Under no circumstances does the information in this document represent a recommendation to buy or sell stocks or funds. It should not be assumed that the methods presented in this letter will be profitable or that they will not result in losses. Past results are not necessarily indicative of future results. This document is for educational and entertainment purposes only.

forty.

-Once per year, I invite new investors to join me in World40. Now is the time.
-The 2018 holiday promotion is $6,900 for 12 month membership. Membership is discounted this year from the usual $10,000 as I plan to take 6 weeks off during the summer to trek in Nepal.
-New streamlined and simplified approach to Superstocks to benefit investors with full-time jobs.
-Could be best time ever to join due to market opportunities and price point.
-If you'd like to learn the ropes and work with me in 2019 and want to receive more information, please email me at worldforty@gmail.com with subject "W40 info." .

"If you're holding cash, you're going to feel pretty stupid."

-Ray Dalio 1/23/18

12/23/18

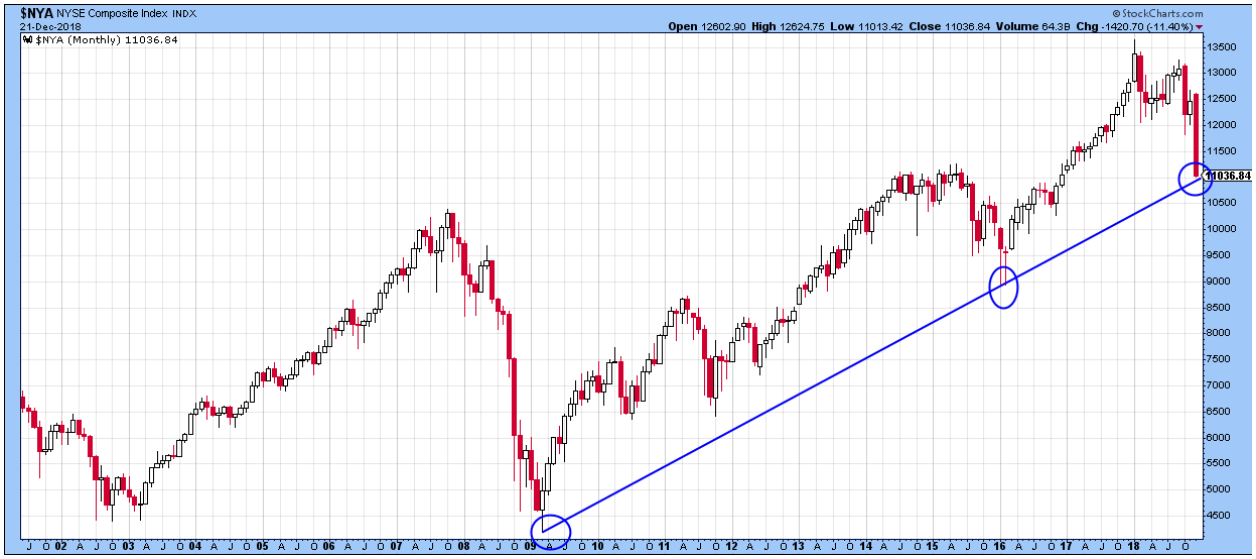
Merry Christmas Friends and Family!

Despite the current market shenanigans, I hope this letter finds you happy and healthy during this holiday season. This year, I write to you again from Bali, Indonesia where I plan to spend Christmas and New Year's. If I get a little adventurous, perhaps I'll make a trip to the Gili Islands for some holiday R+R under a coconut tree. Fingers crossed that this will be the first year that I don't become deathly ill here.

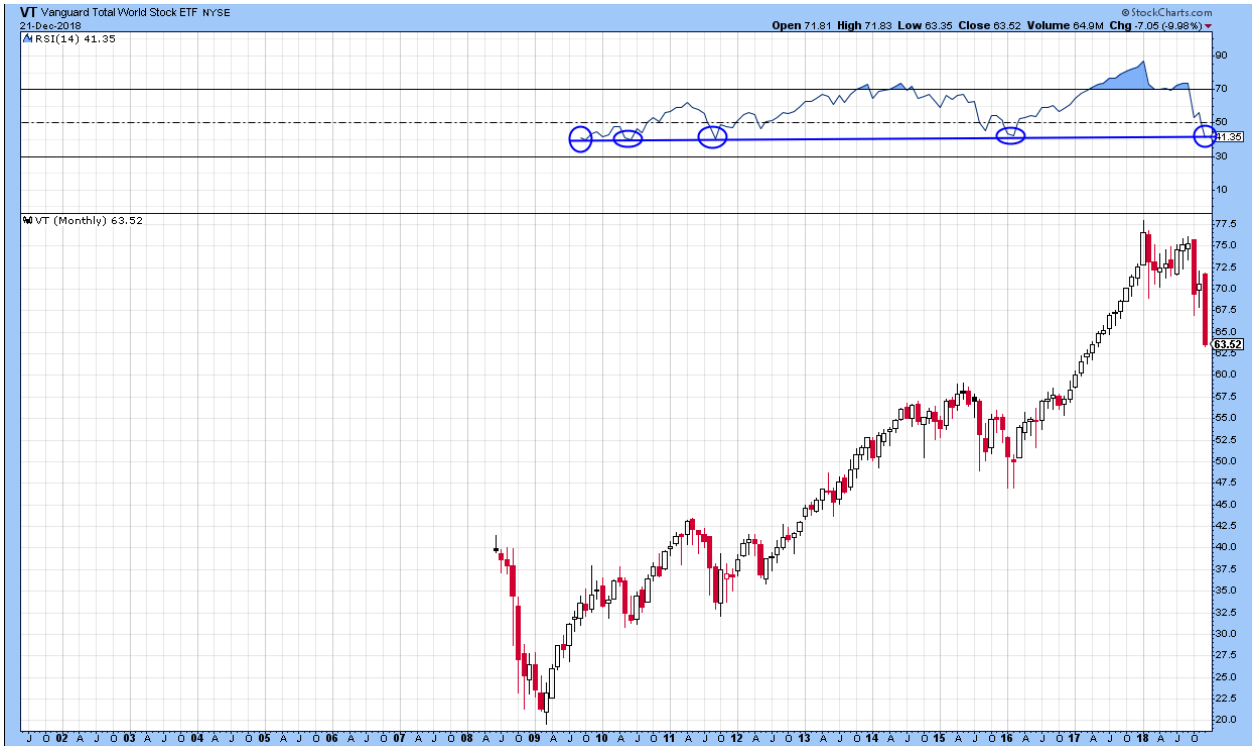
In any event, you know the drill by now. Most market forecasts are the result of looking at a chart of the S+P 500 for 5 minutes, glancing at the recent past and speculating that the current trend will continue indefinitely into the future. The name for this is Recency bias.

In my opinion, far more important than looking at a single popular index (SPX) is to look into the entire global landscape and prevailing social mood. The essential key to investing is emotional intelligence and the ability to sense the emotions of those around you (your market competitors).

If I was lazy and ***HAD*** to look at just one index, I'd look at the NYSE which represents 2,800 stocks vs. 500 in the SPX.



OR….better yet, the Total World ETF VT….



MARKET CYCLES

The market goes up, the market goes down. Almost as predictably as the tides. Yet, us irrational humans continue to be totally shocked every time the tide goes out. In the current market, the time to worry and to get defensive was several months ago as dozens of indicators rang alarm bells. I listed some of the significant warning signs in the "Trump Top" letter: https://docs.google.com/document/d/1IEDl-oxhjMTwNydYhxRuzjQrI08r50VbobjzOhBnCOU/edit?usp=sharing

Unlike what we saw last year at this time, heading into a new year, you want future expectations to be ***as low as possible***. We've definitely got that now.

As I wrote in a client note four months ago:

…..“I for one would welcome a market collapse with open arms as my biggest trades by a longshot have taken place during the recovery phase after market collapses.”

THE CURRENT LANDSCAPE:

1) *ALL-TIME* low dumb money sentiment extremes triggered Friday.

2) 38 percent of equities on the Nasdaq and NYSE are trading at 52-week lows, numbers not seen since the 2008 lows and the Crash of 1987.

3) All-TIME high retail stock liquidations.

4) 12 month sustained global meltdown.

5) Smart money bullishness- after becoming EXTREMELY bearish a few months ago at 32% and establishing a record short position, the smart money is now near multi-year year highs at 74% bullish.

6) Indexes approaching long-term oversold conditions.

7) S+P PE ratio now at 2012 levels.

