Arcadia
Economics

Monthly Market Snapshot

November 2, 2017

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How This Report Should Be Used

Many in the financial community believe that the global government and central bank response to the housing crisis in 2008 has inflated a new series of bubbles in the stock, bond, and real estate markets.

As I detail frequently on [the Arcadia Economics site]() and elsewhere, I fall firmly into that camp.

A crisis created by too much printed money and debt was papered over by even faster levels of printing and borrowing. Many of the actions of the governments and central banks were untested and reckless, and as a result have virtually guaranteed that another crash is on the way.

This report is written with that primary focus in mind.

As such, we'll be going over how to be prepared, how to keep your money safe, and different ways to invest and grow your capital. We'll also be discussing how to take advantage of some of the opportunities the market will be presenting during this coming period of change.

If you're trying to get great short-term returns over the next month or quarter, this report is not what you're looking for.

However, if you accept that decades of printing, borrowing, and paper financing have created an unsustainable financial situation that at some point must be resolved, then the Arcadia Monthly Market Snapshot was written specifically to be the financial hand guide that leads you to success.

The Problem….

Many in the public are aware that the banks and governments have been printing money for a long time.

However, what's often missed is ***the extent*** to which the printing skyrocketed following the collapse of the subprime bubble.

Below is a chart of the monetary base as provided by the St. Louis branch of the Federal Reserve. The monetary base is a commonly used rough approximation of the money supply, and this picture is truly worth more than 1,000 words.

As you can see, the money printing skyrocketed when the Federal Reserve bailed out the banks in 2008.

Prior to the housing crisis, commentators and financial analysts often mentioned how the Fed has printed a lot of money over the years. If what was printed prior to 2008 was considered a lot, as you can see, what happened afterwards was truly stunning.

This is what most in the public, as well as the majority of so-called Wall Street experts normally gloss over.

Consider that between the Fed's inception in 1913 and 2008 the amount being printed rose from $0 to $800 billion, eventually resulting in the housing market crash and subsequent recession. Following the crash in 2008, the amount of currency printed rose from $800 billion to over $4 trillion!

Now, if the amount of money printed prior to 2008 was enough to fuel the housing bubble, just imagine how much larger the bubbles have become this time around.

This has left the Federal Reserve and other central banks in a very difficult position.

They can continue to print money in order to prop up the bad debt, yet all signs indicate that we're reaching the point where that tactic eventually stops working and people begin to walk away from the dollar.

Alternatively, the Fed could raise interest rates and attempt to essentially "un-print" all of the printed money. However, at this point the system is so fragile that any sort of normalization of interest rates would pop the bubbles and bring the markets crashing down.

To put this in perspective, consider that following the dotcom crisis, former Fed chairman Alan Greenspan lowered interest rates to 1% for a year. When he tried to raise rates, the housing bubble that was fueled by the teaser rates imploded.

Now we've had 0% interest rates ***for almost a decade!*** Not to mention the additional trillions of dollars printed in the Fed's controversial quantitative easing programs.

Most on Wall Street don't want to talk about this. Some are simply unaware of what's actually going on. Yet just like the movie "The Big Short" did such a great job of pointing out, it's there for anyone who takes the time to look.

In a sense, the system has passed the point of no return.

It's no longer a matter of ***if***, but rather of ***when***. Just like mortgages couldn't keep going up forever, the governments and banks can prolong the situation, but to be sure there's a day of reckoning coming.

Especially because if the Federal Reserve doesn't buy the government debt, it remains a mystery as to who will. As you can see, it's not an ideal situation.

Now if you need any help further understanding any of the above, please email me for clarification. The rest of this report is based on these assumptions and it's important to understand them. I am more than happy to help explain or elaborate as needed.

Fortunately, once you grasp the situation, it can actually be a lot of fun thinking about the positive ways to respond and the opportunity that's present.

Which is exactly what this report is designed to help you do – respond to the opportunities presented in a manner that is ultimately profitable to you.

Formal Documentable Information vs. Intuitional/Relational/Rumor-Based Information

There are two primary types of information in this report: what I would consider to be formal documentable information, and then information, data, and themes that are more intuitive/relational/or rumor-based in their nature.

By ***formal documentable information***, I mean factual data that can be reasonably verified by reliable public information, such as a given level of debt, or the current price of an asset.

With ***intuitional/relational/rumor-based information***, I'm referring to ideas that might be based on personal experience trading on Wall Street, years of research, conversations with other traders and experts, or my own beliefs and conclusions formed and extrapolated from the documentable information mentioned above.

That said, when I share an idea that's not based only on formal documentable data, I do my best to note that. If an idea or theory is based on a conversation I have with a source I consider to be informed, yet is not necessarily verifiable, I will be careful to mention as much.

