europe going above and beyond)
8. Gold goes wild (the move started in January)

In the 4th quarter of 2015 in my letter, I mentioned that I felt that investing in anything with a yield will likely "work" and that it was time to find strategic shorts and gold. These ideas have worked out well as even though we haven't shot the lights out, we missed the market dump beginning of this year (bucked it actually with our gold) and have risen through 'til now. A bit lucky and a great entry on gold has helped.

Now on to the Long Excerpt from veteran money manager quote - very important TAKE THE TIME TO READ AND DIGEST THIS - even though it IS somewhat "technical":

Veteran manager*: "Internals" (of the market) have remained pretty strong, all the way up from the last "Brexit" panic. In fact, they have remained quite "resilient" over the past few months - especially in the face of "presumed" excuses to be bearish (valuation, poor earnings, etc.). Many "internal" squiggles have been in slow deterioration mode for several weeks BUT, nothing seems to matter, unless it's an excuse to remain bullish. The "tape" is bullish for the big cap indices and with a global panic to buy* ***ANYTHING*** *that might produce a yield, there is simply no way to analyze this particular market.*

I thought "Brexit" was one of those rare, REAL pieces of news. And I thought it would lead to major uncertainties. However, I missed the fact that players selling risk appetites never had the traditional safe haven of short term treasuries with "normal" yields. Instead, anything with a yield became "safe haven" since about 13 trillion dollars in global debt securities carried a NEGATIVE "yield" (Whatever the hell that absurdity means!) AND, the CBs ("central banks") immediately rushed in to "save" the markets from any "embarrassing" selloff.

It appears that all the money flow into equities is in the form of ETF buy orders - especially "SPY" (with its ENORMOUS 2% "yield") and much of it shows up with gap openings suggesting foreign money flow coming in overnight. With Bernanke stirring up headline "Helicopter Money" stories, the world appears to be buying that nonsense and who's to say they are wrong? These CB idiots want "inflation" and they are getting it. Only problem is the fact that the "inflation" is showing up strictly in financial markets (especially bonds, and to lesser extent stocks) compared to "last time" when it was real estate. That is especially "inconvenient" because that kind of "inflation" never shows up where it can be "officially" measured (or suppressed with phony adjustments) with statistics like CPI, PCE, etc.

I think a lot of premature bearish analysis (especially my own analysis) failed to include the impact and degree of CB insanity. For anyone over the age of 40, what these idiots are doing remains well beyond traditional, rational analysis. What they've done defies any sort of historical comparisons because the mechanisms they are using have never been used before. (QE, negative interest rates, outright equity purchases, ECB version of QE like buying corporate debt, etc,) A small handful of unelected bureaucrats have essentially high jacked the "system" and rants to the contrary don't matter.

Many have assumed that the bond market will take away the power of the CBs. However, for many years, THAT hasn't happened in Japan and there is really no reason to think it will happen anywhere else, simply because the CBs have so many ways to "protect" their policies.So, the big question remains, "who will be the bond sellers that take away the CB's power?" If, for example, Gross (famous bond fund manager Bill Gross) starts to sell, Yellen & Co. will simply step in and bid the sell order.

Even a pending systemic bank failure, like DB ("Deutsche Bank) for example, or the Italian banking system as a whole, doesn't seem to matter. The minute anything starts to make a negative "wiggle" the "bailout" chatter starts up and fears of additional CB manipulation keeps the CDS ("credit default swaps) guys away, not to mention the nasty old short sellers, (those mean-spirited, criminals without a soul!) Therefore, since there seems to be no way to hedge, whatever the unknown fears may be, the players just want to follow the leader, whether it be The Fed, the ECB, and/or the lunatic fringe at the Bank of Japan. I guess we just sit back and see how high this move can go before it flames out. Maybe, the unelected CBs will simply bid "everything" for a global Christmas present

Question by veteran manager 2: Don't you think that is MSA's (research service) bond blowoff math turns out to be right, then the bond market can roll over regardless of what the CB's want? An exhausted bubble always implodes (at least until they start some new program) doesn't it???

Veteran Manager: *If he is correct with the traditional, exponential "blow off" scenario, then maybe. Because we are dealing with CB manipulated bonds, rather than, say, commodities, or stocks, the play book might be different. Look what happened when most of Europe was about to cave in to "traditional" disciplines several years ago: CB bail out, of course. I think Oliver's blow off scenario pushes to the end of the year (if it happens). However, there has been a lot of chatter about "bond bubble" for a couple of years now - especially in Japan - yet, they keep getting bid from somewhere. Savers, actuaries, pension funds, insurance companies, etc. have been taking the royal shaft for several years.*

No one seems to be able to challenge the CBs because they seem insulated. Besides, their absurd policies are popular because debtors of all stripes vastly outnumber savers or net lenders. Among private individuals, net debtors outnumber net savers by about 10 to 1. The assorted governments love zero rates because it allows for virtually unlimited, low or no cost financing for unrestrained fiscal (vote buying) policies. Also, heavily indebted entities love it because they can refinance higher cost debt with cheaper funds. The "Junk" entity can refinance 13% debt at 5% or so simply because the buyers are so desperate for any kind of yield regardless of risk, that you find the AAA buyer caving in and chasing C+ junk.

