# The Market Contrarian

DOHMEN CAPITAL RESEARCH

3rd Quarter, 2019

### What's Inside:

- 3Q 2019 Market Overview
- The Aftermath of the Fed Rate Cut
- Signs of Market Deception
- Why are Investors Buying Trillions of Dollars of Negative-Yield Bonds?
- What The Biggest Investors are Doing with Their Money Now
- Why September Will Be Dangerous For The Bulls

## *Market Overview*

The markets had a nice rise from June to the end of July, recovering after the 1000 point plunge on the Dow throughout May. Summer trading was light as usual, allowing the major indices to chalk up modest gains. The DJI, S&P 500, and NASDAQ made new all-time highs in July 2019.

However, that market up-move had glaring deficiencies. Those indices are basically controlled by a dozen or so stocks. If we look at a much more important index, the Value Line (VALUG), which has about 1660 stocks, each with the same weight, you get a more bearish picture.

Here are the VALUG (blue line) and the S&P 500 (candlestick).

It is evident that while the major averages made record highs in July, the VALUG made a lower high and started to crumble. That's the real market.


After the Fed cut interest rates by 25 basis points on July 31, the DJI plummeted over 1840 points (-6.8%) while the much more important VALUG index plunged lower by 7.6%.

Conversely, the "safe-haven" sectors had incredible gains in that short period. Long-term treasury bonds, represented by the ETF TLT, shot higher by more than 8.6% to reach their highest level in three years.

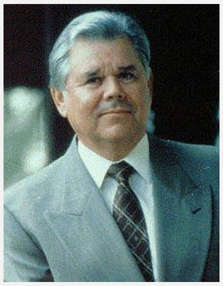
Gold broke out over $1500/oz to a new six-year high and Silver jumped to a new one-year high above $17/oz. The precious metals miners did even better than the physical metals.

However, we are always trying to look ahead. Our work still suggests that the market may have a stiff decline in the fall of this year. But that could be followed by a big rebound in 2020.

Additionally, the softening of monetary policy by the Fed will start to kick in next year, and an attempt of an economic rebound should result. Under-invested money managers will then deploy their excess cash and the shorts will have to reverse positions.

Such moves could be very profitable for our subscribers, although very detrimental to those investors who depend on free advice in the media. Most analysts never catch the turns. We will continue to keep our subscribers updated in our award-winning ***Wellington Letter***.

## *ABOUT BERT DOHMEN:*



Bert Dohmen is a professional trader, investor, and analyst.

As founder of Dohmen Capital Research group and newly established Dohmen Strategies, LLC, he has been giving his analysis and forecasts to traders and investors for over 42 years.

He has been a special guest on CNBC, Fox Business News, and CNN among others, in addition to having his analysis featured in some of the best known and reputable investment publications including the Wall Street Journal, Money Magazine, Barron's, Future's Magazine, and Forbes.

Dohmen's firms currently offer four highly valuable services for serious investors and traders, including the award-winning Wellington Letter, offering fundamental and technical analysis of the economies and investment markets.

In addition, The Smarte Trader and Fearless ETF Trader is ideal for astute short-term traders, and the exciting new HedgeFolios program for active investors looking to protect their portfolios and profit from market downturns.

For more on Bert Dohmen, visit his "Contrarian Blog":

Learn More

# *The Aftermath of the Fed Rate Cut*

The market selloff may have started on Wednesday, July 31, when the Fed cut rates. But the big plunge came on Monday, August 5.

We warned traders in our ***Smarte Trader*** of July 31 that "Depending on what the market does the next several days, this could go down as a very important market turn."

On August 5, the major indices opened lower. The alleged reason was that China would retaliate against Trump's announcement the previous week about a potential 10% increase in tariffs starting September 1. Overnight, China devalued its yuan currency to more than 7 yuan to 1 U.S. Dollar. That is the lowest valuation for the yuan since 2008. This makes Chinese goods even less expensive on the world's markets.

This intensified the current trade skirmish erasing hopes of a trade deal between the U.S. and China, at least in the near-term.

After China's devaluation of its currency, President Trump chimed in via Twitter:

> **Donald J. Trump** @realDonaldTrump
>
> China dropped the price of their currency to an almost a historic low. It's called "currency manipulation." Are you listening Federal Reserve? This is a major violation which will greatly weaken China over time!

This contributed to the fears of further, and longer, trade tensions between the U.S. and China.