At times I will also comment on market rumors to the degree that it is appropriate or useful.

I believe it's important to filter all market data and information, and certainly to be careful of putting stock in false rumors. However to the extent that some rumors can contain clues that warrant further investigation, I comment as appropriate.

The challenge is being able to distinguish who to trust and who to avoid, which is part of the trading process that I've always personally enjoyed, and aim to pass on in these reports.

In either case, I will continue to make it a focus to present the information in a manner such that the source is clear and framed in the proper perspective.

WARNING!!! IMPORTANT!!! READ BEFORE PROCEEDING!!!

This report is presented as research and education from which to begin your own due diligence.

Obviously, everyone’s personal situation is different and it would be impossible for me to offer financially legal and personalized advice in this newsletter format.

My goal is to share the best of my own research and ideas in simple and concise terms. This way, you can be informed of what’s going on and presented with ideas that you can further investigate to decide if they are appropriate for you.

To get optimum value, results, and success, it’s essential to use this information as a starting point towards doing your own due diligence. With that said, I feel the information you’re about to read provides you with the opportunity for great success during this coming period. Now onto the report!

Asset Class Updates

Stocks

The major U.S. indices hit new record highs this October. The Dow Jones traded as high as 23,485, the S&P reached 2582, and the Nasdaq topped out at 6708.

Not exactly an easy environment for equity investing.

The markets have now *tripled* since 2009 lows. This is primarily based on low interest rates, which are achieved by the Federal Reserve printing money in order to buy short-term debt. As a result, a lot of the new money has flowed into the stock, bond, and real estate markets/bubbles.

Can stocks trade higher from here?

Yes.

Yet at the same time, the stock market becomes more liable to a 2008 type crash scenario as time passes and the bubble continues to grow.

In reality if the Fed actually did significantly raise interest rates and allow the over $4 trillion of assets on its balance sheet to mature/be sold off, the stock market would collapse. While the Fed has been claiming that this is exactly what it plans to do, keep in mind the Fed has been saying that for almost a decade while rates remain at 1%.

Ultimately what seems far more likely is the Fed continues ***to talk*** about undoing the printed money, but never really does. In that scenario the Fed might well continue running the presses and even turn up the speed in coming years.

Keep in mind that when economies are run via printing press (never a good idea) the stock market can really be driven to any level the bankers decide - it's just a matter of adding more zeros.

Theoretically, if so inclined, the Fed could print enough currency to send the Dow to 30,000, 50,000, 100,000 or any ridiculous number that it wanted. Although even in that scenario I would still prefer to own assets other than stocks.

If the Fed prints enough to keep propping up the stock market, while the nominal dollar amount of a portfolio will rise, your assets would still be declining in "real terms" of what those stocks could be cashed in to buy. In other words, if the stock market increases by a factor of 5 but the cost of everything you buy increases by a factor of 10, you're able to buy less goods in "real terms".

Recommendation

With the possible exception of some carefully selected natural resources/mining stocks, I continue to see the broader stock market as primarily a pass.

Can it go higher based on central bank money printing? Yes. Although every day you own stocks you're also at risk of the bubble bursting.

I think it's important for people to be aware that, in the current environment, we could wake up on any given morning and see that the equity markets have crashed. When that will happen, no one really knows. But we're certainly in that phase where it could happen at any point.

So why gamble your capital on trying to gauge when the rest of the world stops listening to the advice of the Fed, especially when there are better and safer alternatives available?

I understand it's not easy to sit and watch stocks consistently hit new highs while viewing from the sidelines. But if the goal is long-term success, remember that the choice facing equity investors today is similar to the decision real estate investors were faced with prior to 2007.

They were gaining on paper, but ultimately lost when the bubble collapsed and the market was repriced.

Bonds

The bond market is another tricky place to be invested these days, and is one that (for the most part) I continue to avoid.

Zero percent interest rates and central bank monetization of bad debt have created historic bubbles in the bond market. What more evidence of insanity do you need other than how some nations/groups (like the Eurozone) are now openly offering ***negative*** interest rates?!

Wow! Our grandchildren will think we were making it up!

Now if this happens to be the first time you're even hearing about the concept of a negative interest rate and it doesn't make sense, you're not alone. It's one of the more incredible scams the banks have come up with - and just wait until you hear how this one works.

Invest $100 with a bank that has a chance of being insolvent before you get your money back (especially if interest rates do rise). In the ***best-case*** scenario, the bank is still around and you get $98 back. Although the bank could implode and you don't.

Or the currency could be further devalued, meaning you get your money back, but it buys a lot less of the things you actually use.

Unfortunately, both are quite possible, with the latter actually occurring as we speak.

