Notes From The Rabbit Hole

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The article, starting on the next page, is entitled:
"Crack Up Boom"

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Along the way, a geek-like interest in technical analysis, a long-time interest in human psychology, and various unique macro market ratio indicators were added to the mix, with the result being a financial market newsletter (and dynamic interim updates), Notes From The Rabbit Hole (NFTRH) that combines these attributes to provide a service that is engaged and successful in all market environments by employing risk management first, and opportunity for speculation second.

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Bob Weir, CFA
Director of Research

Crack Up Boom

By **Gary Tanashian** (bio at the end of the article)

October 16, 2017

Crack Up Boom

It has been creeping up on me over the last week, ever since I made this post showing big picture monthly charts of US and global stock markets, commodities, precious metals and a key to all of those items, the 'Continuum' AKA the 30yr Treasury bond yield.

I have been seeing very bullish pictures laid out against what is rapidly becoming a dangerous sentiment situation in the US. Sentiment supports the prospect of an interim correction in the US at least, but the big picture for global stock markets, possibly including the US, is making some very bullish signals.

If you check out the link above you'll see what could turn out to be incredibly bullish Japanese and Canadian stock markets along with bullish forward prospects for Industrial metals (chart also below). Please understand that this week's NFTRH 469 is very detailed and wide ranging, but I think its 'Commodities' and partial 'Precious Metals' segments give you an idea of where my thoughts are going with this. This week we definitely departed from our usual mode of heavy charting and got a little weird. And in a market like this, with hedge fund pros closing shop because indicators that have always worked before no longer are, maybe weird is good.

Commodities

Here is another chart from the post filled with big pictures. From the post…

"Copper's Industrial Metal bros target 440 by the noted bottoming pattern and handily, there is also the area of the red dotted downtrend line. That's a 'hmmmm…' if you ask me."

The reason I go 'hmmmm…' is because how do you carry a bearish stock market view and bullish Industrial metals view concurrently? Much like with the still-bullish TSX-V (CDNX) chart we have been following, it is supportive of the ongoing stock rally, GYX even more pervasively so globally, than the TSX-V.

So, okay, this is probably just a bull cycle within a long-term consolidation but the chart's sticks are measured in months. Its message, assuming it remains bullish for many more months is a bullish one for global stocks. That does not necessarily include US stocks but really, are we going to go into a bear market without the rest of the world? Well, with that guy tweet-touting the stock market every day I'd not be overly surprised, but bullish Industrial metals usually mean a bullish world.

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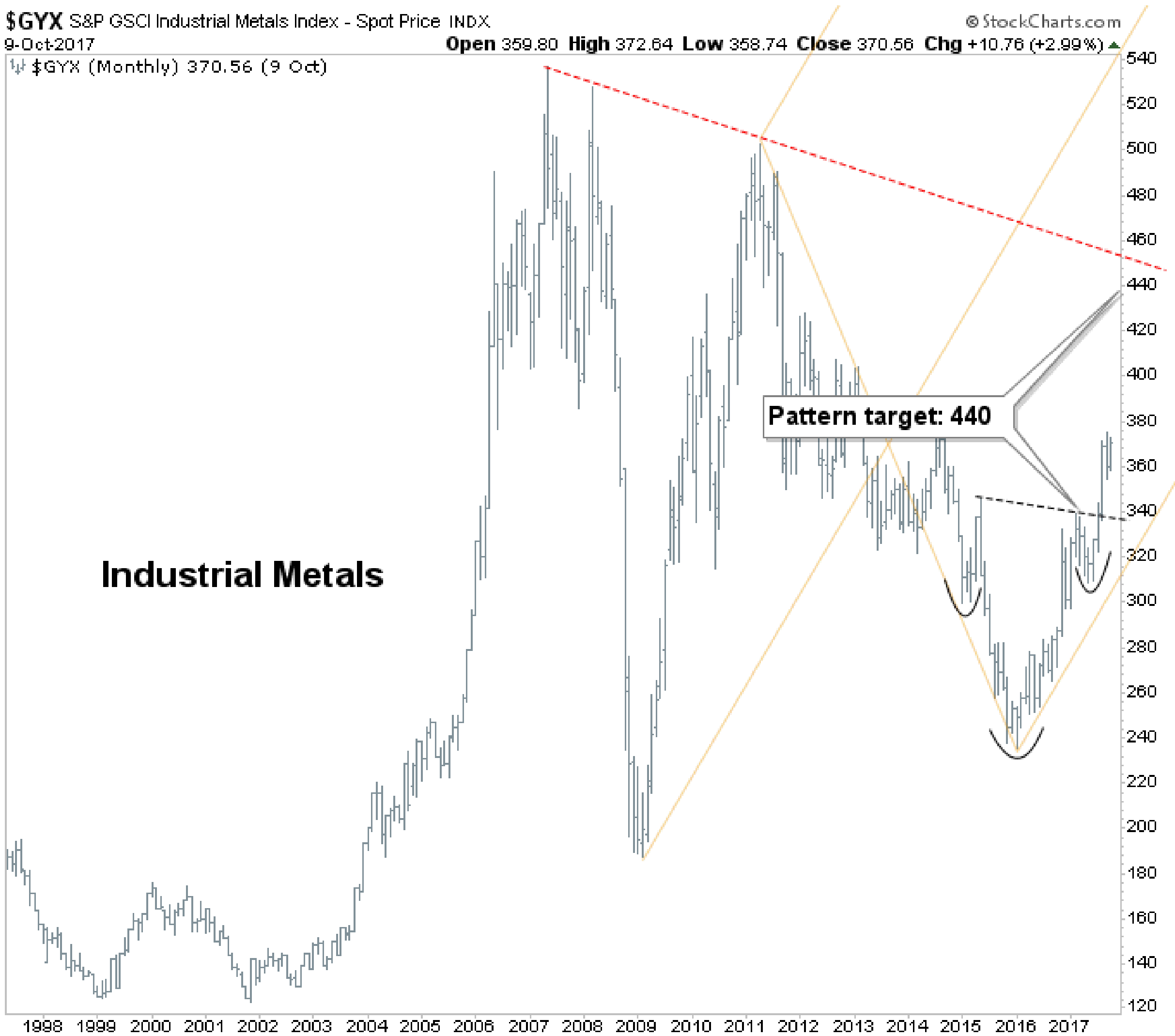