8) Average market decline during a bear market is 25%.....and 33% during a recession

HERE ARE SOME QUESTIONS WE’LL TRY TO ANSWER

9) What tends to happen after *EVERY* asset class is down for the year?

10) How does the U.S. dollar look today? Do hedge funds love it?....

11) What are the global monthly bands saying?

12) What happens after record small cap annihilation? (Hint- The russell 2000 averages 15% annual return after 20% pullbacks…

13) Equity risk premium reaches historic extremes.

14) What tends to happen after one of the worst quarters in history?

Let's first take a step back and look at the market landscape heading into 2018. Here's what I said one year ago in my 2018 annual forecast titled "Blocksanity":

"Retail investors (dumb money) are about as bullish as they've ever been, and our good friends at our favorite investment banks are telling us to buy stocks hand-over-fist because of the tax cut…..

I hope you're enjoying the action.

Times like these do NOT last forever. …..Frankly, for the first time in many years, I have very little idea where the market will head in 2018. ***In any given year, there are usually a fair number of low-risk entries globally. I really can't find anything with favorably skewed risk/reward this year***.

My view is that 2018 will truly be a "Stock-Picker's" market. ***I DO expect a TON more volatility in 2018.***

Many people feel that we are in another .COM boom. However, many fail to realize just how big the declines are during a "vertical market".

Here's a chart of the NASDAQ during the .COM boom. Annual 20%-30% gut-wrenching pullbacks were the norm. A 20%-30% market pullback equates to 50%+ pullbacks for the very best performing stocks."

Heading into 2018, here was the Dow vs. its long-term 200 month moving average.

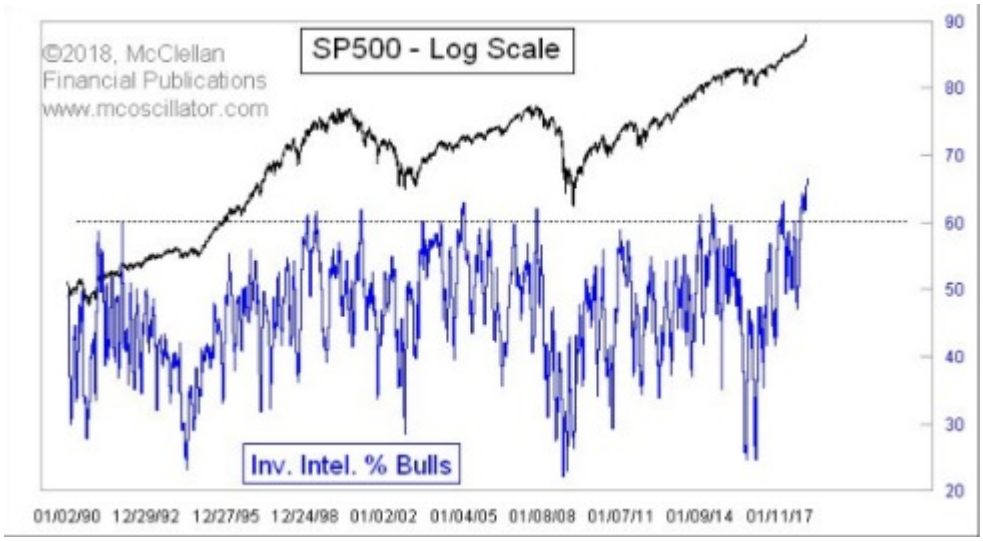
SENTIMENT

Sentiment is ……***EVERYTHING.***

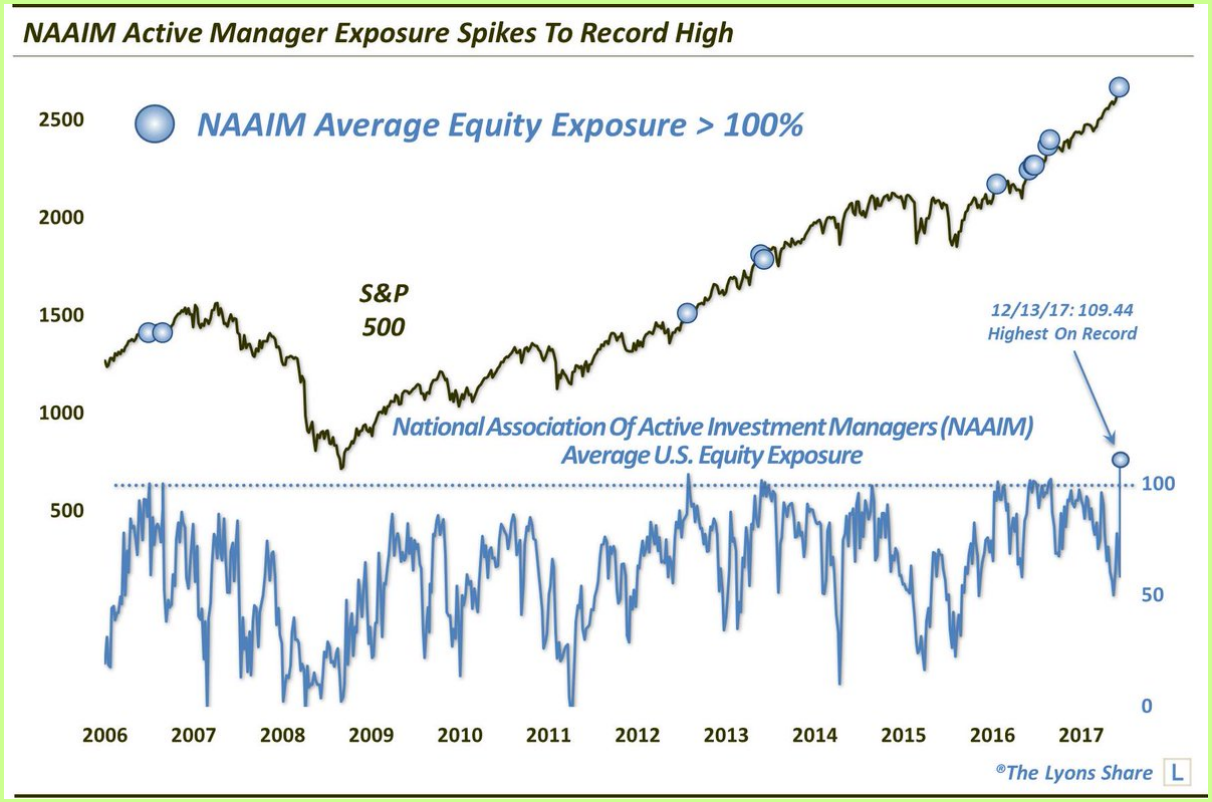
The most reliable indicator of future returns is current sentiment. Horrible current retail (dumb money) sentiment is usually indicative of much better than average future returns. Conversely, euphoric dumb money current sentiment is indicative of much worse than average future returns.

Here's a look at the sentiment heading into 2018:

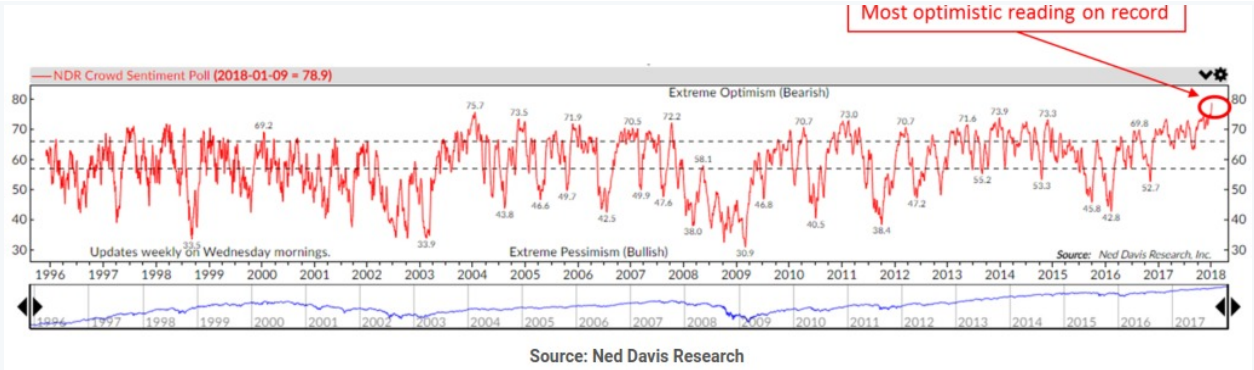
All-time high bullishness in the Investor's Intelligence survey.