All Wall Street Eyes on The Fed….

At the moment the bond market is waiting on the Fed as usual.

The debate is about whether or not the Fed will raise interest rates another quarter of a point at its December meeting. Although in reality this is actually rather irrelevant in the grand scheme of things.

Keep in mind that during the last crash, the credit markets first started experiencing trouble in 2007. That means we're now ***10 years later*** and interest rates have still only been raised from 0% to 1%. There's a reason for this: If the Fed ever did any sort of meaningful normalization, the debt and derivatives that are predicated upon low interest rates would collapse. Just like they did in 2008.

After all, the response to the last crisis was to ramp up the debt and borrowing at an even faster pace. Nonetheless, Wall Street remains fixated on what the Fed will do in the next quarter while ignoring the elephant in the room.

Another reason to be skeptical about the Fed raising rates is because of comments from its *own leader*. Recently, Federal Reserve Chairwoman Janet Yellen had a rather unexpected comment when she mentioned that the "probability that short-term interest rates may need to be reduced to their effective lower bound at some point is uncomfortably high, even in the absence of a major financial and economic crisis."

On the one hand, the Fed says the economy is strong and it's going to raise rates. Yet at the same time there's an uncomfortably high chance they're going to lower rates again. So which is it?

For those new to "Fed-watching" (amazingly its own industry these days), this sort of conflicting commentary is nothing new out of the Fed. The Fed has been doing this same Abbott and Costello routine for decades. Fortunately, if you can see the bigger picture you really have the opportunity to save or earn yourself a lot of money.

I've spent the past decade writing about their contradictions, and if you really want to see how nonsensical the entire situation is, check out a book by a guy named Bill Fleckenstein called "**Greenspan's Bubbles**".

If that doesn't make you stop taking the Fed seriously, then get a copy of another incredible book called "The Creature from Jekyll Island". This one goes into the history of the institution and all of the nefarious things these guys get involved in. It is truly stunning, and gives an entirely different perspective of what's really been going on all these years.

In reality, whether the decision makers at the Fed are just confused or actively dishonest, the one thing their track record allows you to rely on is that one way or another, they're going to resort to printing money.

It’s just what they do.

So what will the Fed do at its next meeting? To be honest - I don’t really know. If I had to guess, I’d say there’s a good chance they surprise people and leave rates unchanged. More importantly, I don’t see this as a place where I want to leave my money at this point.

With any even remotely realistic inflation numbers factored in, the yield is likely negative. Keep in mind the government numbers have been routinely exposed as “flawed”, (to put it kindly). Of course, being in the bond market, you’re also left with the ever-present risk that the bubble could implode at any point. Where’s the upside in that investment?

If we’re aiming for the buy-low sell-high philosophy, owning treasuries at these levels sure feels like buying-high.

Perhaps you’ve heard well-known investor Jim Rogers talk about being on the opposite side of the trade from the crowd. If everyone has already piled their money into something, then how much higher can it go up?

The “Perceived” Flight to Safety

Oddly enough, there is actually a decent chance that the dollar and treasuries do rally at various points, perhaps even significantly when some form of the crash begins. Why is that?

It’s because within the investment community, the dollar and the treasury are still often looked at as the ‘safe haven’.

Now, I’m not saying I would consider it a safe anything. But you have to remember that what you’re reading is in stark contrast with the majority of what’s presented on CNBC or the Wall Street Journal. Not everyone “gets it” at the same time.

The idea that markets are efficient because all information is spread evenly at the exact same time, and factored in perfectly by everyone has never been true. You can’t even get people to agree on what’s happening now.

So depending on the order of how events ultimately unfold, there’s actually a good possibility that there will be times during which the dollar and U.S. treasuries rally - even when it seemingly makes no sense.

That’s just the way these things happen with markets.

That said, capturing these short-term gyrations is not what I would recommend aiming for. Instead, I'd advise you to introduce a mindset that is prepared for all possibilities, and to be aware that when things really begin to move, they might not go in a straight line.

Now if you're smart enough to time the short-term fluctuations profitably, then by all means go for it.

But writing even as someone who used to professionally trade shorter-term assets (primarily equity options), it just seems like it's so much easier to reduce your risk, and maximize your gains, by minimizing short-term trading and looking at it all with a mid to long-term perspective instead.

Recommendation

The treasury market will fluctuate around the short-term noise of the Fed until one day it doesn't.

That could be caused by the end of the Petrodollar, China cashing in its treasuries, military threats, a crash in one or all of the global stock markets, or something else that no one is even thinking about.

Holding treasuries also leaves you vulnerable to systemic counterparty risk. Will the exchanges still function and will your broker/custodian still be in business? Hopefully.

