 

TDV Trade Alert

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New Swing Trade >>
Buy Direxion Semiconductor Bear 3x ETF (SOXS) at $40 or better with a 20% stop loss

- Target $100-150 over 6 months
- Inverse ETF - effectively a short against the SOXX with 3x leverage
- Aggressive swing traders only, mind the stop

New Option Strategy (Rolling Over QID Calls) >>
Buy to Open 20 Jan 20 $26 Call on Proshares Ultrashort QQQ ETF (QID) at $4 or better

- Target $20 by January 20
- Option strategy on 2x inverse ETF of NASDAQ 100
- Stop losses are not practical, high risk, sophisticated traders only

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> "*Investors in interest-rate futures markets have maintained strong expectations of a cut at the October meeting—a 90% probability as of Friday*"(Source: WSJ.)

The 3 month t-bill yield closed at 1.66% Friday. The market is already down to the 1.50-1.75 range so the Fed's move is at best anticlimactic, at worse it will disappoint. Powell's language was one of a technocrat trying to fine tune economic fluctuations rather than a situation where they were expecting a recession.

This is important because it precludes the kind of massive scaling in its operations required to reflate the boom. And, to be sure, I expect much of this liquidity to traverse into precious metals and crypto markets.

The buzz has shifted to a "pause" on interest rate cuts after Halloween but keeping the rate at the new lower range may well require continued pressure on the printing press. Moreover, the market probably expects the Fed to announce other operations in addition to the lower rate target at its month end FOMC. Regardless, it is not likely to be a magnitude that can reignite a faltering boom of this size and scope for reasons that I have covered in recent newsletters. As a result, the SOMA addicted Wall Street bull may not get the fuel it needs.

So, I expect the financial markets to continue to experience sluggishness at best, but valuation and sentiment extremes leave it vulnerable to panics that in history will seem to have had a sole purpose: to mobilize the Federal Reserve to move ever closer to hyperinflation, following the path of least resistance, because there is no grit left in the American political system. Everyone has taken the Clintonian path to the palace of *wisdom*.

The precious metals are trading gleefully because the gold bugs know that the Fed MUST act if it wants to avert a financial crisis, particularly in government finance. With public debt growing so fast during the growth stage of the cycle thanks to the Fed's policies any setback in interest rates or tax revenues just means it will literally explode. To be sure the subpar growth rate in the present cycle has much to do with all this.

The real actors know all this. They know what will happen if they stop now. Good stuff will happen to be sure, just not for them and anyone invested with them. It would be fundamentally good for the free market system but it would not be good for the institutions vested in the present system. But the fact is that this boom is unsound. It is built on top of a massive manipulation of money and interest. It's a house of cards but there are a lot of ideas being offered to justify increasing the scope of the inflationary madness ever further. And that is one of the results of this policy, once it is started, it gathers cheerleaders who learn how to exploit its benefits.

But the fact that we have come to a point where the central bank won't even tolerate a slight wringing out of the excesses is what is driving gold bugs into a frenzy. We're at record highs in stock prices and interest rates are already back down to below 2%. That's why they've failed to manipulate gold prices, and why gold has been breaking out despite the gentleman's agreement on the dollar in currency markets at the moment.

They have failed to convince investors that this boom is real, or has any substance. Even their own metrics betray them. The worrisome sign is that to some extent it is the like blind leading the blind. That's what we at the dollar vigilante observe in US and global politics today. Not one of them truly seems to understand the monster they have created or the fates they have sealed for themselves and their own loved ones.

For the long run that Keynes feared so much may have arrived, hastened by his avid disciples.