Active investment manager equity exposure hit an all-time high...***ABOVE*** 100%!



Ned Davis crowd sentiment hit an all-time high.



Consumer confidence data showed a record % of people expecting higher stock prices.

Mom and Pop traders at retail trading brokerages were “ALL-IN”. No cash on the sidelines.

3/13/18

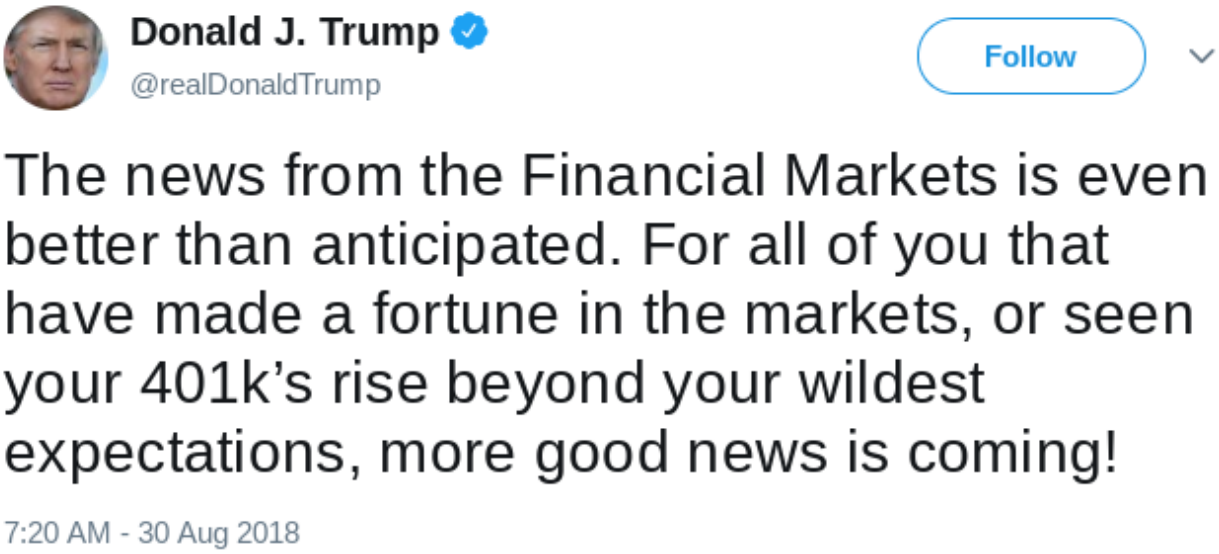
“Snoop Dogg just closed on a $45 million venture fund, in case you wanted to know which part of the cycle we're in.” -@Reformed broker

The entire planet piled into Amazon and Apple in August taking the market behemoths parabolic resulting in ***TRILLION*** dollar market caps. As a kid, I remember often thinking that trillion was impossible. I thought that there could never be a trillion of *anything.* To me, the idea of trillion was simply incomprehensible.

InsiderBuySuperstocks Aug 30th, 7:36 pm

Inverted chart of AMZN. Biggest monthly bar in history. Biggest stretch ever from 10 mma. Huge bar. Nearly identical AAPL chart.

And as fate would have it, that same day, sentiment hit a crescendo and the NASDAQ peaked.



Here was my market commentary that day:

8/30/18

As we enter September, we're now at a juncture where AAPL and AMZN have gone parabolic on their monthly charts and many sectors are above their upper monthly bands. Add the fact that consumer confidence is at a multi-year high and jobless claims are at an all-time low, it could be argued that economic conditions are "as good as they get".

By no means does this guarantee that we'll get a nice market drawdown over the next couple of months, but in terms of "big picture stuff", it's something to keep on your radar. I for one would welcome a market collapse with open arms as my biggest trades by a longshot have taken place during the recovery phase after market collapses.

Social media financial entertainers and TV entertainers:

“Focus on good news”....

As sentiment went wild in the States, our sister market over in Germany was trying to give us a heads up.

9/7

Perhaps more importantly, we're seeing all sorts of warning signs coming from the German DAX monthly chart. We've seen several monthly topping tails over the past year which have formed an almost perfectly symmetrical head and shoulders pattern. But most importantly, monthly RSI is slipping below strong 10 year support this month suggesting the next stop COULD be in the RSI 30 area. If the DAX crashes, all developed markets will follow (or lead).

Despite the warning signs, dumb money sentiment continued to rage…..

9/9

Looking at the bigger picture, in addition to semiconductors, parabolic trillion dollar market cap stocks, NASI, VIX, and the DAX, we still have Buffett with his highest cash position ever, Emerging Markets which continue to fall despite historical sentiment extremes, Las Vegas seeing demand drop considerably, the oil service sector seeing softness ahead, and dumb money bullishness which continue to be at elevated levels.

And then another retail sentiment extreme rang during the replay of “Long Island Iced Tea Top”.

9/22

The market has finally shed itself of the summer doldrums and is transitioning into the traditional season of high beta trading opportunities. We're definitely seeing this in Marijuana stocks at the moment. The one thing to be wary of is when trading of fundamentally weak stocks gets TOOOOO crazy (Bitcoin euphoria?), it can mark a top in the market. So we need to keep that in mind moving forward.

Smart money sentiment finally reached an extreme on September 29th.

9/29

I've continued to mention that smart money bullishness has been languishing over the past couple months and it has seemed like smart money could care less about the market. I said that I'd keep an eye on it and let you know if they ever reach a bearish extreme. Well, smart money bearishness is just about there. The lowest level of the year so far was 30 or 31% bullishness just before the collapse at the end of January. In Friday's session, their bullishness moved down to 32%. I know Valeriy will get a kick out of this. “Refreshing Market”:)

InsiderBuySuperstocks Oct 1st, 9:43 pm

Smart money bullishness back to January levels. AMZN GOOG and AAPL back to upper bands. We'll see what happens....

Despite the euphoric sentiment, there was a *TON* of selling below the surface. AAPL and AMZN were holding up the major averages while institutions were unloading everything else. In a "stable" market, breadth was perhaps the worst I've ever seen.

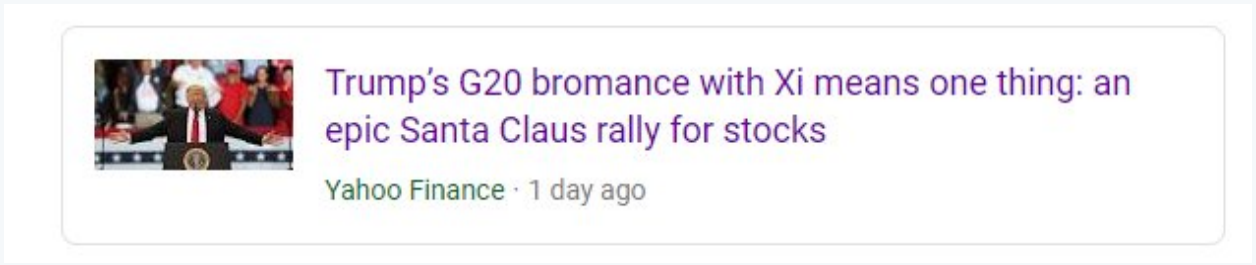
10/06

We've had many indexes at their upper weekly bands, smart money getting aggressively short the market, Amazon and APPLE registering parabolic monthly charts (w/ market caps above $1 Trillion), very lopsided longer-term dumb money call vs. put buying, dozens of Hindenburg Omens, a surge in stocks trading above 10 times sales, trash (marijuana) stocks going through the roof, and some of the worst breadth for a stable market in history.

