

Biiwii Commentary

eResearch Corporation is pleased to provide an article and video, courtesy of Biiwii.com, and written by Kevin Muir (link to the Author is provided on the following page).

The article, starting on the next page, is entitled: **“I Hear 1987 New Wave Is Back”**.

Biiwii.com was created in mid-2000 solely as a way to help get the message out about deeply-rooted problems about too much debt and leverage within the financial system. The concerns were confirmed and the message proved justified 3 to 4 years later as the system began to purge these distortions, resulting in a climactic washout extending from October, 2008 to March, 2009.

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.

But It Is What It Is: You can access Biiwii at its website: www.biiwii.com.

Notes From The Rabbit Hole: You can access NFTRH at its website: www.NFTRH.com

eResearch was established in 2000 as Canada's first equity issuer-sponsored research organization. As a primary source for professional investment research, our Subscribers (*subscription is free!!!*) benefit by having written research on a variety of small- and mid-cap, under-covered companies. We also provide unsponsored research reports on middle and larger-sized companies, using a combination of fundamental and technical analysis. We complement our corporate research coverage with a diversified selection of informative, insightful, and thought-provoking research publications from a wide variety of investment professionals. We provide our professional investment research and analysis directly to our extensive subscriber network of discerning investors, and electronically through our website: www.eResearch.ca.

Bob Weir, CFA
Director of Research

Note: All of the comments, views, opinions, suggestions, recommendations, etc., contained in this Article, and which is distributed by eResearch Corporation, are strictly those of the Author and do not necessarily reflect those of eResearch Corporation.



I Hear 1987 New Wave Is Back

By [Kevin Muir](#)



July 12, 2018

I don't know about you, but I am worried. The economic cycle is long in the tooth. Equity valuations are stretched. The yield curve is flattening. Emerging markets and other liquidity-sensitive markets are sagging. The Federal Reserve is raising rates while also attempting the never-before-accomplished feat of reversing a decade of quantitative easing – seemingly oblivious to the hornet's nest they are walking into. And President Trump seems determined to antagonize as many trading partners as possible before the summer holidays begin in earnest.

Against this backdrop, memories of the 2015 flash crash keep racing to the front of my brain. I try, but I cannot shake the image of a low-liquidity panicky sell-off in thin summertime conditions. With little wonder. The equity market seasonality shows this next month to be a dangerous period:





Those were just the monthly return figures. The actual trading from August 2015 is even more frightening looking.



The S&P 500 futures fell 12% – from 2100 to an ugly tick at 1840.

To make matters worse for my worries, some really sharp strategists are sounding the alarm bell. Gluskin Sheff's David Rosenberg has been making a pervasive argument that we are late-cycle, and risk should be taken off the table.



David Rosenberg
@EconguyRosie

Following

I'm accused of 'confirmation' bias and yet last I saw, the broad NYSE composite is no higher today than it was back in December, and has not made a new high since Jan 26th. Sounds a whoooole lot like a classic topping pattern. Think 1989, think 2000, think 2007.

12:44 PM - 10 Jul 2018

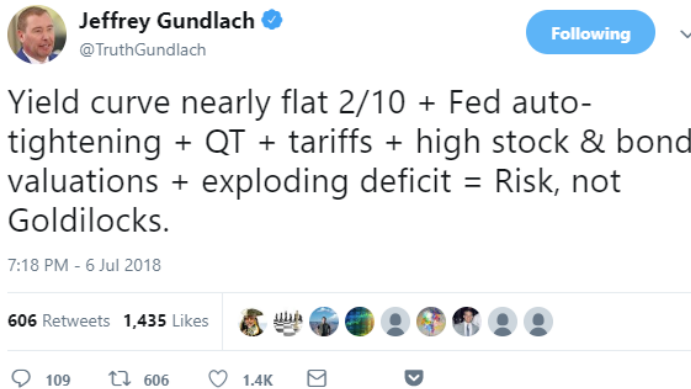
40 Retweets 116 Likes



19 40 116



The new bond King himself, Jeffrey Gundlach, sums up the risks to the market nicely with this tweet:



Yup, it sure seems like taking out a stack of pink tickets and leaning on the sell button is the right call. I cannot remember a time where it has all lined up so perfectly on the short side.