However, it's my responsibility to point out that I do believe we've entered the phase where risks like this have risen above a non-zero probability. Hopefully it doesn't occur, but since there are ways to mitigate the risk at no additional cost, I always advocate doing so when possible.

As a result, I continue to recommend steering far clear from owning U.S. treasuries.

Real Estate

Real estate fits a similar profile to stocks and bonds.

Current levels seem too high to me to approach real estate as an investment. Keep in mind that in most areas real estate levels have passed where they were in 2007. Like the stock and bond markets, prices could go higher, although the downside risk seems to overwhelm the possible upside.

Does that mean there is no circumstance in which you would buy a propriety? ...Not necessarily.

If there's a property you see as a potential home for your family over the next 20-30 years, then you do get the advantage of trading dollars for an asset with real and tangible value. You also get to take advantage of historically low interest rates and the opportunity to pay back the loan in devalued dollars.

Imagine the scenario mentioned in the section about the stock market. The one where the central banks just run the presses on overdrive, enough to do something ridiculous like drive the Dow to 100,000.

If you were invested in stocks (or preferably one of the alternatives described below), at least in nominal terms (meaning the actual number of dollars you hold) you would end up with more dollars. Yet your mortgage payments stay the same because you locked them in.

So at least to the degree that you get to repay the loan in cheaper, easier to come by dollars, there are advantages to a purchase. However, you would need to be prepared to sit there and hold that property even if prices decline 30-50% or more. This is the type of decline I feel people need to be prepared for.

This is also why if it's truly a long-term purchase, it can work. Although short-term flipping still seems like playing with fire.

I would also avoid any sort of adjustable rate mortgage. With rates still at historic lows, is the chance of a further decline in rates and a refinancing worth the downside of seeing the Fed raise rates? Or the market at some point raising rates for the Fed? This is what got so many into trouble last time.

As late as the spring of 2004, Alan Greenspan was advocating the use of adjustable rate mortgages. A few months later he started raising rates, and anyone who followed his advice lost big-time.

Recommendation

Proceed with caution. I believe there's going to be a time in the not-so-distant future when you'll be able to get an incredible deal on real estate.

Based on what happened in 2008 and how much more debt and additional credit has been piled on since then, what exactly is going to happen to the housing market this time? Declines of 30%? 50%? More? No one really knows for sure.

Although in a perfect world, I like to imagine other investments doing well over the shorter-term, and picking up a dream home after real estate is trading at a fraction of current levels.

Precious Metals

The news in the precious metals space this month was primarily the same: great from a long-term perspective.

Even so, the key question remains, "When will we finally begin to see the next leg upwards?"

I continue to subscribe to the view that the gold and silver markets are incredibly manipulated, similar to most of today's financial markets.

In short, because gold and silver are traded in paper, if you have the ability to write and sell "paper" gold and silver you can keep their prices pretty darn low. In fact, even as I'm finishing this column on November 2nd, there were big plummets in both gold and silver this morning, accompanied by reports of massive amounts of paper selling. At the same time, I continue to hear numbers in excess of 100-1 in terms of how many paper claims there are for each piece of metal.

There are 2 main components at play here.

First are the underlying fundamentals, which continue to be extremely good for precious metals.

- Reports of imports especially from China, Russia, and India continue to be strong from everything I see and hear.

- There are rumors of China beginning to buy oil and paying in Yuan/gold.

- Iran and Turkey are arranging payment mechanisms that's no longer involve the dollar.

There was also an interesting quote from a precious metals analyst named Egon Von Greyerz that I felt was worth sharing as it speaks to this accelerating global trend.

> **"China and Russia are now seeing what de Gaulle saw in the late 1960s. They know that it is only a matter of time before the dollar will lose its status as reserve currency. They also know that before this happens, the dollar will start crumbling and eventually disappear into a black hole resulting in an implosion of all the dollar assets and debts."**

Everything I see confirms and matches what Egon describes.

So again, while we don't know when the breaking point will occur, the ultimate destination continues to remain rather clear.

The second factor with metals is the manipulation. While it can be frustrating to watch on a daily basis, manipulation is still an additional factor that makes the case for investing in gold and silver stronger than ever.

Keep in mind there are some who dispute that the markets are being manipulated by a large "short" position. If we were given subpoena power to get access to trading data that could confirm or disprove this, I would be willing to bet my trading career that manipulation is indeed the primary reason that metals aren't already substantially higher.

Deutsche Bank actually got caught almost 2 years ago and released trader transcripts, which show bank traders from multiple firms bragging about committing felonies.

