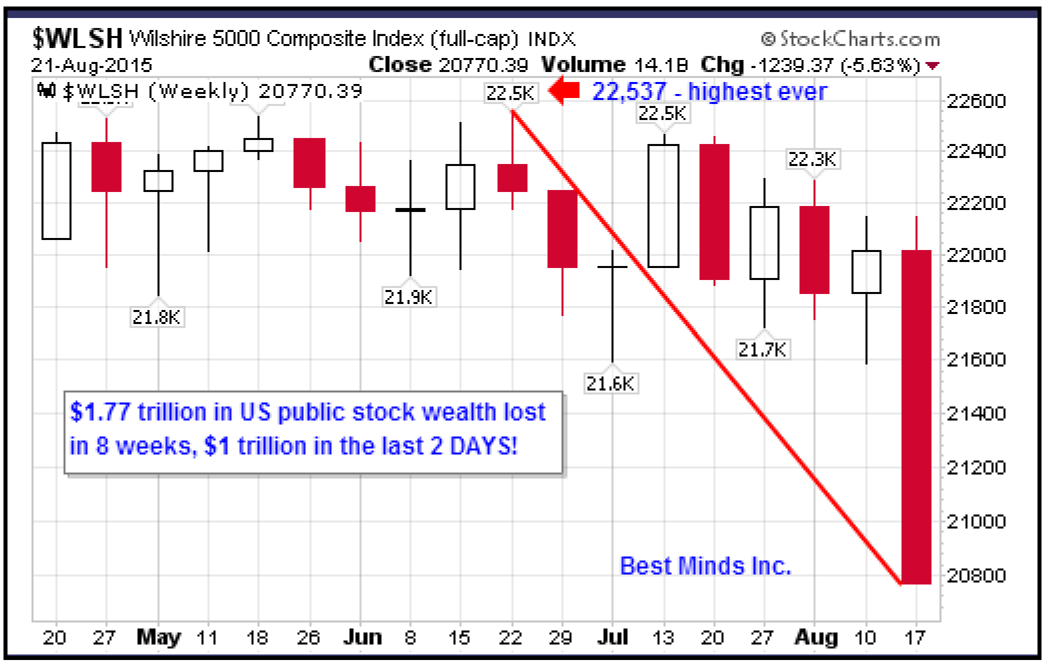
The Stock Nirvana Has Been Broken August 21, 2015

Doug Wakefield

Is it possible to have a calm and boring market break down quickly in merely two trading days? Is it possible that THIS is the start of breaking the "stock nirvana" illusion?

Let's examine the evidence.