When it is obvious, it obviously is wrong

Although every bone in my body wants to sell this market. I ... (and I cannot believe I am writing this)... am petrified this trade is so obvious, it cannot be right.

I cannot recall a recent time when there has been such a consensus about the near-term outlook for risk assets. Everyone is bearish. Ok, maybe that is an exaggeration, but throw out all the perma-bulls or perma-bears: those guys are useless anyway because their forecasts never change.

Looking at the rest of us who are willing to change opinion based on market conditions, I believe the Rosenberg-Gundlach story might be all baked-in. This reality hit me over the head with a terrific tweet by [@Robostocks123](#) calling out Gundlach's revelation:



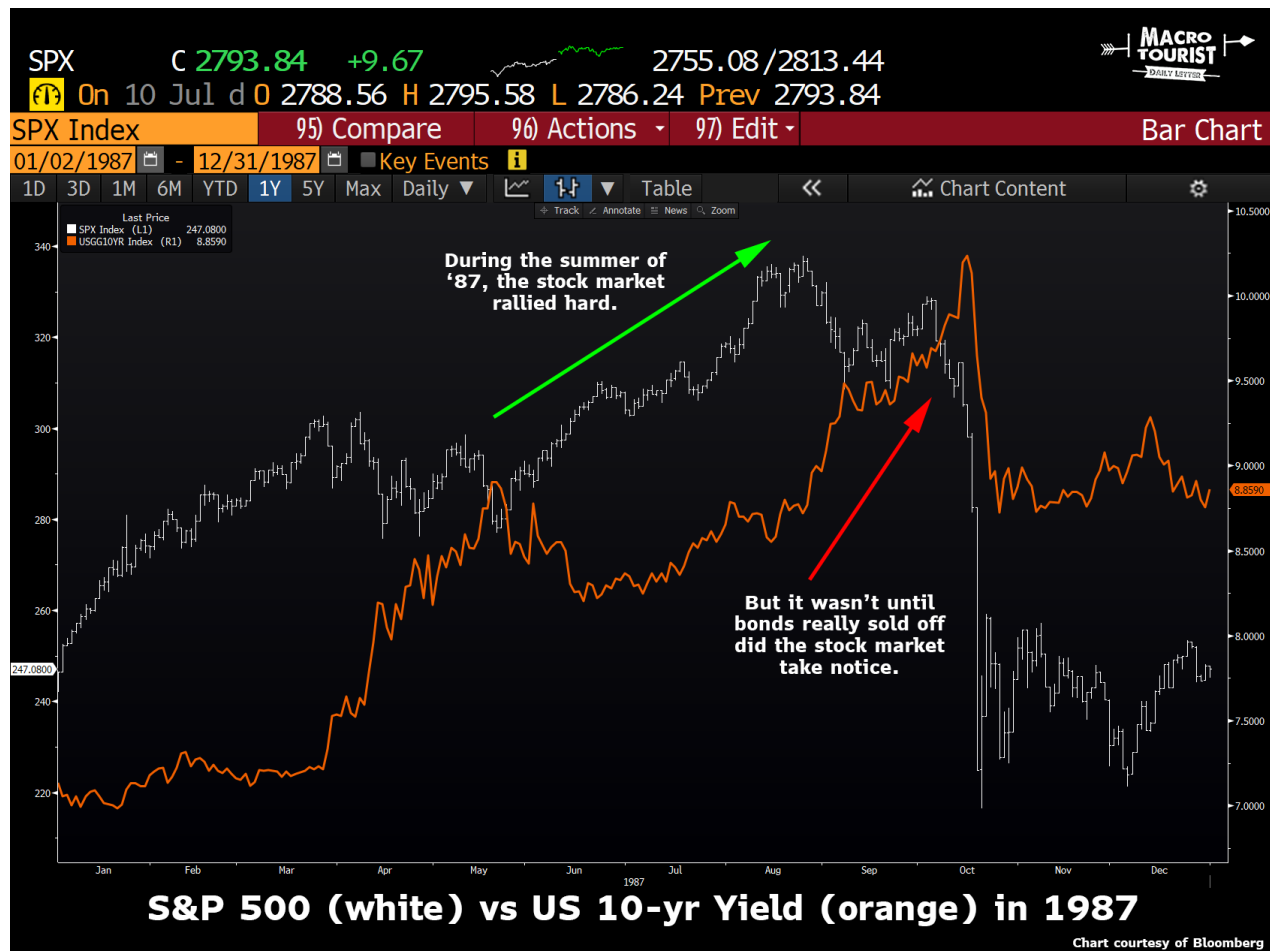


The bears' scenario is well-reasoned and seems like the correct way to place your bets. Yet, since when has the market ever lined up so neatly with fundamentals?

I hate myself for saying this, but I don't think the Market Gods will allow this many to catch the top. Markets do not roll over with the vast majority of market participants calling for a correction. No, they top with buyers being absolutely convinced the only way is up. And I just don't see that sort of exuberance. Yeah, sure, the FANG stocks might be a little frothy. And there is little doubt that marijuana investors have been smoking too much of their product. But, for every raging bull, there is an equally fervent bear trying to catch the next big break. This does not feel like the sort of bubbly, stocks-must-only-go-up environment that would accompany a major equity top. It just feels like the wall of worry is growing bigger and giving the market more fuel to rise.

Don't bother sending me emails about the inevitability of a big decline – I get it. I am not disputing the dangers in this market. Yet, I still think the real future disaster lies in the bond market – not the stock market.

I look at the current environment and it reminds me of 1987. Although at that time I was more interested in the latest [New Order 12](#) than the stock market, I have been fascinated by this period in market history.