Which of course brings us back to inflation and Treasury/sovereign government bonds. The thing I see in many global charts is extreme bullish potential. Again, this is contradictory to my own Q4 stock correction thesis. But interim correction or not, let's ponder once again what would happen if everything changes in the coming years.

In particular, if inflation gets out of the barn globally and bond yields in the US and globally break their down trends (bonds enter a bear market), would that not be some justification for why we might go 'off the charts' in an asset mania of epic and global proportions? Might it also be a Crack Up Boom as illustrated by Ludwig von Mises?

https://mises.org/library/hyperinflation-money-demand-and-crack-boom

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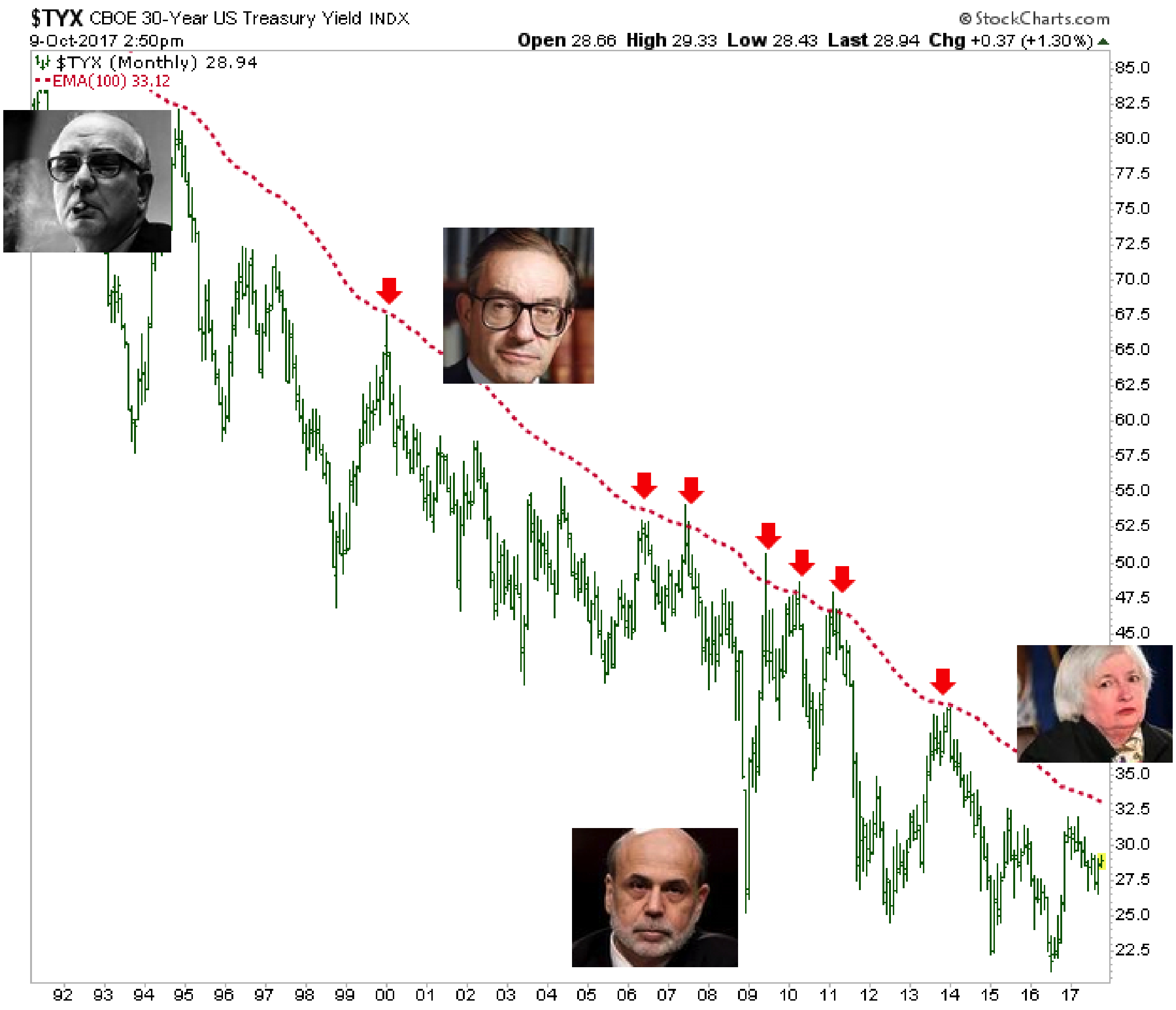
Now I am certainly not going to get hysterical with talk of hyperinflation, because hysteria has led so many down some really bad investment alleys. I am simply going to try to stay level headed and respect all possibilities. Would you agree that one possibility is that the bond bull market, which has underwritten decades of asset price increases with few inflationary consequences, could actually end one day?