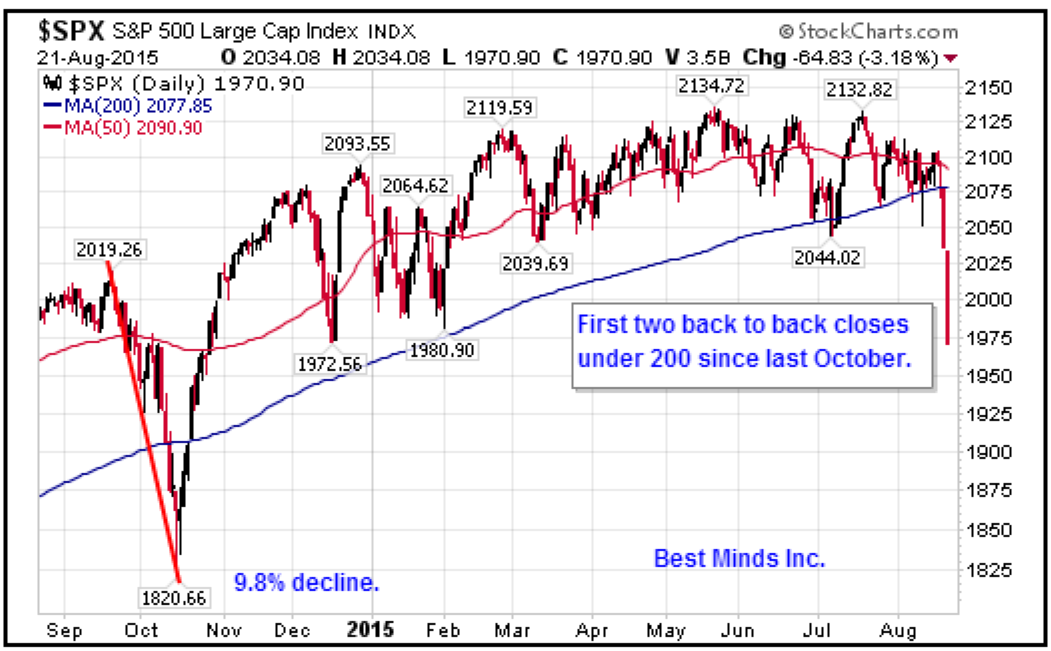


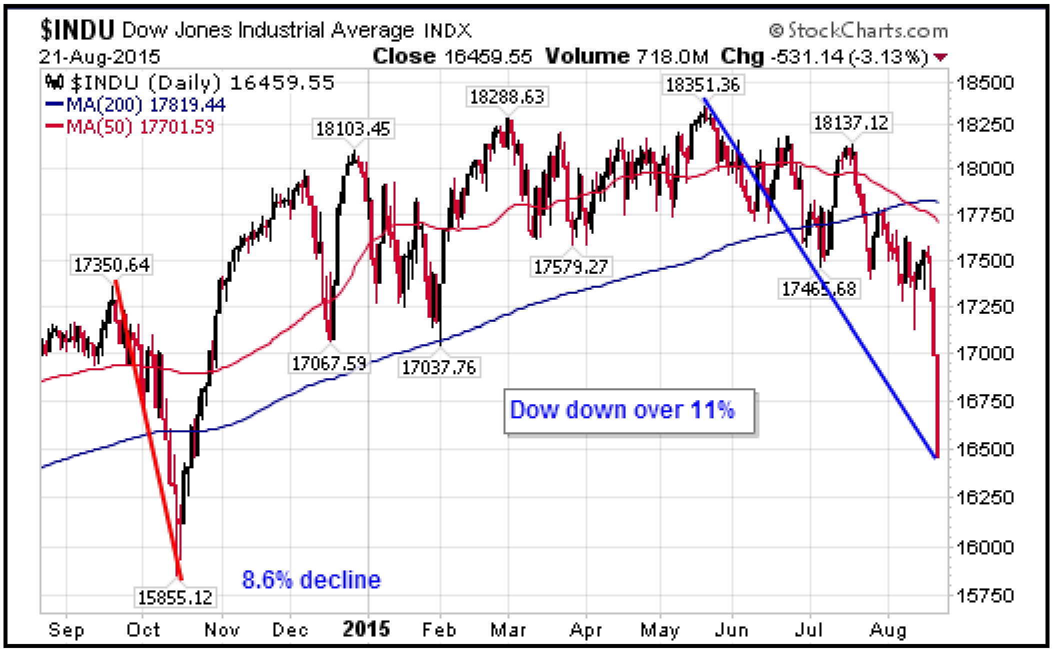
All Is Calm…Until It Is Not

Anyone looking back over the trading days of July and August as of Wednesday would have seen nothing but the illusion of "control" at the 200 day moving average of the S&P 500.

Four Horses

As the markets closed today in the U.S., we can see that the four major equity market indices have now closed two days in a row under their 200 day moving averages, declining very sharply.




$INDU Dow Jones Industrial Average INDX
© StockCharts.com
21-Aug-2015
Close 16459.55 Volume 718.0M Chg -531.14 (-3.13%)
$INDU (Daily) 16459.55
MA(200) 17819.44
MA(50) 17701.59
18351.36
18288.63
18137.12
18103.45
17350.64
17579.27
17465.68
17067.59
17037.76
15855.12
Dow down over 11%
8.6% decline
Sep Oct Nov Dec 2015 Feb Mar Apr May Jun Jul Aug


$COMPQ Nasdaq Composite INDX
© StockCharts.com
21-Aug-2015
O 4801.04 H 4856.75 L 4706.04 C 4706.04 V 2.7B Chg -171.45 (-3.52%)
$COMPQ (Daily) 4706.04
MA(200) 4912.33
MA(50) 5066.54
5231.94
5164.36
4814.95
4901.51
4610.57
4547.31
4116.60
NASDAQ closes for 2nd day under 200, after reaching highest ever on July 20th.
Best Minds Inc.
May Jun Jul Aug Sep Oct Nov Dec 2015 Feb Mar Apr May Jun Jul Aug

The Global 200

Does the evidence reveal, that the US equity declines are isolated, or part of a much larger global drama?