During the summer of 1987, the stock market rallied 17.5% while the 10-year US Treasury yield was stuck in a trading range between 8.25% and 8.90%. It was not until the bond market sold off hard in September, with the 10-year yield rising from 9% to 10.25% in less than two months, that the stock market finally went down.

The point to remember is that the stock market was less than one calendar quarter away from the biggest one day decline in history, but any shorts would have had to sit through an almost 20% rise before realizing the gains from their bearish call.

It would not surprise me if this summer ends up looking like 1987. After all – have you heard the music the kids are listening to these days? Some of the bands look (and sound) like New Order [reincarnated](#).

Although I am worried the moment I bare my soul about my lack of faith for any meaningful dip happening soon, the Rosenberg-Gundlach decline will begin, and I cannot help but lay it out on the table.

I know all the reasons why the stock market should go down. The investor in me agrees 100% with the skeptics who worry we are late-cycle and that risks are rising. But the trader in me is even more concerned that *everyone is already positioned* for this outcome. Markets often go where they will hurt the most and make the majority look foolish. That path is higher – not lower.

It would be way easier for me to write a post about all the reasons why this rally should be shorted. I would get all sorts of confirming emails that would make me feel good. Yet, that is exactly why I am avoiding trying to call a top for the time being. Call me an idiot for not climbing aboard the “smart money” trade, but I think the bears will get a better chance to write pink tickets this Fall.

In the meantime, I will go back to listening to my New Order and shorting the bond market...

Biiwii/NFTRH on the Web

NFTRH and Biiwii.com commentary and technical analysis have regularly been published, highlighted and/or quoted at [SeekingAlpha](#), [Investing.com](#), [MarketWatch](#), [Yahoo Finance](#), [Ino.com](#), [TalkMarkets](#) and many more since 2004.

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

Biiwii: but it is what it is

NFTRH: Notes From The Rabbit Hole