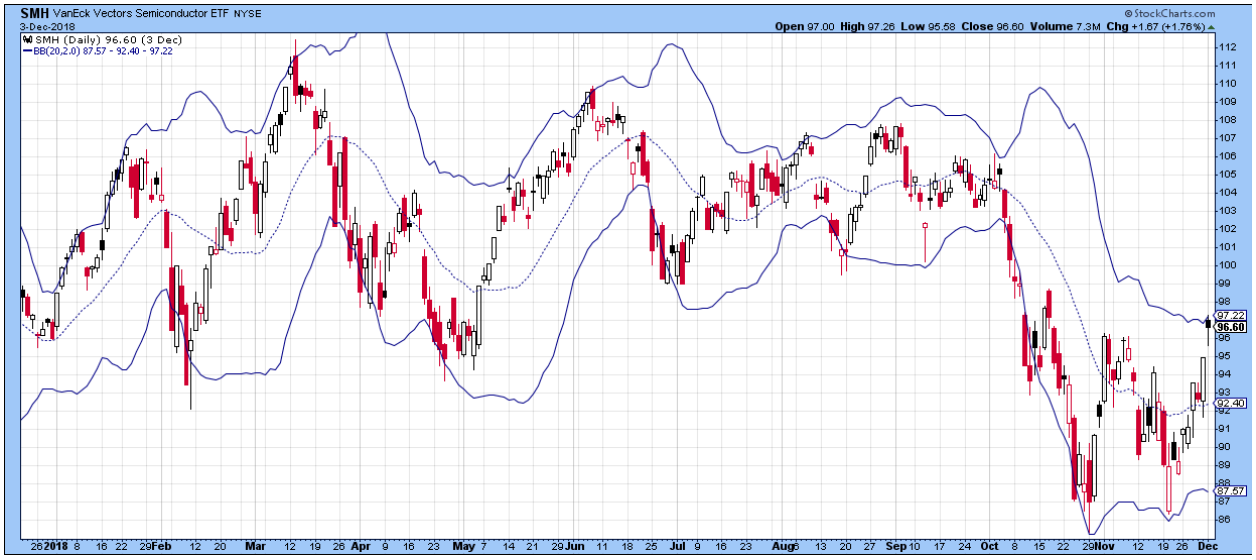
NUMBER OF HINDENBURG OMENS VS. THE S+P

Then we got our next sentiment extreme earlier this month when the Trump-Xi G20 love affair was promoted to the masses. **“EPIC SANTA CLAUS RALLY!”**

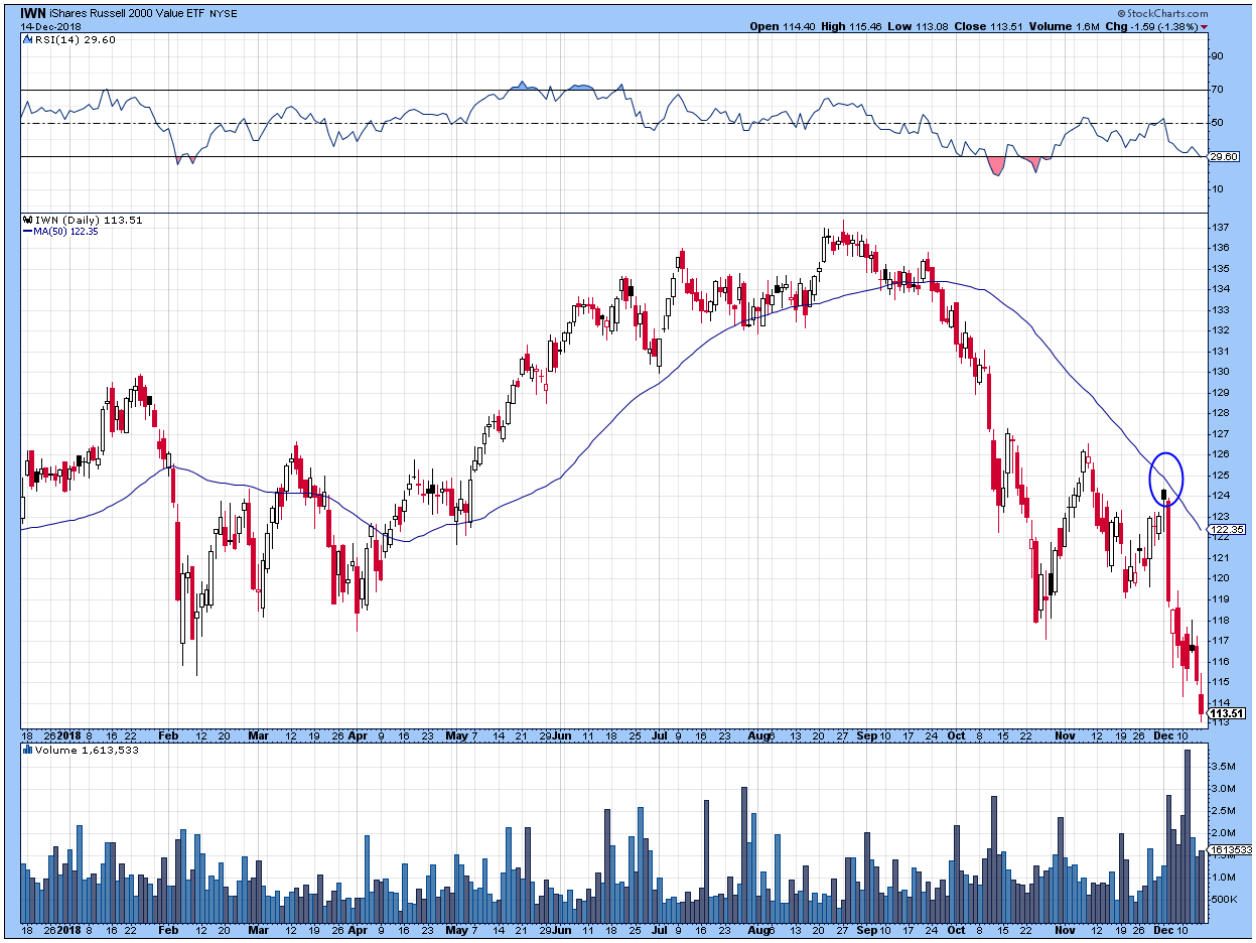
12/3/18



Of course, institutions tend to buy in anticipation of big events (G20), and then “Sell the news” hand over fist.



In the last two Friends and Family letters I said there was a good chance that IWN (small cap value ETF) would at least trade up to its 50 day moving average. It ultimately did, but the action getting there was PATHETIC.


IWN iShares Russell 2000 Value ETF NYSE
14-Dec-2018
© StockCharts.com
Open 114.40 High 115.46 Low 113.08 Close 113.51 Volume 1.6M Chg -1.59 (-1.38%)
RSI(14) 29.60
IWN (Daily) 113.51
MA(50) 122.35
Volume 1,613,533

2019

“Scars remind us of where we have been, not where we are going.”@kpaxs

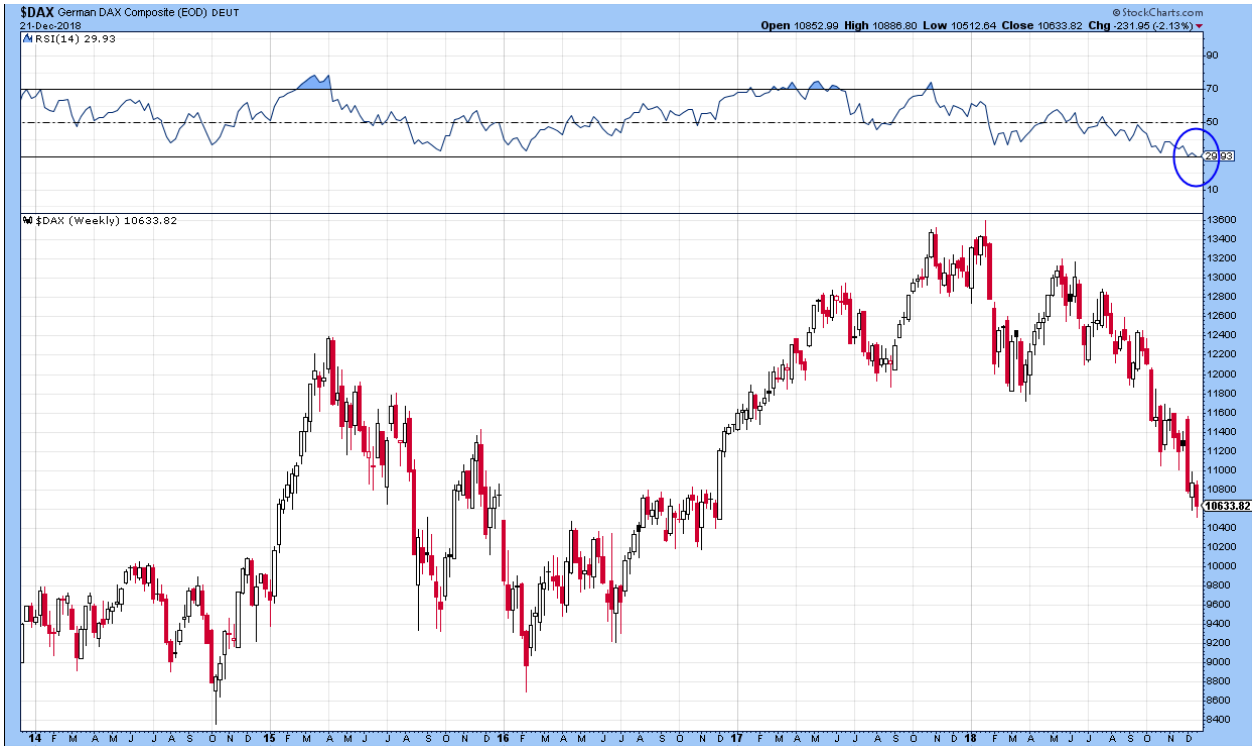
Let’s now have a look at 2019 and where the market stands….