Nirvana Has Broken; Price Relative to 200 day MA and Highest								
Index	Nation	200 day MA	Aug 21 close	under 200	%	(*2)Highest	from highest	%
SSEC	China	3616	3509	(107)	-3.0%	5178	(1,669)	-32.2%
HSI	China	25,126	22,409	(2,717)	-10.8%	28,588	(6,179)	-21.6%
NIKK	Japan	18,954	19,435	481	2.5%	20,952	(1,517)	-7.2%
FTSE	UK	6,762	6,187	(575)	-8.5%	7,122	(935)	-13.1%
DAX	Germany	10,966	10,124	(842)	-7.7%	12,390	(2,266)	-18.3%
AORD	Australia	5,599	5,214	(385)	-6.9%	5,963	(749)	-12.6%
TSX	Canada	14,777	(*1)13520	(1,257)	-8.5%	15,685	(2,165)	-13.8%
*1 - intraday low		*2 - highest represents the highest price ever, or since 2008.						
Price source www.stockcharts.com								
Best Minds Inc - August 21, 2015								

Who Me...Fear?

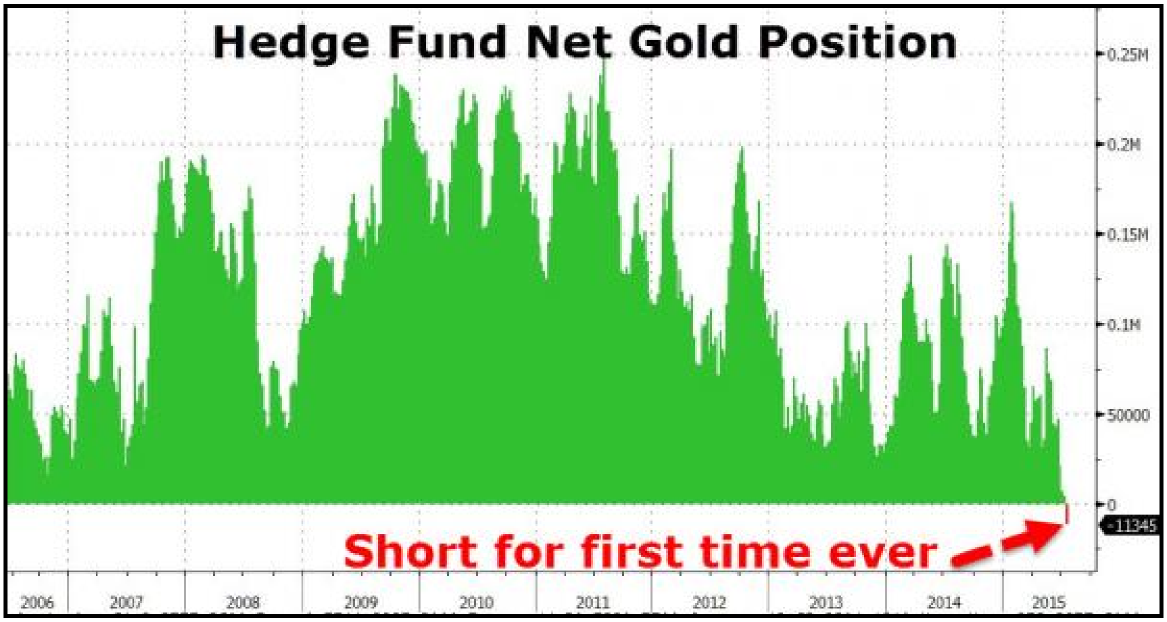
After being pushed to its lowest reading since July 2014 in early August, the VIX finally roared past every top over the last year today, with the exception of the one we saw last October.

Near term, this would argue for a bottom very soon in stocks and a top in the VIX. However, considering the fact that it has taken so long to break underneath the 200 day moving averages of the four U.S. equity indices shown above, the last two days appear to be a wake up call to global investors, that September could prove dramatically different from the illusion of "nirvana" that has been experienced these last few years.