Outstanding Swing Trades and Options

DATE OPEN	NAME	SYM	BUY	LAST	SELL	LONG/SHORT	% GAIN
Apr 17, 2017	Currencyshares BP ETF	FXB	$122.42	$125.50		LONG	2.5%
Apr 17, 2017	Proshares Ultrashort QQQ	QID	$77.36	$29.06		LONG	-62.4%
Sep 26, 2018	Alphabet, inc	GOOG		$1,245.49	$1,181.00	SHORT	-5.5%
Sep 26, 2018	Microsoft Corp	MSFT		$137.41	$114.00	SHORT	-20.5%
Sep 26, 2018	Tesla, Inc	TSLA		$256.95	$310.00	SHORT	17.1%
June 18, 2019	Proshares Ultrashort UST's	TBT	$29.30	$25.50		LONG	-13.0%
Sep 11, 2019	McDonalds Corp	MCD		$208.50	$210.00	SHORT	0.7%

We have recommended a short strategy against the US dollar through long term buy and hold positions in the precious metals, cryptocurrencies, and the gold/silver miners; through a swing trade in the British Pound ETF (FXB); and through OTM call options on the Canadian dollar and Euro ETF's as more speculative bets.

Those positions make up almost 90% of our allocation so you can say that our investment strategy does not imply a positive outlook for the US dollar. In fact, as you know, we expect it to fall rapidly on the foreign exchange markets as presently unknown risks reveal themselves in US markets and result in a capital exodus at a time when the dollar's role as an international reserve currency is in jeopardy from several directions.

Politically and practically, and technologically - the dollar based system is likely ending.

Part of our outlook calls for major bear markets in both stocks and US government bonds to emerge.

But these trades make up less than 15% of our total allocation recognizing that the main theme behind our strategy is our forecast on the collapse of the reserve currency. However, in the short term, I view these trades as being very timely, especially the stock market trade. Although I've been early, I really like shorting it here.

The way we have pursued this strategy from a swing trading point of view is to own the following two ETF's - not for the long term but mainly for the intermediate cycle, which can last from a few months up to two years.

I'm not a fan of owning these ETF's for more than 1 year, and am not happy to be stuck owning the leveraged ETF on the **Proshares Ultrashort QQQ (QID:NYSE)** for as long as we have. Remember, these are trades and I like to recommend a 10-20% cut off point on losses in swing trades that go against us. My management of the QID trade is a lesson on how not to trade. We have to get more than a double out of it to break even on it now, which means the NASDAQ 100 has to sink ~25-30%, i.e., or at least to the low it reached late last year.

Nevertheless, unless the Fed pulls a rabbit out of its hat at its next FOMC, the timing appears to be primed.

I chose to focus on the tech sector because it is where most of the overvaluation seems to have occurred in the latter part of the current cycle. The banks also stand out as candidates to short for both cyclical and structural reasons. But they are down a bit and not as overvalued. They have advanced stealthily over the past decade but have not really been part of the manias. I think a better time will come for that short. However, our tech short against the NASDAQ 100 is bolstered by shorts against Microsoft, Google, and Tesla. Our Tesla short is up a bit but may push back on us if it reports a profit this quarter, which the company promised in its Q2 conference call. However, we are maintaining the short on skepticism and the general market climate.

Apple and Google have recovered all their late 2018 losses. Google is back at its 2018 high while Apple broke to higher ground leading the NASDAQ to a new high as one of its best performing engines. The advance in both is losing momentum but we are content to sit on the positions we have and not to add Apple at this time.

Microsoft has tracked those gains and has lower beta so those shares aren't up as much but in another sense they have done much better as their shares recovered the late 2018 rout and went off to substantial new highs. While most of the tech stocks are hovering somewhere slightly above or below their September 2018 highs, Microsoft shares blew past its 2018 highs early in the year. The shares fell from a peak of $115 in 2018 to a low of around $92 at the end of the year before turning around and advancing up to the current $137.

At any rate, the shares lost momentum in July and have been struggling up here so if we are going to be bearish on this market then this stalwart is a good target because it is one of the most overvalued Dow stocks.