Exhibit A:

> ***"On Oct. 15, 2010, a UBS trader wrote, "Gonna bend this silver lower."***
>
> ***A Deutsche Bank trader responded, "Oh dear. my boss just said he bought some."***
>
> ***The UBS trader said, "I have to be sneaky then."***
>
> ***Then later, "Had to really work that one. told u I'd bend it lower for u."***

Exhibit B:

> ***A UBS trader admitted his bank's ability to influence the silver market in a Aug. 11, 2011, chat with a Deutsche Bank trader.***
>
> ***"If you want to accelerate it...go short 20k silver," the UBS trader wrote. "Stay on the offer in 1s...doesn't require much ammo."***
>
> ***"Ack," the Deutsche Bank trader responded.***
>
> ***"Avalanche can be triggered by a pebble if u get the timing right," the UBS trader wrote.***

I find this example particularly interesting because it speaks to what I believe are the mechanics of how the market is manipulated.

How the scheme is executed mechanically, is that large selling pressure is applied in order to get the high-frequency trading vehicles triggered. Once that happens the price drop accelerates. Then, when prices move lower, the same traders that initiated the selling buy back at a profit.

Well-respected silver analyst Ted Butler commonly reports that the same banks continuously show up on the exchange reports coming out a winner on this trade without *ever losing*. Which in my career as a trader is unheard of, even for the best traders. It just doesn't work like that.

(In a somewhat unrelated yet interesting side note, when I was going through my trader training, one of my mentors once told me that if you won on 100% of your trades that wouldn't necessarily be the best outcome. It might be good, but it would be indicative that you were too conservative and passing up opportunities that might not always win every time but had greater expectancy in the long run).

Exhibit C:

> ***On April 1, 2011, a UBS trader commented on plans to manipulate silver transactions with Deutsche Bank, according to the court filing. "If we are correct and do it together, we screw other people hard," the trader wrote.***
>
> ***In an Aug. 5, 2011, chat, a UBS trader wrote, "Bro lets make a slight adjustment to our plan today."***
>
> ***A Deutsche Bank trader responded, "K."***
>
> ***The UBS trader then wrote, "Depending on where the mark is we go short around 11-11:30 am I make sure to let u know if I do something."***
>
> ***"Ok Im definitely going short lol," the Deutsche Bank trader said.***
>
> ***"Lol revenge huh? That's what's driving u," the UBS trader responded.***
>
> ***"It is but I dun care."***

This is interesting for a variety of reasons.

Far from a lawyer am I, although my understanding is that when a manipulation is coordinated between separate entities, that it also then becomes collusion. Feel free to email and alert me if that's not correct, although I believe it to be the case.

Perhaps more significant is that in 2017 a former Deutsche Bank trader reached a settlement, while another trader from UBS was arrested. Part of the settlement included cooperation, and there is at least one class action lawsuit pending against the bank (of which I myself am a plaintiff).

Recommendation

So what's the takeaway here?

Either the fundamentals or the manipulation alone would make gold or silver a great investment. Put together, it creates a profile unlike anything I've come across in my career.

Add in that gold and silver have been beaten up pretty badly over the past 6 years, and you also get what we'll lovingly title "The Jim Rogers Factor" going in your favor (that the more people disagree with you, the better the pricing you get on your trade).

On top of that, prices are also currently right around the level it costs to actually get the metal out of the ground, and you also have a great cap on the downside.

If it costs $13-15 per ounce of silver to get it out of the ground while it's already trading at $17, how much lower can it really go? If it really did go lower, that would just continue to lessen the number of projects out there. A number which has already been shrinking due to lower prices. So at the same time the demand is growing, the supply is shrinking.

The takeaway is that the medium to long-term case for metals remains strong. It just requires patience.

Prices could rise quickly and without notice. Which is why if you have investments funds that you can leave untouched for anywhere from 1-10 years, I feel like owning physical gold and silver is one of the highest-reward lowest-risk things you can do.

You just have to be prepared for some wild volatility mixed in with periods of watching paint dry.

My best guess is that something happens within the next year, but giving yourself the advantage of a longer timeframe is what really offers this trade the opportunity to be successful on so many levels.

Crypto Currencies

One of the biggest financial stories of the year remains the explosive price action in Bitcoin and the crypto space.

With prices already fairly high, the question remains, are the cryptos a bubble, or are we still early on in a much bigger rally?

In my opinion there are two primary explanations for the rise in the price of the cryptos:

On one hand, the technology is being adopted, and there is growing evidence that Bitcoin and the block chain technology are going to be a big part of our future. As a result, there is price activity in response to the potential, or in some cases already realized productivity gain.

At the same time, to the degree that Bitcoin and some of the other tokens can serve as a currency, part of the price movement is a devaluation of the dollar as being reflected in the pricing of cryptos.