GLOBAL MARKETS

Pundits continue to say that we are “starting” a bear market. I tend to disagree. Global markets have been pricing in a global slowdown since the January euphoria.

Oil is ALREADY down 40%.

The German DAX is ALREADY down 30% after giving warning signs several months ago.



Lumber could be argued as being a leading economic indicator. It has ALREADY collapsed over 50%.

AAPL is ALREADY down 35%. AMZN is ALREADY down 34%. Facebook is ALREADY down 42%. Netflix is ALREADY down 42%. NVDA is ALREADY down 58%.

As of a few sessions ago before the most recent collapse, IBM was down 32%, Dupont 33%, Citibank 32%, Wells Fargo 29%, Bank of America 26%, AIG 36%, Goldman 33%, Deutche Bank 59%, Credit Suisse 40%, BNP 40%, ING 40% and I won't even go into energy stocks which have been totally destroyed and left for dead.

This was the entire global landscape a few sessions ago before the most recent carnage:

Country ETFs (Note: Total Returns, in US $)					
Country	ETF	% Below All-Time High Close	Country	ETF	% Below All-Time High Close
Nigeria	NGE	-71%	Indonesia	EIDO	-26%
Greece	GREK	-70%	Ireland	EIRL	-25%
Turkey	TUR	-63%	Philippines	EPHE	-25%
Egypt	EGPT	-61%	Norway	NORW	-23%
Colombia	GXG	-60%	Qatar	QAT	-23%
Russia	RSX	-57%	Peru	EPU	-21%
Pakistan	PAK	-50%	Netherlands	EWN	-21%
Italy	EWI	-50%	Sweden	EWD	-20%
Brazil	EWZ	-46%	United Kingdom	EWU	-20%
Vietnam	VNM	-44%	Singapore	EWS	-20%
Mexico	EWW	-41%	France	EWQ	-20%
Chile	ECH	-41%	Japan	EWJ	-19%
Argentina	ARGT	-39%	Canada	EWC	-19%
Austria	EWO	-38%	Taiwan	EWT	-18%
UAE	UAE	-37%	Denmark	EDEN	-18%
Portugal	PGAL	-35%	Thailand	THD	-17%
South Africa	EZA	-34%	Australia	EWA	-16%
Spain	EWP	-32%	Switzerland	EWL	-15%
Poland	PLND	-31%	Israel	EIS	-15%
China	FXI	-29%	US	SPY	-14%
Malaysia	EWM	-28%	India	PIN	-14%
Germany	EWG	-27%	Hong Kong	EWH	-13%
Belgium	EWK	-26%	Saudi Arabia	KSA	-8%
South Korea	EWY	-26%	New Zealand	ENZL	-6%

Pension Partners The ATAC Rotation Manager *Data as of 12/19/18* *@CharlieBilello*

3-4 MONTH WINDOWS

Historically, massive selling sprees tend to be confined to 3-4 month windows before a significant bounce ensues. Here's what the S+P has done following horrific quarters. (I think S+P is now down 21% or 22%).

Quarter	RU2000PR	Quarter Loss %	Next Qtr %
Dec-87	298.99	-29.4	18.5
Dec-08	1241.27	-26.5	-15.4
Sep-90	315.61	-24.9	4.3
Sep-11	1600.89	-22.2	15.0
Sep-02	900.45	-21.7	5.7
Sep-01	1006.34	-21.1	20.7
Sep-98	906.38	-20.4	15.9
Dec-18	3425.03	-18.8	??
Sep-81	166.69	-18.2	9.1
Mar-09	1050.64	-15.4	20.2
Mar-80	119.12	-13.7	19.1
Sep-86	332.49	-12.6	0.2
Sep-15	2735.49	-12.2	3.2
Mar-08	1709.77	-10.2	0.3
Jun-10	1514.73	-10.2	10.9
Mar-82	163.38	-10.1	-2.3

SMALL CAPS

Looking at small caps specifically, we can see that this might be the largest exodus in history. Since my bread and butter is in the small cap arena, I salivate when I see this chart. Note that prior meltdowns usually lasted 3-4 months before a rally. Also note how small caps performed during the .COM collapse of 2000-2002. Aside from a couple downdrafts, they actually held up quite well compared to tech.

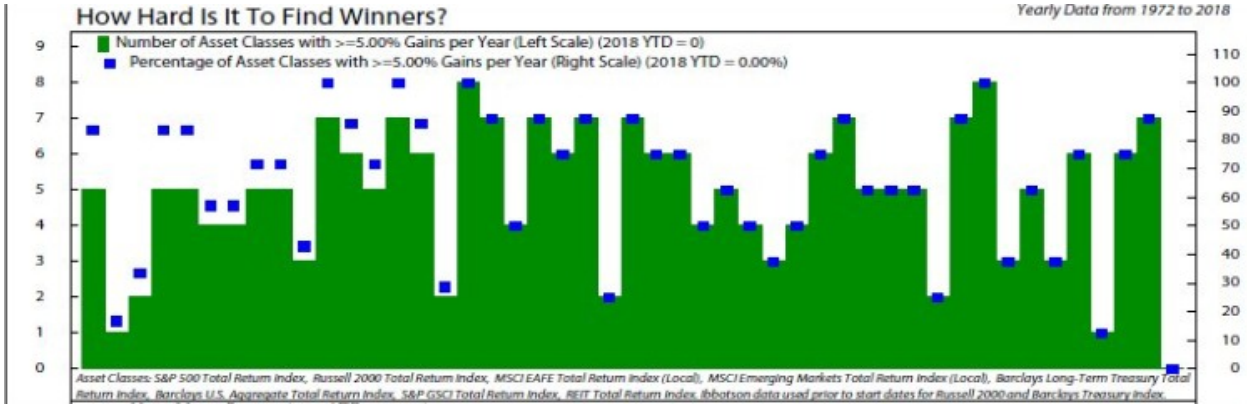
WHAT HAPPENS AFTER A BAD YEAR?

Historically, bad years tend to be “one and done”. If we exclude '73/'74 and the .COM fiasco, since 1942, here are the S+P returns the year ***AFTER*** an S+P return of +2.1% or less:

4%, 5%, 7%, 12%, 12%, 16%, 20%, 23%, 24%, 27%, 27%, 31%, 38%, 44%, 53%.

Every single asset class has been down this year. Equities, treasuries, high yield, gold, investment grade corporates, small caps, international equities, U.S. bonds, real estate, commodities etc..

For all asset classes, I believe it’s the worst year on record. But historically, look what happens the year following dreadful performance from all asset classes….



EARNINGS

S+P earnings are projected to climb 27% for 2018. Since the start of the year, the S+P PE ratio has moved from 21.4 to 15.6- which is now at or below 2012 levels.

In addition to the PE ratio, current investor sentiment is somewhat similar to how it was in 2012. For those who have read my book, you'll recall what I said about sentiment in 2012:

"People think I'm crazy for releasing the book now. They say that books need to be released during periods of heightened social mood and market frenzy. I disagree. I believe that for the benefit of the reader, those are the worst possible times to release a book. My belief is that the best time to read a book of this nature is during universal pessimism. It is my hope that readers will be able to utilize what they have learned in these pages to eventually crush the market when social mood begins to turn (if not well before).