Further escalating things, China's Commerce Ministry announced its companies will suspend its purchases of U.S. agricultural products and may even impose tariffs of its own on imports from American farms. In late July, Chinese authorities had agreed to buy more agriculture products.

We see the trade tensions to be an ongoing issue for quite some time. Both sides need a deal, but right now it's a game of "chicken." China may very well wait until next year to see if President Trump may have a chance for reelection.

The market drop on August 5 was the 4th worst drop in the DJI in history (in terms of points). Our subscribers to our ***trading services*** were correctly positioned for it as our longs rose in prices, and the shorts dropped. That's the best of all worlds. How many of our friends do you know whose clients had the chance to do that?

According to Bloomberg, **more than $700 billion in value was completely wiped out from U.S. equities** as a result of the August 5th plunge. That is massive for just one day. The anti-Trump establishment made sure that President Trump got the blame for the market plunge.

*(continued on next page)*

## *The Aftermath of the Fed Rate Cut (cont.)*

**We wrote numerous times that the Fed rate cut would be followed by a sharp market plunge. It happened and was predictable.** However, investors were told by the financial media that a rate cut would be bullish for stocks.

For anyone who may have considered the plunge a buying opportunity for stocks, most of which got absolutely slaughtered, we ask “what can possibly cause a sustainable rally from here?” Yet, the bulls are cheering an alleged “buying opportunity.”

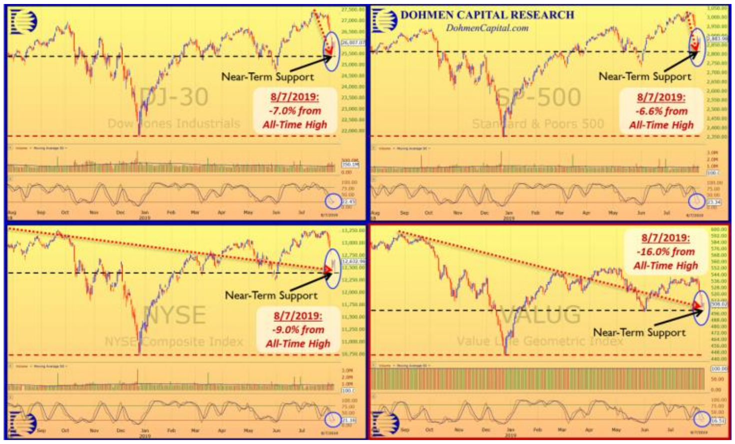
The selling came in again on Wednesday, August 7, as the **DJI dropped another 589 points at the low**.

This led to T-Bonds having another great day to the upside, fueled by talk that US Treasury yields may hit zero yields or even go negative. That has been our view for some time. Currently, all German government bond yields are below zero for the first time in history. This is unchartered territory. In decades from now, authors of financial history will write, “what were those idiots thinking?” The term will refer to the central bankers.

The image below shows four of the major indices; the top two charts are the popular DJI and S&P 500, while the bottom two indices are the ones **we consider the true "broader market,"** the NYSE Comp and VALUG.

**All four reached their respective short-term support on August 7.** On any rally attempt the shares bought over the last 5 months will be potential “supply,” when money managers try to sell in order to get more cash.

Note that the VALUG (bottom right) is still far below its high set in August 2018 while the DJI and S&P 500 both reached new record highs this past July. The latter two are easy to manipulate by just pushing a just a few stocks higher.




This chart shows the broader market as measured by the VALUG and the NYSE COMP have been in bear markets since last year. You don’t hear the analysts in the financial media talk about that. Most work for Wall Street or manage money, which are big conflicts of interest for anyone giving true, honest forecasts.

We’ve been forecasting since early summer that September-October will likely be very dangerous for the stock market bulls. In fact, the December lows could be broken. The VALUG is much closer to its December 2018 low (about 11% away) than it is to its all-time high from August 2018 (about 16% away).

Therefore, it won’t take much for the VALUG to retest those lows. We consider that much more likely than seeing it rise to new highs.

### *HEDGEFOLIOS*

HedgeFolios is possibly the most exciting new program for investors. It is designed for investors who want to manage their own portfolios in a very easy and convenient manner with just a click of the mouse.

HedgeFolios uses the models of Dohmen Strategies, LLC. They are designed to provide superior long-term performance whether markets rise or plunge.

Using the HedgeFolios unique technology, you can easily line up your own portfolio with one of our five models with just one click.