To clarify that, pick whatever you feel Bitcoin should be worth. You might think it's going higher or lower. But just imagine for the moment that it's worth $X per coin.

If nothing happens to Bitcoin but the supply of dollars was doubled, then Bitcoin should theoretically double to $2X per coin. Just like we would expect all goods to double in price under those conditions in a perfect theoretical world.

Because nothing else has changed, except that the money supply has doubled. This is why the state of the financial and political markets is not unrelated to what's happening with the cryptos.

Especially with the gold and silver markets being prevented from functioning properly because of the paper trading, Bitcoin is providing investors with a dollar proxy where the pricing actually reflects what's happening.

In fact, I believe that were gold and silver trading freely right now, they would be exhibiting price behavior very similar to what we've seen in the crypto space.

Ultimately, whatever would constitute a true break point in the dollar, I don't feel we've reached that moment just yet. But are we witnessing the type of signs that might appear before such an event?

It certainly looks like it.

I also talk with and listen to investors who understand the situation in precious metals, and have shifted to crypto space because at least it's an asset where the pricing reflects their view that the dollar is sinking.

Concern about the dollar is the reason why so many first went into gold and silver following the housing crisis. That's why I did. And as you can see from the money supply chart in the introduction of this report, there was every reason to believe that would be reflected in the price of precious metals.

Almost any asset class you look at outside of precious metals has doubled or tripled since then. In due time I still believe the precious metals will do that and more.

Yet no one knows when that will be. It could be tomorrow, or it could be a few years from now.

It is not a properly functioning market.

But because the banks cannot sell Bitcoin that they don't own, many are looking to it as a more accurate barometer for the health of the dollar. If a capital flight has truly begun, the crypto pricing could well be serving as the warning indicator that we're not in the first inning anymore.

From that perspective, it's at least possible that a more constructive way to view the rise in the price of Bitcoin is that it is partly a reflection of the decline of the dollar, in addition to the actual value behind the applications. I believe both are contributing factors.

Also, having been familiar with Bitcoin from somewhat early on (perhaps 2011 or so) I'm also familiar with the general mindset of Bitcoin users and investors.

There's overlap between the Bitcoin/Precious Metals/Libertarian communities, and I think it would be fair to say that Bitcoin was developed primarily as a solution to the currency issue (you can view the Bitcoin White Paper here and make your own interpretation).

So do I think Bitcoin is a bubble? No. And here's why…

How to Value the Cryptos

In the last month I've been thinking a lot about how to value Bitcoin and the cryptos.

In a world with perfect information and foresight, there is some value that they are worth. Maybe we're above, below, or at that value now. But in the end, there is theoretically some amount that it's actually worth.

Since we don't always know the future I find it helpful to think about some of the possible scenarios, as well as how likely each one of them might be.

If Bitcoin is just a passing fad that never gains further adoption, then perhaps hitting the $7000 level is the peak in the bubble and it's soon to crash.

If the cryptos end up having sustainable value, but don't necessarily change life as many are speculating is possible, then it could be we are somewhere near fair value.

However, if the cryptos are able to fulfill some of the claims that I'm understanding them to offer, then I do see the scenario in which a few factors combine and we are still early in the rally.

Perhaps even a step beyond that would be if the cryptos can provide these solutions, *at the same time the dollar is really collapsing,* and in that case- watch out.

What Do the Cryptos Actually Do?

Most people who have heard anything about the cryptos are primarily familiar with Bitcoin, which the white paper describes as "A Peer-to-Peer Electronic Cash System."

So, if you think of Bitcoin being created as a solution to a currency infrastructure that's been failing, you can think of some of the other cryptos as solutions to failing infrastructure in other industries.

One way in which I've heard it explained from a few different sources, is to imagine any industry with a lot of costly middleman infrastructure and fraud. That's what the blockchain technology can address by providing transparent open-source code that eliminates the ability for things to go awry.

For example, Spectre founder Kay Khemini is creating a blockchain based trading platform that he claims had it been used, would have simply made the Bernie Madoff and Jon Corzine scandals impossible to happen. As well as so much of the other financial fraud that costs the public billions of dollars each year.

So if the billions or trillions that are lost to the endless financial scandals we read about are returned to the customers, while the fees that have fattened Wall Street are reallocated to crypto space, then all of a sudden we're talking about some real value. Value and energy that, in the past, have been sucked out of the market by banks and government with complex inflation schemes that led to dotcom and housing bubbles.

What has many in the market excited about the future of crypto space are the solutions to real-world problems that the block chain technology potentially offers.

I say potentially specifically because many of these ideas are still in early phase/being brought to the market.

Remember that just as we don't know for sure what will happen with the dollar, we don't know for sure what will happen with the cryptos either. So before investing in any of these ideas, doing your own due diligence is imperative!

