*e*Research

Third Party Research December 21, 2018

Notes From The Rabbit Hole

***e*Research Corporation** is pleased to provide an article, courtesy of NFTRH.com, and written by Gary Tanashian, with a bio on the Author provided at the end of the article.

The article, starting on the next page, is entitled: **Jerome 'Dead Eye' Powell**

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**

Bob Weir, CFA
Contributing Analyst

Jerome 'Dead Eye' Powell

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

December 21, 2018

One of the most disturbing scenes in the series Breaking Bad was when Todd shoots and kills a boy on a dirt bike after he witnessed Heisenberg, Jesse and Todd heist 900 gallons of methylamine. Jesse: *"Todd, that Opie Dead Eyed piece of shit…"*

That is similar to the feeling I got after the Fed hiked the funds rate as expected, but then declined to offer the stock market much relief for its ongoing temper tantrum.

What is this? The Fed is not doing as the vast majority of market participants expect it to do? The Fed is not taking active measures to boost asset prices?

My theory has been that, since the 2016 election, the Fed has firmed its resolve to extricate itself from a dangerous situation; caught with its pants down as Trump/Republican *fiscal* (i.e. politically instigated) stimulus was going to be laid on top of already extreme *monetary* stimulus.

I see a lot of post-FOMC articles out there talking about how Jerome Powell either does not know what he is doing or is an outright menace. Well, I can assure you he does know what he is doing and he is only a menace if you are in his cross hairs.

Here is a post-FOMC NFTRH update that I have decided to make public, as it does not go into much in the way of strategic planning or technical analysis but does get to the root of how I see the relationship between the Fed (and its long-term agenda) and the current administration (and its short-term agenda).

NFTRH; Post-FOMC Update

I really do think we are onto something here. The dead-eyed (that is a compliment) chief of the Fed just looked the market – and the president – in the eye and, as cool as a cucumber, stated the Fed's agenda.

That agenda has appeared to be for the Fed to extricate itself from its bloated balance sheet and an untenable rise in long-term interest rates as a financial asset bubble roared on with fiscal (political) policy fanning the flames.

Let's go back in time to a decade ago. The credit bubble, nurtured and overseen by Alan Greenspan, was unwinding and that unwind was impulsive and, to my eye, bent on complete liquidation of the system. Enter Ben Bernanke, TARP, ZIRP, and QE (with a side order of Operation Twist). It was all financial engineering, all the time. It was *monetary* policy on steroids and, with all those inputs, it could only be a rabbit hole with new and intriguing possibilities… and no road maps showing the way out.

I believe that the Fed did what it perceived it had to do because the Obama administration's fiscal policy was a drag, not a stimulant to the economy. It filled a void by extending Bernanke's emergency monetary policy and making it somehow routine (and making the gulf between the rich and not rich much wider). That was the scary part, the *routine* of it all. For about 2 years after the 2-year Treasury yield turned up they held ZIRP in the face of economic growth (ref. our 2013 Semiconductor Equipment up-cycle signal) and it made me think about distortions.

But, then, an unexpected thing happened. A fiscal policy-making bull took the White House and has rampaged through the China shop. The Fed looks and sees itself with all those assets on the books, all that (monetary) inflationary input in the system, *fiscal* policy being made to *further* stimulate the economy, and long-term Treasury yields breaking out per our handy Continuum indicator…

There is a reason I made such a big deal about the break-out, and that was because something happened that has not happened in decades; the 30-year yield broke the EMA 100, closed October in break-out mode, and remained there through November.

And we wonder why the Fed is staying its course? As noted on several occasions in NFTRH and in public, the Fed is not for you, me, Trump, or necessarily the stock market.

Ultimately, the Fed is for the Fed and the Central Banking system and it was simply not going to fall on its sword and expire at the hands of break-out inflation, greed, and asset bubbles all around.

I continue to maintain that an impulsive break-out in yields (the blue arrow above shows the implied target of the yellow shaded pattern) would have blown the Fed's racket. How do you maintain an orderly system of inflationary operation – that has endured through many decades – if bonds are burning and inflationary asset bubbles (most notably in stocks on the post-2008 bubble engineered by Bernanke-era monetary policy) are raging? The answer may well be, you don't.

I don't like Donald Trump. I think he is a semi-lunatic, ruffian, delusional, and divisive figure. But he and his policy (some of which would be positive in normal times) came around at precisely the wrong time as he and the Republicans laid the *fiscal* reflation on top of the *monetary* inflation (on steroids) that the Fed had instituted. In short, he is unwittingly in Mr. Powell's cross-hairs and no amount of whining on Twitter is going to change that. Did you see the dead eyes (again, a compliment in my view) on this guy? Steady as she goes. The Fed will save itself, and then maybe someday down the road, try to save the economy.

Final Notes

These are obviously my thoughts as they have evolved to this point and now, through the most important FOMC meeting I can remember. My thoughts are subject to my learning and my bias. Given that no single person can completely understand such a complex system, I ask that you take my views with a grain of salt (and correct me where/if needed).

The stock market is technically broken, bounce or no bounce. We have been on that course for months now, with the January 2018 upside blow-off designated as the sentiment-based *"bull killer"*.

I am going to try to *play* it as best as possible (if the thing would just bounce I would consider increasing shorts), but I don't see this as a game. I don't have a gambler's constitution. This is a system purging itself (at best). Cash (paying another +0.25%) remains the best option in my opinion.

On the plus side, nothing – including yesterday's rate increase – has hurt the progress of the precious metals and the gold miners. The macro and sector fundamentals have been rammed into gear with the stress in the global financial system, the impulsive drop in inflation expectations and gold's out-performance vs. cyclical and bubble assets. We continue to look toward Q1/2019 as an important time.

The gold stocks are, as we have noted for years upon years of cyclical activity, counter-cyclical. They can be bought on opportunity with the understanding that patience through the process will be needed.

#####

#####

NOTES

Biiwii: But it is what it is

NFTRH: Notes From The Rabbit Hole

Subscribe to NFTRH Premium for your 30-45 page weekly report, interim updates and NFTRH+ chart and trade ideas or the free eLetter for an introduction to our work. Or simply keep up to date with plenty of public content at NFTRH.com and Biiwii.com. Also, you can follow via Twitter @BiiwiiNFTRH, StockTwits, RSS or sign up to receive posts directly by email.

NFTRH is the most serious and comprehensive macro market management service out there. Period. I do not believe in going on auto pilot with any given orthodoxy. We use technical, macro-fundamental and sentiment tools to keep readers on the right side of markets at all times. Long-term subscribers realize that staying on the right side of markets takes work and dedication. Let me do much of that work for you!

For consistent, high quality analysis (a **weekly report** and in-week **market and technical 'trade setup' updates**) that keeps subscribers on the right side of all major markets, consider an affordable premium subscription to NFTRH.

NFTRH Premium Monthly Subscription **$33.50 via PayPal**

NFTRH Premium Yearly Subscription **$345 via PayPal, a 12%+ savings**
Institutional/Multi User (up to 7) Monthly **$120**

Institutional/Multi User (up to 7) Yearly **$1220**

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.

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

Notes From the Rabbit Hole

A unique financial market service

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/

#####