Is that the doorway to a Crack Up Boom?



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Precious Metals

Why then have the precious metals not been sent to the woodshed during the massive speculation going on in US and global markets? Perhaps because they are the first to sniff out future inflationary phases? Is it possible that markets (potentially including the precious metals) will take an interim correction as the gold sector leads the way back up and out if policymakers panic and show their inflationary cards once again?

I told you this edition was going to be more conversational and I guess I've had a lot to say bottled up. I am completely freaked out by how bullish Canada and Japan look, not to mention the industrial metals. Now factor in how not only you and I, but very smart people all around are confused about this market. Why the hell won't it go down!?

The answer could be as simple as *"because it's not going down"* (hat tip to our Zen Master, introduced a couple weeks ago).

Now, I am going to stick with the Q4 correction theme because the stuff that NFTRH 469 is dredging up could be considered crack head bull hallucinations. But even factoring a possibly significant interim correction – which even Martin Armstrong of bullish *"phase transition"* fame is warning about if not outright forecasting – is it not very possible if not likely that the bond bull market will end, inflation will get out of control and assets of all kinds will get out of the barn as inflationary chickens one day come home to roost?

Now, you know that NFTRH is not the place that assigns inflation as a necessary bullish ingredient for gold or gold stocks. For the latter, it can actually be a fundamental eroding condition (assuming gold under performs cost-inputs). But inflation is ultimately behind a bullish case for gold. If there had not been a history of inflation destroying currencies there would be no need for the monetary asset.

The question is, does gold bottom first amid a deflationary episode and look ahead to new rounds of inflation by policy or is it a monetary asset that would benefit in a balls out "crack up" inflation, when money is panicking into assets of all kinds?

The reason I ask these questions is the reason this service is called Notes From the Rabbit Hole. We must be the ones with open minds, willing to ask questions, be wrong, be right and ultimately out think the other guys. So apologies in advance if these thought exercises make you uncomfortable in their lack of easy answers, but I for one want to know what is going on and the only way to do that is to work at it, over time.

For instance, if I am going to be a bull on Canada or Japan I need to have more to the view than a big time bullish chart. I need to know what is driving that. The same goes for gold. If I am going to be bullish, I am not going to do so because I am a gold bug, always supporting the team. It has to fit within a logical scenario.

So why then are cyclical asset markets so massively bullish yet the precious metals remain constructive? Maybe the ghost of von Mises has an answer.

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See NOTES, below.

NOTES

Biiwii: But it is what it is

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Biiwii.com is proud to be included in the **50 Blogs Every Serious Trader Should Read** from TraderHQ.com.

See **ABOUT THE AUTHOR** on the following page.

ABOUT THE AUTHOR

Gary Tanashian is a financial market analyst, writer, and editor. He provides "Accurate financial market analysis and commentary focused on unbiased reality as opposed to preconceived assumptions."

As a long-time participant in financial media (published at leading outlets like SeekingAlpha, Investing.com, and many more), Gary has learned how to communicate with people about often-complex material. He knows that it requires hard work, but he believes that there is no other way in order to provide the highest quality service to the public.

Gary is the owner of Biiwii.com (launched in 2004) and, later, NFTRH.com (launched in 2014).

Biiwii is a financial website that got it RIGHT in the run up to 2008, unlike many in the financial services industry.

He is the owner and publisher of the weekly premium financial market report Notes From The Rabbit Hole, which was launched in September, 2008.

Notes From The Rabbit Hole is a premium newsletter service (including detailed in-week updates) for people who care more about financial market realities than having their preconceived notions reinforced. http://nftrh.com/nftrh-premium/

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