Can the Cryptos Follow Through as Advertised?

I don't claim to know the future. That being said, there sure are a lot of indications that infrastructure seems to be gravitating away from the dollar/fiat system and towards the block chain technology.

I also find the more I learn and ask questions, the more I continue to be impressed with what I learn.

There's a CNBC reporter named Josh Brown who recently attended a Bitcoin conference, and I find myself continuing to think about a quote he shared.

I keep coming back to what he said, primarily because it matches my own experience with Bitcoin users and experts over the past 6-7 years.

> ***"One really important point – every one of the four panelists told a story about how when they were first approached with the idea of Bitcoin, they laughed at it. All of them are converts. In fact, someone said "There is not a single person I've ever come across who has done a deep dive and didn't come away bullish."***

I'll continue asking questions, learning about the applications, and evaluating what I find appropriately.

With that said, I've seen enough at this point that after making an initial investment in mid-June, I've gone as far as re-allocating some of my silver into some of the cryptos I like. I say this as someone who's talked about the value of silver more than anyone I know over the past decade. To be clear, I still very much believe in silver.

Now, do I think there's a higher probability that there are significant gains in the cryptos before we see that in precious metals?

From a trading standpoint I feel there's enough evidence that it's a worthwhile risk. There's enough edge in percentages that I'm comfortable reallocating a portion (keep in mind not all) in that direction.

The Stampede Is Coming

"The stampede is coming" was another sub-headline in the Josh Brown article.

To which he followed with:

> ***"I mentioned a few weeks back that you can practically smell it in the air - the big money is coming into this space. I can't imagine how that doesn't blow the price up into the stratosphere. For all of Jamie Dimon's protestations, his firm is experimenting with cross-border transfers using blockchain. So is every other major financial institution - or at least they're thinking about it and planning it."***

Jeff Berwick of the Dollar Vigilante recently mentioned:

> ***"No one can ignore it now… and the really interesting part is that there are currently only about 14 million bitcoin wallets in existence. If every one of them is owned by a solitary individual then that means 0.2% of the world's population owns bitcoin currently.***
>
> ***What if that number goes to 2%? And, institutional investors are just starting to invest now."***

If you fast forward 10 or 20 years from now and imagine that every transaction that you're used to completing with dollars (or insert the local paper currency of your current country of residence) is now being done via crypto, then what would the price be by the time we've reached even a 1 or 2% adoption phase?

Now think about the impact if 10% of the population adopted the technology.

Which is why stories like a potential adoption by a retailer like Amazon are worth keeping an eye on. Especially given that overstock.com and other retailers are already accepting Bitcoin, while these 5 cities will allow you to buy real estate with Bitcoin.

If this continues while a more intense phase of the decline of the dollar commences, then some of the forecasts for cryptos and Bitcoin growing by multiples do seem feasible.

So, to value the cryptos, the first place to start is by thinking about how much of a role in our future the cryptos are really going to play. How does one do that? Well keep reading, because you're in luck!

Recommendation

At the very least, go through the process of opening a Bitcoin account on Coinbase (or another exchange of your choosing), even if it's just to deposit $1 and have gone through the process.

At the very least, you'll be more knowledgeable about a system that's increasingly becoming a bigger part of global culture.

As I've followed the same advice myself, what I've learned has changed my understanding of what's happening in the crypto space. Along with that I've become more excited not only about the investing environment, but also ways in which the cryptos might be able to facilitate incredible change in the world.

Which is why just going through the process of opening an account can be so valuable.

Prior to doing so I wasn't aware of the potential Amazon deal. Prior to going through the process, I wasn't aware that Overstock.com already allows you to pay with Bitcoin.

I realize there's been a lot of volatility, and I would only expect more going forward. You need to do what feels right to you.

However, if you go through the process of opening an account, which naturally leads you to begin getting a feel for the technology, you'll be able to make these decisions from a much more informed perspective.

If you do decide to invest, I would say I'm growing increasingly confident that it will pay off at some point. In the scenario where cryptos can really solve many of our biggest problems where government has failed, while at the same time the dollar is declining, the chance for incredible returns is there.

That does not mean that's necessarily what will happen. Yet to me, the risk/reward profile is sufficient that a 1-3 % allocation could be a good idea even for more conservative investors. With some of the moves being so large, you also might have the option to reclaim your initial investment while now having the gains to continue investing if you want to further minimize risk.

This continued investment could be in that same asset, or something else that looks even more profitable at that point in time.

Getting Up to Crypto Speed

Obviously, you can find a lot of information online about cryptos. If you'd like 2 good places to start, below is a great YouTube video with Cliff High, Bix Weir, and Jsnip4, as well as a podcast where Tim Ferris interviews computer scientist, legal scholar, and cryptographer Nick Szabo.