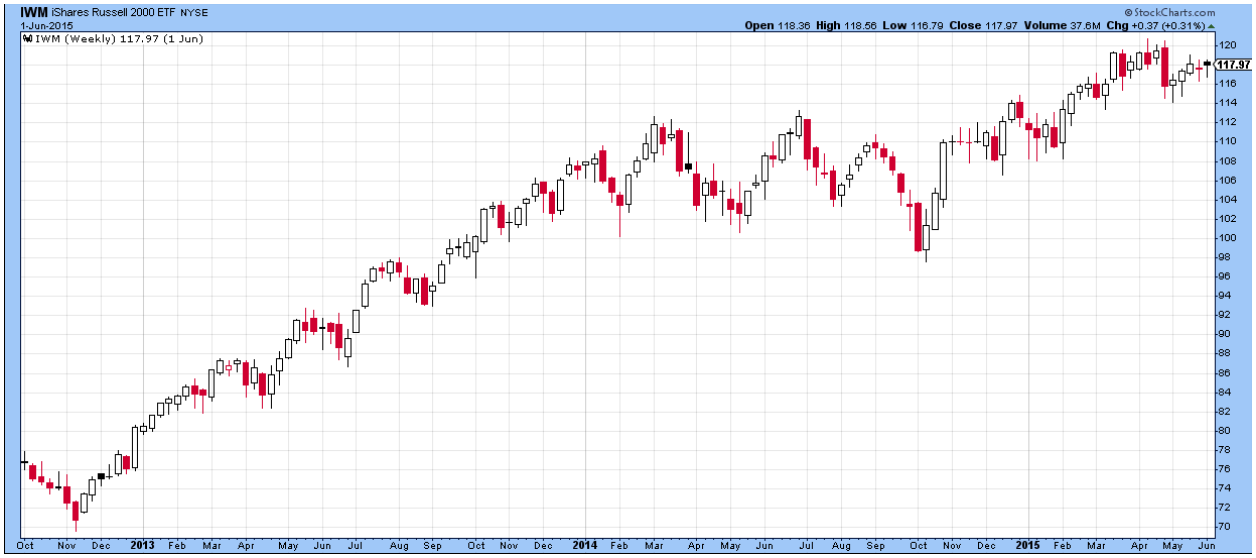
Look, we have massive unemployment, trillion dollar government bailouts, the "Occupy Wall Street" movement, the "Fiscal Cliff," the multi-trillion dollar U.S. debt bubble, the "2012" end of civilization, the crash in China's economy, the debacle in Greece, Spain, Ireland, Portugal, Italy etc., the "end of the European Union," the "end of the Euro currency," economists calling for an imminent recession, and Goldman Sachs call for a possible 25% drop in the S+P 500.

Did I mention that there are about 10 countries today in the Middle East that are threatening to take down the entire planet? The media couldn't build a higher "Wall of Worry" if it tried.

As you will see, the largest market advances in history happened when we least expected

them to happen. The largest market advances happen in spite of the prevailing Wall of Worry (negative groupthink). In short, market advances NEED a gigantic wall of worry to keep as many people as possible on the sidelines. "

"Insider Buy Superstocks", p.16



IPO's

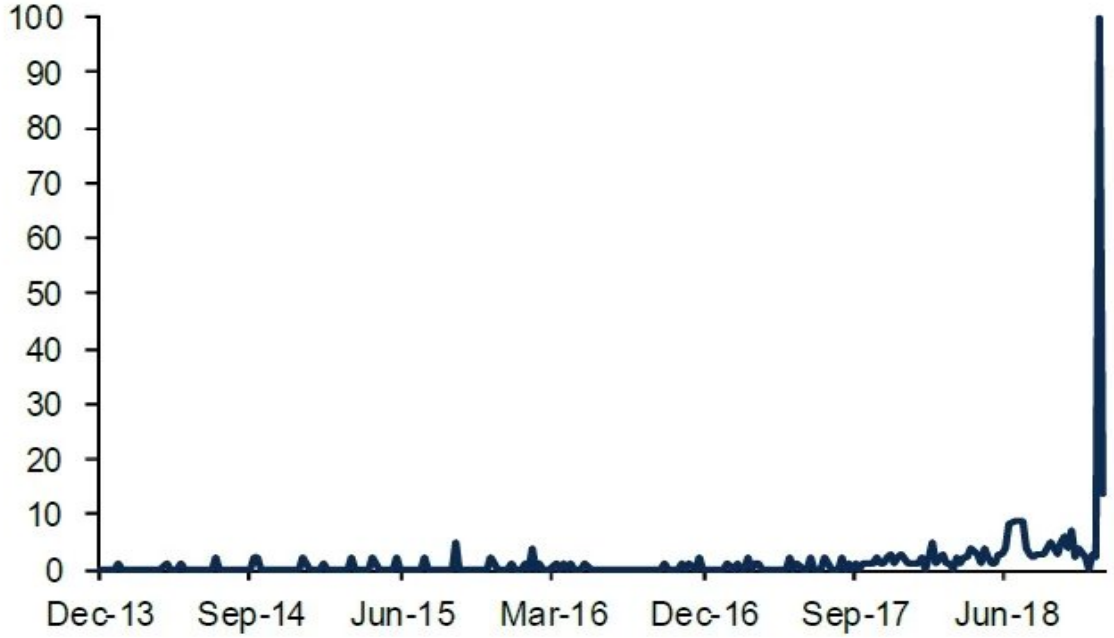
There are MASSIVE IPO's in the pipeline for 2019. Typically, investment banks try to time mega IPO's to come out during favorable market conditions.

On deck is Slack ($7 billion), Instacart ($7.6 billion), Lyft ($15 billion), Palantir ($40 billion), Airbnb ($60 billion), and Uber ($120 billion).
https://www.cnbc.com/2018/10/18/tech-ipos-expected-in-2019.html

"Morons, if you buy the IPO you're not "getting it first" - you're getting the insanely overpriced diarrhea that early private investors and VC have sh1% out - and it's financials & story have been pumped and fluffed and geared and molested in every way imaginable" - @QTRResearch

YIELD CURVE INVERSION?

Chart 1: Google search trend for "yield curve inversion" (index)



Source: Google

According to Canaccord Genuity's Chief Market Strategist Tony Dwyer, an inverted yield curve does tend to be a precursor to peaks in the stock market and to recessions in the U.S. But...

Of Inverted Yield Curves, Stock Market Peaks, and Recessions

Yield Curve vs. SPX peak vs. Recession					
Inversion Date	SPX Peak Date	SPX % Chg	# of Months	Recession Start	# of Months
12/17/1965	11/29/1968	17.69%	35	12/31/1969	48
3/30/1973	1/11/1973		-2	11/30/1973	8
8/17/1978	1/30/1980	9.63%	17	1/31/1980	17
9/11/1980	11/28/1980	11.83%	2	7/31/1981	10
12/14/1988	7/16/1990	34.01%	19	7/31/1990	19
5/26/1998	3/24/2000	39.62%	22	3/31/2001	34
12/27/2005	10/9/2007	24.56%	22	12/31/2007	24
	Median	21.13%	18.5	Median	19.0

*Prior to 1978 6-month 10-year spread used

Source: Bloomberg, Canaccord Genuity

View Large Chart Online
Source: Tony Dwyer

Since 1965, the average time lag between the yield curve inverting and the ensuing peak in the stock market has been 16.4 months (the median was 18.5). During which time, the S&P 500 ADVANCED +22.9% on average (median: +21.1%). So, the real story is that the stock market has a marked tendency to rally after the yield curve inverts.