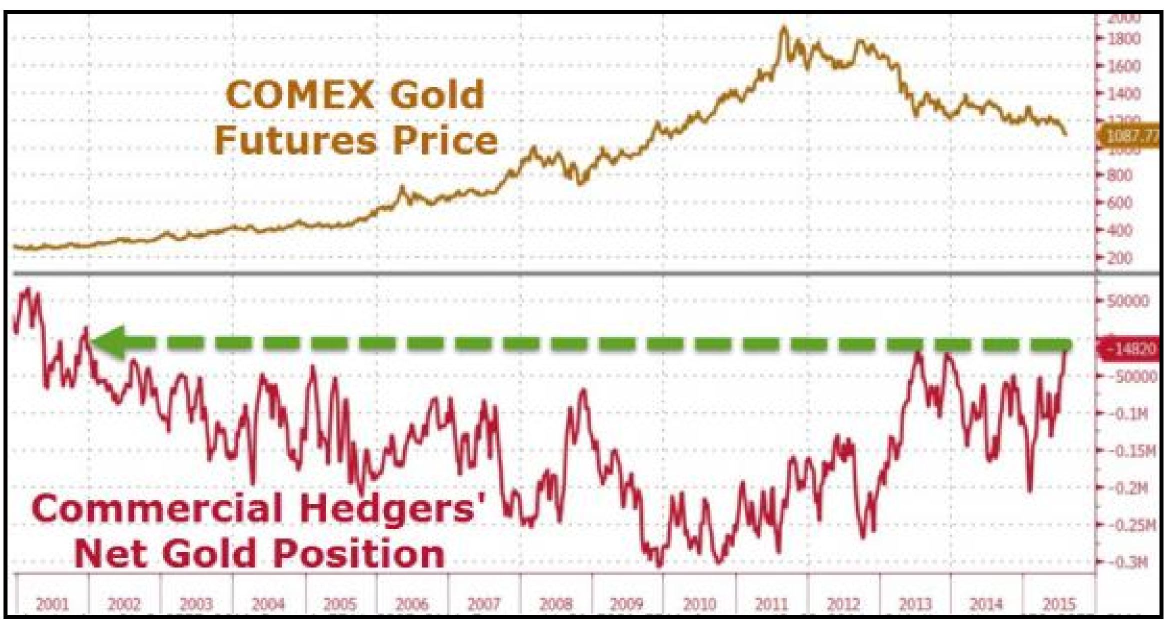
But Where Are the Bulls?

While there have been stock bulls and gold bears for 4 years, the following are three reasons that gold should prove welcoming to those looking for a bull trend.

Anyone reading, "Gold is 'Undervalued' For First Time in 6 Years, BofAML Says, released on Zero Hedge on August 18th, will learn the following:

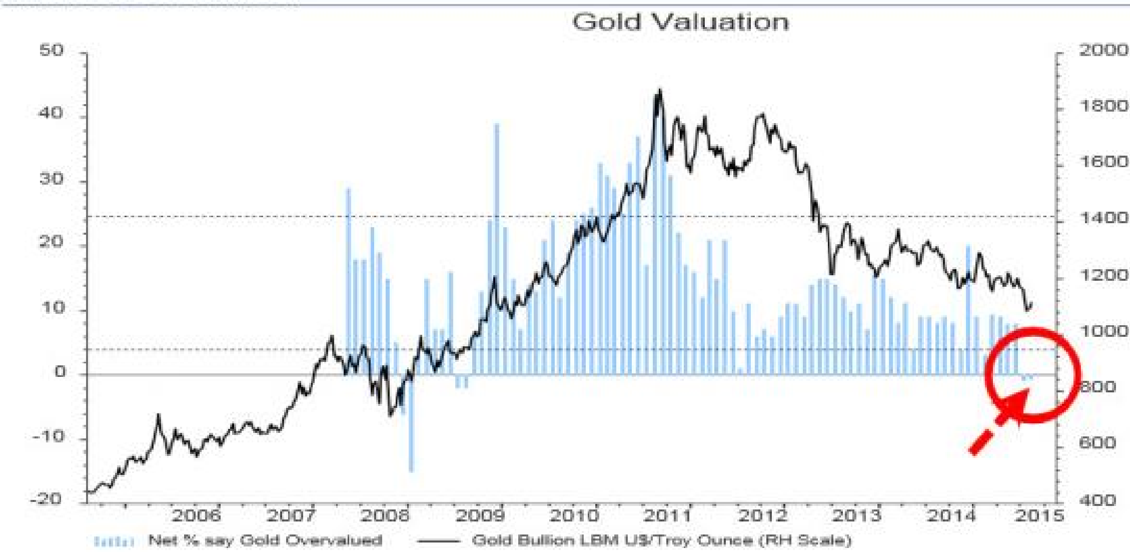


Hedge Funds just *went short* for the first time ever. This is a contrarian signal, when compared with the actions of the commercial hedgers, who were recently holding their *lowest* short position since the gold bull started in 2001.



Lastly, a survey of managers by Bank of America Merrill Lynch recently revealed that they believed gold was undervalued for the first time since 2009.

Exhibit 25: Gold Valuation



Source: BofA Merrill Lynch Global Fund Manager Survey

For over a year now, I have been asking readers to look for the big shift, where bulls become bears and bears become bulls. While we had equity markets like the Toronto Stock Exchange top last September, followed by the Dow Transports last December, it took until July this year to see the S&P Biotech Index and the NASDAQ Composite reach their all time highs.

Yet, whether we are looking at the bottoming of gold, or the topping of equities and junk bond worldwide, the move from boom to busts seems to have lunged forward this week.

Plan of Action

There are millions of investors and thousands of advisors, who are still following "buy and never sell" strategies. We have lived through two 50% declines in the S&P since 2000, and yet because of Greenspan's cutting rates to 1% by 2003, and Bernanke and Yellen following a Zero Interest Rate Policy since December 2008, we find ourselves with no chance that central banks can interest rates BELOW zero to "stimulate" the global slowdown.

QE has had trillions to sovereign debt levels, adding an enormous drag to the world economy, so more QE to remove what little top tiered collateral is left among dealers, is NOT a solution either. Less cash and blowing the financial bubbles larger was never a long-term economic solution.

Never over the last 44 years since the US dollar was removed from the gold exchange standard in August 1971, has the world been facing such enormous problems caused by the school of thought, “with enough debt and central planning, we can kick the problem down the road forever”.

Preparing for the coming busts is not scaremongering; it is common sense when looking back over the largest financial experiment in history since 2008.

There are ways to grow one’s money in the period ahead. But it requires changes and doing things differently for the bust than were done in the last 4 years of the boom. It also requires admitting that for most, it was just easier not to think, and leave the planning and artificial levitation schemes to central bankers, than to think for yourself and admit that the plan was not sustainable from the start.

There are also changes that will come, that are much larger than merely the investment markets. Phillipp Bagus book, **The Tragedy of the Euro**, published in 2010 by the Mises Institute, reminds us of how far we have come down the road of “central planning”. Clearly, it encompasses far more than investing.

“The institutional setup for the European Monetary Union has been and economic disaster. The Euro is a political project; political interest have brought the European currency forward...economic arguments launched to disguise the true agenda behind the Euro have failed to convince the general population of its advantages.

The logic for interventions propelled the Eurosystem toward a political unification under a central state in Brussels. As national states are abolished, the market place of Europe becomes a new soviet union.” [p129]

I have thought about Bagus comments often in the last few years. How did we ever become fooled into thinking that with enough debt and central planning, we were heading back to "normal"? What has taken place since 2008, is that our world and markets have become more and more concentrated into fewer and fewer hands. For those who make no plans or changes for the bust phase, they will only feed that concentration of power, as we look to central bankers for more "bailouts".....which this time, they have told us already, are not coming.

Be a Contrarian, Remember Your History

The big shift from longs to shorts and shorts to longs took a major leap this week away from previous trends, and toward future ones. Have you made changes?

Click here to start the next six months reading the newsletters, reports, and group emails as we move from the boom to the bust phase.

On a Personal Note

Check out Living2024. It is my personal blog, not business. I wanted to have a place to write stories about where this entire drama seems to be taking us all. Check out my latest post, Optimism Didn't Help Greeks or Chinese.

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