This lets our clients either take a worry-free approach to their portfolio by following one of the five models exactly, or give clients the freedom to make adjustments to their portfolios based on personal preferences or needs.

Simplicity, convenience, transparency, and worry-free investing – all with our professional guidance at your side.



**Disclaimer:** Dohmen Strategies LLC is not a registered investment advisor as defined. The firm does NOT offer managed account services. No consideration can or is made toward an individual's financial circumstances. The investor assumes all responsibility.

# *Signs of Market Deception*

In May, after the markets plunged for four consecutive weeks, we issued an important Strategy Advisory to our valued ***HedgeFolios*** members. In that Strategy Advisory, we wrote:

When the leaders of the rally fail, you have seen a market top. We believe that the next potential big problem period could be September. Of course, there can never be a guarantee that this will happen.

We have warned about the emerging markets (EM) although they were hyped in the media the past 4 months. The past 4 weeks, they have been in a virtual free fall.

Note the high was in mid-April. That was also the peak in many of our indicators for the US market. Such a confirmation is very important. The China story is a nice cover for the internal weakness of the markets.

Look at the double top in the EEM. Three months of market gains were wiped out the past month. All the bulls are now locked in with losses. They will wait for rallies to "get out even," which then never comes.


The biggest investors, institutions, have sold over $100 billion of stock during the rally this year. A bull would say that this is bullish. We say that when big money flows out of the market while some of the market indices still rise, it's a sign of deception and manipulation. It's a bright yellow warning signal. We never pretend to "know" the future, but we know warning signals when we see them.

If you want to join the "Winning Minority," try our revolutionary HedgeFolios service for active investors. We provide you with our 42 years of professional investment experience via our 5 model portfolios while you maintain full control of your own money.

In the 42 years of our business, we have called every significant market decline, including the historic crashes of 1987, 2000-2002, and 2007-2009. Of course, we have to say that "past performance is no guarantee of future results," but we work very hard to help position our clients for times of great opportunity and prepare them ahead of market declines with the goal of equal future performance.

Our HedgeFolios are doing very well, while actual hedge funds are having a terrible time, the worst in decades. Major funds, many considered amongst the best, are seeing outflows of 50%-60% of their assets as investors ask for redemptions.

Some very high profile hedge funds, in business for a long time, are now closing. These investors should look at HedgeFolios as an alternative.

For more information, visit: https://hedgefolios.com

# *Why Are Investors Buying Trillions of Dollars of Negative-Yield Bonds?*

It appears that the big, smart money worldwide is scrambling to buy TRILLIONS of dollars of bonds, **even bonds with negative yields**. Inflows into bond funds are near a record high. Global bond funds have had an inflow of about $330 billion just this year. That is huge.

Normally, we would consider such massive buying a bearish sign as it could be a sign of excessive enthusiasm. But this time it gets so **little attention. There is no sign of great public enthusiasm**.

Globally, there are now over $13 TRILLION of bonds with yields not just at zero but below, i.e., negative. That is **double the amount** of what it was last December. **Why would these huge bond buyers pay to own a bond instead of receiving interest? Read on.**

Furthermore, in spite of this huge rush into bonds, analysts in the media have not even mentioned bonds as a great investment. We consider that very bullish.

It's even more amazing that **although bonds have outperformed stocks the past 1-2 years**, we believe the inflows reflect "smart money." Here is the chart of the very broad Value Line Index (VALUG), which represents the true stock market, vs. the ETF for long-term T-bonds.


There is more about the urge to get into bonds, not just the yield. In fact, **one-third** of all European investment-grade bonds, and **a third** of 2-year European bonds rated "junk," yield less than zero.

Now there are **14 junk-bond issues** globally with yields below zero. That's incredible. Negative bond yields can be defended for safe AAA bonds. But **junk bonds with no backing can't be considered a "safe haven."** No one is thinking about how all this will eventually end. Our conclusion: Badly!

Imagine hundreds of billions of dollars going into bonds with no yield, and even negative yield, where the **buyer pays interest for the privilege of holding that junk**. Why would anyone do this?

Continue Reading this article in full at DohmenCapital.com: [http://dohmencapital.com/why-are-investors-buying-trillions-of-dollars-of-negative-yield-bonds](http://dohmencapital.com/why-are-investors-buying-trillions-of-dollars-of-negative-yield-bonds)

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*- Timer Digest*

*"[Bert Dohmen has] gained an international reputation for his accurate forecasts of the economy and major investment markets."*

*- Wall Street Transcript*

# *What the Biggest Investors Are Doing Now*

Right now, money flows, into and out of the stock market, show huge outflows by the traditional largest stock buyers, such as institutions.