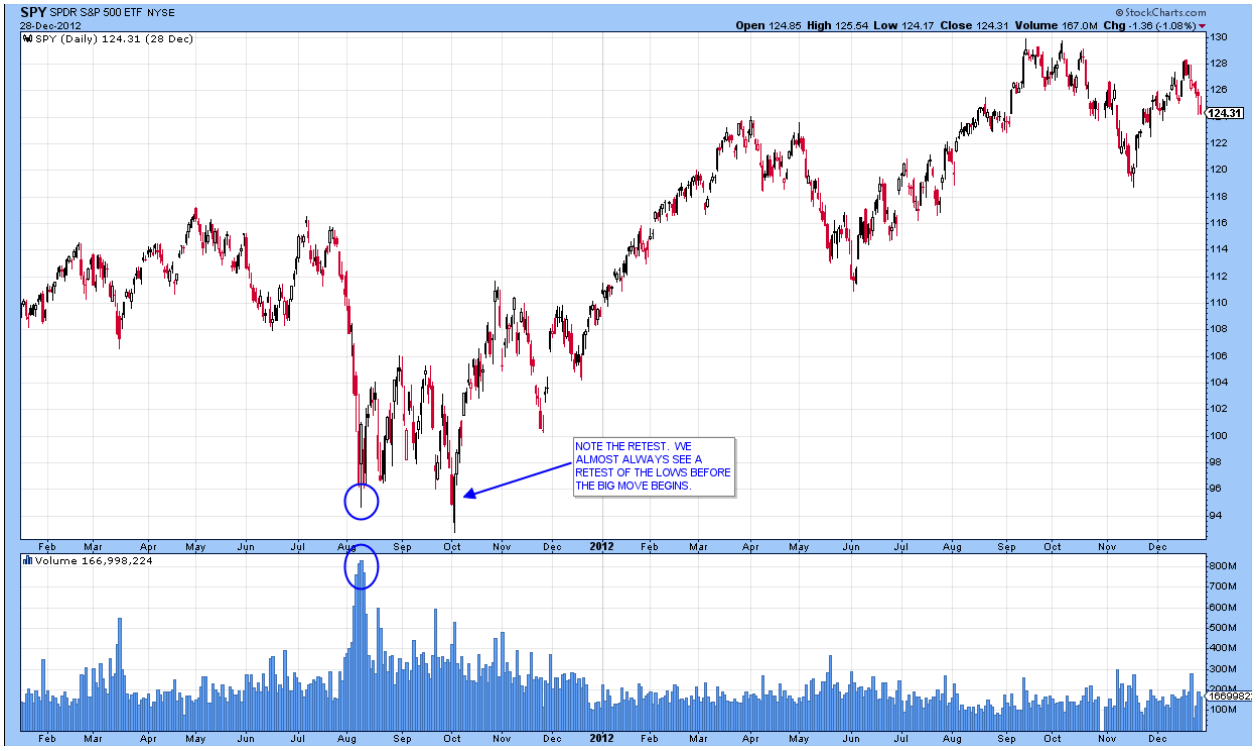
Dwyer also points out that the time between a yield curve inversion and the official start of a recession has been 22.8 months (median of 19).

"THE GREATEST WEEK OF REDEMPTIONS IN HISTORY"

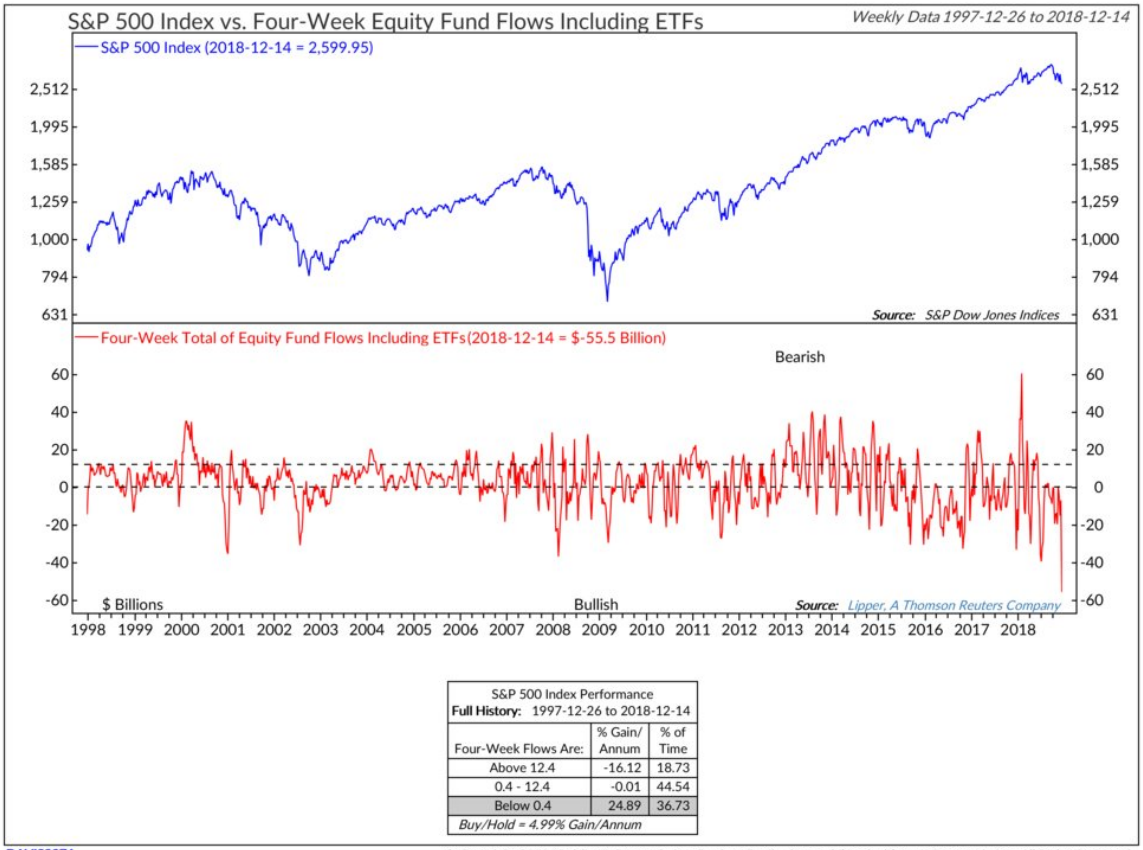
Over the last 2 weeks, roughly $80 billion has been pulled out of equity funds. In the first week, a total of 0.44% of all assets were withdrawn. The prior one week record was 0.39% in mid August of 2011.

Additionally, safe-haven money market funds pulled in **$81 billion** the first week (I don't have data on the 2nd week), also the **most ever recorded.**

Here's what happened after the previous record level of redemptions...



Here's a chart of the average fund flows over the previous 4 weeks. ***The average annual gain AFTER similar readings in the past was 25%.***



S&P 500 Index Performance
Full History: 1997-12-26 to 2018-12-14

Four-Week Flows Are:	% Gain/ Annum	% of Time
Above 12.4	-16.12	18.73
0.4 - 12.4	-0.01	44.54
Below 0.4	24.89	36.73
Buy/Hold = 4.99% Gain/Annum		

Additionally, 174 hedge funds were liquidated in Q3 this year (during a tame market). We'll see this exodus rocket higher in Q4.

https://www.bloomberg.com/news/articles/2018-12-13/hedge-fund-jabre-capital-to-return-capital-to-investors-jplw0j14

Whenever we see that there are a large number of hedge funds piled into the same trade, that trade ultimately fails in spectacular fashion. Here's the newest popular hedge fund trade….

CNBC @CNBC

After an epic run, the tech "FAANG" trade is no longer Wall Street's favorite. The dollar has become fund managers' number one. cnb.cx/2Erqx5g

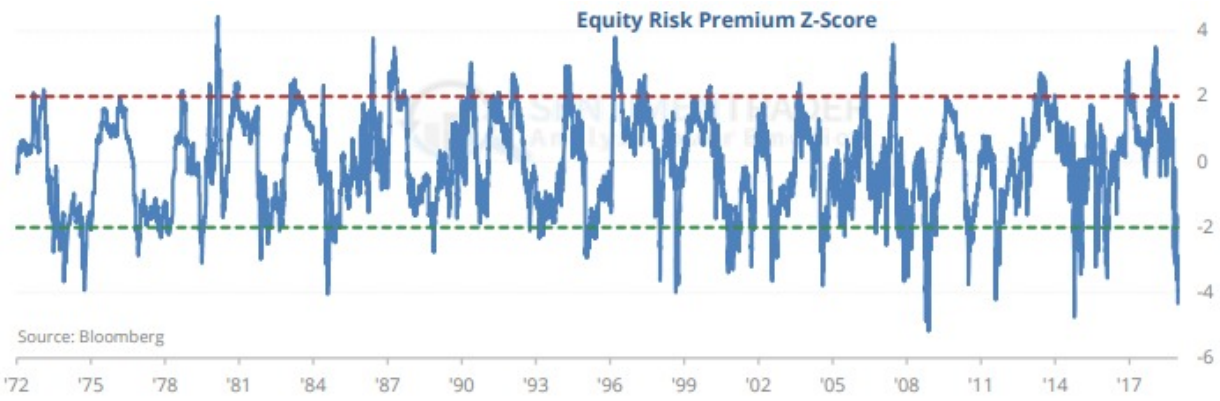
As an aside, if I'm a hedge fund or institution, do I want to show investors that I have crappy stocks (every stock is down) on my books at year end?

"EQUITY RISK PREMIUM"

According to Sentimentrader.com, the S&P's earnings yield has jumped to nearly 6%. The comparison between bond yields and stock yields is often referred to as an Equity Risk Premium (ERP), the amount that investors are willing to pay for earnings above/below the yield on bonds.

When the ERP Z-score reaches extremes of 2 or above like we saw one year ago, the average annual S+P return is -4%.