In addition to the tech sector we recommended a short in **McDonald's Corp (MCD)** for several reasons, as well as a small short against US Treasury securities through the **Proshares Ultrashort US 20yr+ ETF (TBT)** representing my fundamental but early view that a three decade old bull market in government securities is about to end. Today we are going to triple down on our tech shorts by adding the semis.

Selling the Semis

Semiconductor ETF's vs NASDAQ 100	YTD Return
Nasdaq 100 Index	26.94%
Technology Select Sector SPDR Fund (XLK)	33.27%
First Trust Cloud Computing ETF (SKYY)	17.28%
SPDR S&P Telecom ETF (XTL)	8.52%
VanEck Vectors Semiconductor ETF (SMH)	42.82%

The semiconductors sub-sector has handily beaten the tech heavy Nasdaq 100 index this year, which incidentally is the best performing broad index this year. The gains come on the back of 5G hype. While 5G internet holds promise to be 100x faster than that of 4G, it comes at the cost of heavy infrastructure spend.

Also, the 5G signal can barely cover a 50 feet radius from the antenna, and its strength is further diminished on passing through walls or glass. The telecom operators are working on rolling out 5G in dense metropolitan centres, but the mobile phone makers are lagging behind in rolling out 5G compatible smartphones.

In the last earnings call, Apple CEO Tim Cook refused to provide any guidance whatsoever on their 5G plans, even while hinting at the wide range of other products they have in development. In addition, among the Android device makers, the speed of adoption is slower than market expectations. We take these as indications that the capital investment will lag expectations and hopes, and perhaps that companies like Apple do not yet have the confidence that consumers are going to plunge into the pricier phones.

However this is resolved, the semiconductor stocks are too richly priced and probably too far ahead of the market on 5G. The VanEck Semiconductor (SMH) ETF's biggest holding, Taiwan Semiconductor (12.94% of assets), is trading at a 22.9x trailing PE, while Texas Instruments (TXN), it's third biggest holding, is priced at 23.5x trailing PE. Fourth largest holding Nvidia (NVDA) has been richly valued ever since cryptos took off, and it continues to be richly valued at 42.1x trailing PE. The chart above on the left depicts a rising wedge formation - a rising but narrowing price channel - on diminishing momentum and volumes that suggests a petering out of the trend in recent months, which has so far ignored some of the negative fundamentals that have shown up in the sector this year. The inverse chart of the ETF that we are recommending on the right (above) has the opposite, a falling wedge, but volumes have picked up, suggesting a pick up in short interest.

One bullish sign in the chart of the SOXS is that the on balance volume indicator has stopped making new lows two months ago. This is a bullish divergence. It's merely one sign but a positive one for this trade.

Reaffirming All Currency Trades

Don't forget our currency trades. We continue to recommend the FXB ETF as a swing trade. I agree more with the bears on the British Pound than the bulls. But I think in the short to medium term it is the US dollar's turn to suffer pain, and I think the fears in the Pound and Euro are overdone.

The fear on the Pound is that the BOE is going to react to the Brexit by inflating madly and on the Euro that the potential demise of the EU will spill over into the Euro's failure.

This is not about which currency or central bank is soundest, it is about which currency has the most to lose from the global downturn and which currency has something to lose in its role as an international reserve.

It is about timing, and the time has come for a dollar crisis.

We are recommending the December $78 calls on the **Canadian dollar ETF (FXC)** and the December $111 calls on the **Euro ETF (FXE)**. They are offered at under 10 cents. The premiums are cheap and the charts look timely. In either case the ETF is about 5% from break even, which is where the option attains an intrinsic worth. The USD index took a tumble last week and if the bears manage to take out the 95.5 low we could be in the money sooner than later. These calls have a two month window to do that at the moment. It's an all or nothing bet. If it doesn't make sense to you don't do it but if you do be aware that it is possible to lose 100% on your option speculations, particularly on those that are out of the money and represent solely a premium.

If those risks are too great stick with buying the British Pound ETF (FXB) for a 20-30% gain without margin.

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