I've found both of these to be incredibly helpful in explaining cryptos and the blockchain, and believe you might as well.

Investment Ideas

Safety Trades (real flights to quality)

Let's say you were going to have children, and potentially grandchildren.

If you wanted to take a portion of your savings and invest it as wisely as possible to leave them financial abundance several decades from now, what would I recommend?

With a long enough time horizon, at least when I think about what I would want someone to leave me, it would be some basket of silver, cryptos, agricultural land, and mining stocks.

With a few caveats of course, I would want the option to make adjustments as events unfold.

For example, land and real estate maintain value even when currency does not. However, given that I feel real estate prices are currently overvalued and will at some point have to correct, I would want real estate. Just not yet due to current price levels.

Now should the silver manipulation end, and we have $100/ounce prices at the same time the real estate market is crashing, I would then want to reallocate some of that silver into real estate.

Not necessarily the entire portfolio or amount. And the circumstances might end up being completely different what I've just assumed above.

However hopefully the point is clear that there will be times when re-adjusting and re-evaluating are worthwhile. Of course, when those times appear I will be writing about it in the Monthly Market Snapshot.

With that said, one of the aspects that I like so much about our current markets is that you don't have to dedicate your life to becoming a hedge fund manager to make intelligent decisions Especially if you understand the basic ideas we've discussed throughout this report, as well as some of the ways you can respond.

So while there may be periods where I might want to re-allocate, as a basic starting point, silver, cryptos, agricultural land, and mining stocks are some great candidates to look at.

Speculations

Cryptos

We've already covered the general investment case for cryptos. In terms of some names to look at, of course there's Bitcoin. Although one that's caught my attention over the past few months is Litecoin.

My understanding to this point is that you can think of the difference between the two as a bit of a tradeoff between speed and security. In some ways Bitcoin has chosen the role of being more secure and better at facilitating larger transactions. Whereas when you try to figure out what we might be using to buy a cup of coffee in a few years (or maybe even sooner!), I keep hearing more and more about Litecoin.

There's also a belief going around the crypto community that Litecoin should be valued at roughly a quarter of the value of Bitcoin (whereas it's currently closer to 1/100th of Bitcoin's price).

Here's a good article about the Litecoin vs. Bitcoin comparison, and as always make sure you've done your own research before investing. But if you're looking for ideas on how to get involved, this is one I like and feel is worth investigating.

Hedging

If you do decide that you still want to own stocks, one idea to consider is buying insurance on your portfolio. Possibly with some sort of "put," especially given how cheap premiums are at current volatility levels.

A put option is a volatility bet that can serve as a form of insurance. Let's say you own an index fund that mimics the S&P 500. You could buy a put on the index so that should it drop below a certain level your downside is capped.

One advantage of this idea is that current volatility levels are historically cheap, as measured by the CBOE Volatility index (a.k.a. "the vix"). Essentially, you'd be paying a lower rate than normal on the cost of your index insurance.

The downside is that timing a bubble is an inexact science. While we can have a highly educated opinion about a lot of things that seemingly must eventually happen, the timing is the one part that no one ever really knows.

This means that you could buy insurance that expires worthless (puts come with a certain expiration date). Essentially imagine buying volcano insurance for a certain period of time. If the volcano doesn't blow before that date, the insurance claim would expire worthless.

Again, I personally prefer to be out of the most equities altogether. Yet, if you do want to continue owning stocks, buying cheap insurance is one option to consider.

Wrapping Up

Hopefully you now have some ideas to consider and mull over after reading this report. There's a lot of information in here and my recommendation is not to try and take it all in at once.

Once you've read the report, go back after a few days and take another look. Along with how your mind will begin seeing the news and developments in a different light, I believe you'll find that after some time has passed and you give it a second read you'll have an entirely new perspective.

If you have a financial advisor, take the questions you come up with and review it with that person. Some financial professionals will be aware of some of the topics discussed in here, others will find them very foreign.

In the end the goal is for you to make the best personal decision for yourself. I encourage you to consider all of the information with an open, yet critical mind, ask questions about anything you don't understand, and then follow what feels right to you.

It's not going to be the easiest time for those who aren't aware of what we've discussed. Yet just by the fact that you're reading this conclusion now demonstrates you've already decided to take ownership of your own investing success.

To which I congratulate you, and would just add that in my opinion, there is nothing else you will ever do that will be more valuable to your financial success.

If you found this report helpful and would like to receive future versions of Arcadia's Monthly Market Snapshot you can do so here, and as always you are welcome to email any questions.

Thank you as always for reading, and see you next month!

Sincerely,

Chris Marcus

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