If institutions have been big sellers of listed stocks in the past, but the cash levels of funds and institutions are not rising, where have institutions been investing? These institutions have continuous money inflows, they must put it someplace.

Our work suggests that they have been investing a significant amount in **Private Equity (PE).** We found that there is an accelerating trend of large institutional money management firms and their clients buying into private equity (PE), which is **not traded**. They don't have to worry about daily or even monthly pricing volatility. (Don't make the mistake of comparing these investments with the stocks of the private equity firms, as those are the management companies that have much higher volatility.)

The biggest traditional stock investors, like institutions, have been selling stocks, not buying. This only measures **listed** stocks. The numbers show that they have sold listed stocks and bought private investments. These are recorded as "alternative investments," but are not part of the volume of the stock market.

Now we hear that the giant Vanguard Fund group is considering a move into Private Equity. Obviously they see the shift by big investors. The talks are in the early stages and a final decision hasn't been made.

Vanguard has $5.3 TRILLION under management, making it the second largest fund company in the world. Big money is moving out of listed stocks because of the violent, manipulated moves and into less volatile long term investments in the private area.

It is reported that **in 2017 at least $2.4 TRILLION was invested in private equity (PE) compared to only $2.1 TRILLION in listed stocks.**

That is amazing. Thus, institutions are trying to avoid the crazy volatility of listed stocks so they invest in privately held companies via private equity firms. **That would account for the declining volume of listed stocks as the indices rise.**

Furthermore, institutions indirectly lend out money to private borrowers at higher interest than offered by traditional vehicles. According to the firm Prequin in May, "**fundraising for direct lending funds in the first quarter is already up 67% on 2018."**

But PE is illiquid. Some have lockup periods of up to 10 years. This could present a big problem some day when the investment entities need the cash. Large pension funds are an example as they have to make payouts to pensioners and are earning less than the payouts they have to make.

This could become dangerous. But the benefits of the current trend towards PE could even extend the bull market as there is less forced selling during bear markets.

The number of publicly traded companies has plunged by about 40% over the past 40 years, as have the number of companies doing IPO's. This has consequences.

Continue Reading this article in full at DohmenCapital.com: http://dohmencapital.com/what-the-biggest-investors-are-doing-with-their-money-now/

# September Will Be Dangerous For the Bulls

It's been a volatile period since the rate cut on Wednesday, July 31, to say the least. It was the first time the Fed cut interest rates since December 2008. Of course, we all know what occurred during that time in recent history.

On July 31, Fed head Jerome Powell announced they would be easing the Fed Funds rate by 25 basis points.

The market wanted to celebrate, but then Fed chair Powell poured cold water over the widely expected cut and said this was a "mid-cycle adjustment" and "not the start of an easing cycle."

The markets didn't like Powell's remarks at all and the indices plunged immediately, with the DJI losing more than 400 points and the NASDAQ down more than 100. It looked like a dumping of stocks. The losses were cut in half by the close, however, 4 of the major indices lost more than 1%, which is considered meaningful. This shows how fragile the really market is.

As we have written since earlier this summer, we expect that the worst is still ahead, this fall. The charts suggest that the rally from the December 2018 lows was a bear market rally and was completed last April for most indices. Now the markets should continue their journey into bear markets.

This is of course the minority view. We like that because at major turns, the majority is always wrong.

Speculative fever is very high. IPO's of companies without earnings are near record highs, around 80%. SPACS (special purpose acquisition companies) now are 24% of IPOs. These are known as "blank check" companies as they have no operations, no sales, and can't say what companies they will acquire. It's a leap of faith. Over the last 4 decades, we have seen such firms fail regularly. But now investors are gobbling them up.

Beyond Meat and other fake meat companies were pushed to insane heights. All they offer is plant protein with a number of very unhealthy ingredients. That fad is ending now.

The September danger period is near. If our forecasts come true, there will be great opportunities ahead, but they will be on the short side. Active investors could consider our trading services, ***Smarte Trader*** and ***Fearless ETF Trader***. During the last global crisis, those services did extremely well while the vast majority of investors were losing their shirts. We will aim to repeat that.

Wishing you successful investing,

Bert Dohmen

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