I don't know how long this nonsense can last. Never before have we had coordinated, global CBs with a sole mission of "protecting" the markets…

Chris' Summary

Peak absurdity can be summed up in what we see in the markets. Prices of assets that pay a dividend or pay interest, have been bid up extraordinarily. Bonds have been ridiculous. Negative rates in Japan, Switzerland, Germany and other places is inexplicable. Just this week, the British Pound, the currency, APPRECIATED in anticipation of a rate cut in the UK - WHAT IS THAT? that is part of absurdity folks.

However, there are entities that must buy something regardless of price/value - pensions, insurance companies and the like - and they are turning to US bonds, and US dividend paying stocks. Their desire for income in a "stable currency" is the likely guide.

It wouldn't surprise me if the pension manager, who normally keeps an investment allocation of 60% stocks and 40% bonds, decides to cut bonds and add more stocks that pay 3%+ dividends. Hence my frequent twitter hashtag of **#StocksAretheNewBonds**. But what goes with that is the equally absurd **#BondsAretheNewCash**. 30 year bonds paying 1% are treated as cash equivalents. Junk bonds are paying 5-6% (they have historic default rates >10%!!! which long term guarantees a loss). And **#CashJustCantBeHeld**. No one wants to be in cash in such a mania. *Problem is these investments are TOO EXPENSIVE for the risk being taken and the low return being received.*

Who Will Receive the "Pain?"

So we have a bond bubble building, and stocks rising. This will not end well! And if the Fed and other central banks think they are going to walk away pain-free after distorting markets so much with their low rates… hmmm. And Interestingly the economic pain could come in places no one expects - like insurance companies. Here's why:

Insurance companies typically need to keep a conservative investment portfolio. But if they earn 1% or less on bonds, what do they do? What they do is cut client yields, raise premiums, cut benefits, and use reserves. (note: I have a Youtube video outlining the question - "*Will Your Insurance Company Be Able to Pay*?")Many insurance companies LOSE money on the premiums and make money on the "float." On their assets. If they are losing money on assets, as some are now, the only choices are to RAISE premiums, turn away business and use reserves. No good choices here.

What is the Endgame?

I wish I knew but if negative rates does not signal we are near, I don't know then. 0% rates for a decade+ and central banks buying bonds (and stocks!) will go down in the history books as complete lunacy. it is and HAS BEEN time for extreme caution. Even though central banks make it seem like being conservative is dumb, there's nothing wrong with risk management. However, caution has been replaced with 'FOMO' - **Fear Of Missing Out** - which is a syndrome that often leads to DUMB decisions.

What Are We Doing?

Nonetheless, we have been long stocks <u>via options to keep risk low</u>- and still long gold stocks. Some of our bond exposure has been sold and replaced with options exposure to limit risk. Individual dividend names are occasionally traded. We are still operating from the idea that central bank stupidity = gold bull market. it's working so far…

2. Focus on Quality of Life

For those of you that watch my Youtube videos, you may have noticed my increased focus on health, balance and quality of life. I plan to continue to do that. BECAUSE WHAT'S THE POINT OF MAKING SMART MONEY DECISIONS IF YOU DIE TOO YOUNG OR GET SICK??? My recent book recommendation and offer was ***Blue Zones*** by National Geographic scholar Dan Buettner. Check it out! Dan tracks populations that have the longest **<u>disability-free</u>** lifespans on the planet - and discusses their lifestyle, diet, social habits and activities.

3. Reminder Article: EMX Client Portal - a Powerful Tool for You!

In 2015 WHA 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 have data feeds 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 stress test your plans with various scenarios such as: illness, premature death, savings changes, job promotions, changes in investment return assumptions and more - we do this behind the scenes so having accurate date helps us plan for you.

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!

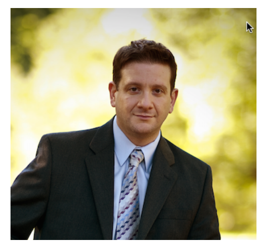
4. Notes

Some of you may not know that we have an update office address (below) - please stop by anytime! 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!

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

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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