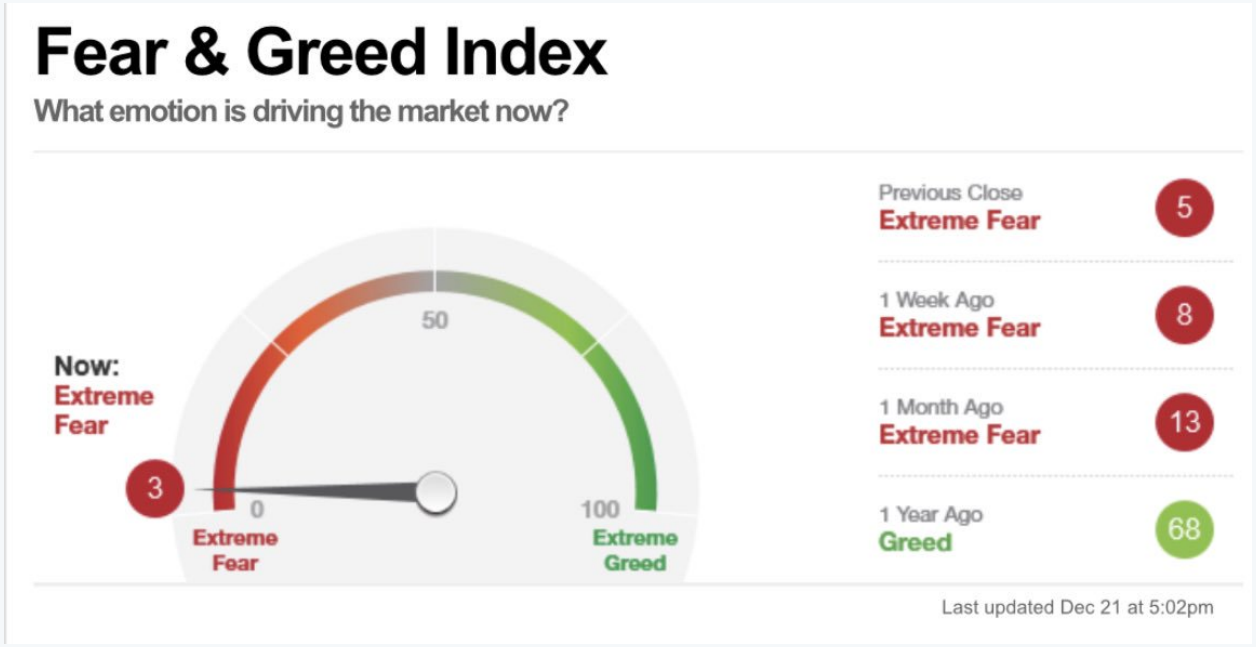
When the Z-score reaches extremes of -2 or below, the average annual S+P return is 40%.



Returns when ERP is...

	Annualized	% Of Time
Above 2	-4.0%	6%
-2 To 2	6.8%	85%
Below -2	40.1%	9%

SENTIMENT CHARTS



Obviously, the primary theme of this year's letter is sentiment. One year ago, dumb money bullishness reached extremes of 77% during much of December and January.

At the February bottom, dumb money bullishness hit a low of 27%.

As of yesterday's close, dumb money bullishness spiked down to ***an all-time low*** of just ***12%*** while smart money bullishness stands at 75%, just shy of a year high.

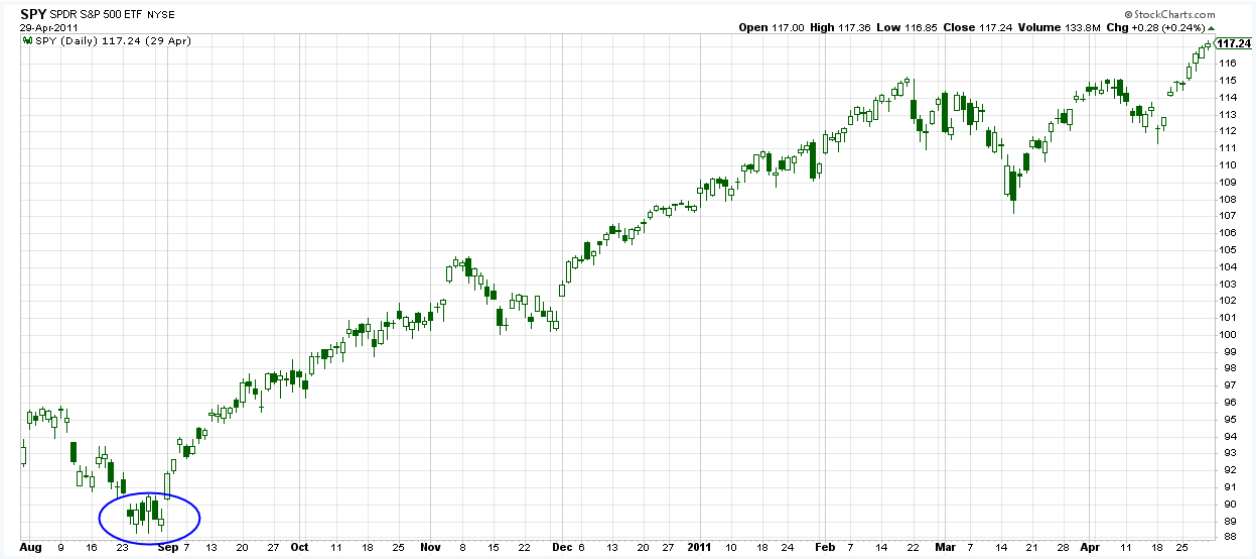
According to Sentimentrader.com, "When Ma & Pa have gotten this despondent, tech stocks rallied an ***average of 29%*** over the next year."

According to Fundstrat Global Advisors,

“We believe sentiment has reached an extreme bearish level that historically is a major contrarian buy signal," Tom Lee, managing partner at Fundstrat Global Advisors, wrote in a note to clients on Monday morning, adding that the rate at which investors had grown bearish has moved "far forward of fundamentals."

Specifically, Lee and his team point to the Purchasing Managers' Index (PMI) being at a healthy 59, suggesting a sound fundamental backdrop.

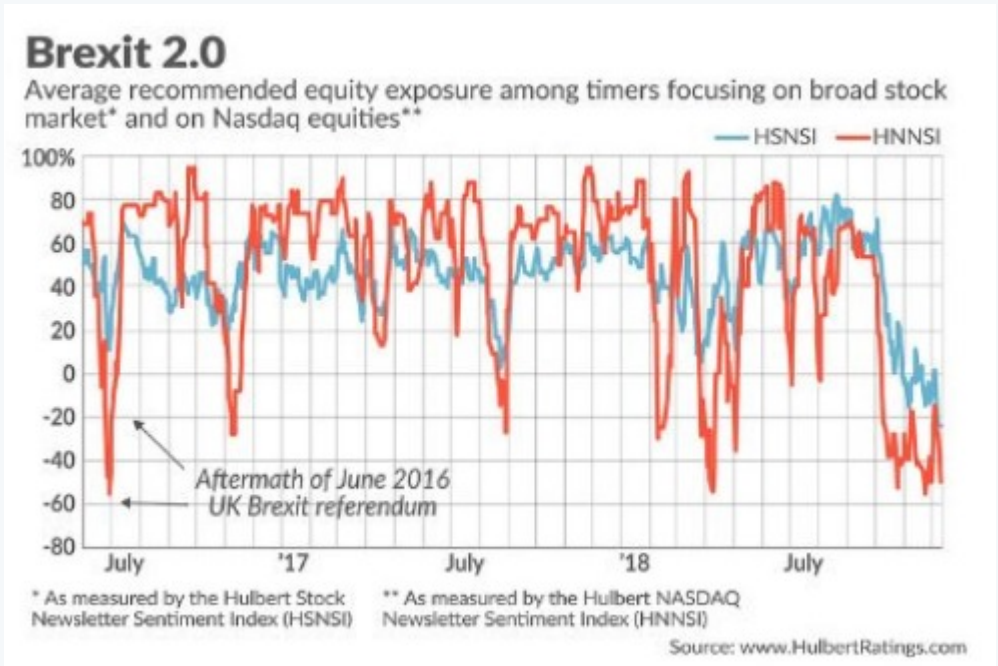
"And the data analysis shows when AAII is this bad and PMIs (Purchasing Manager’s Index) are >51, equity return risk/reward is especially impressive….. last time this was seen was August 27, 2010, right before a massive rally."

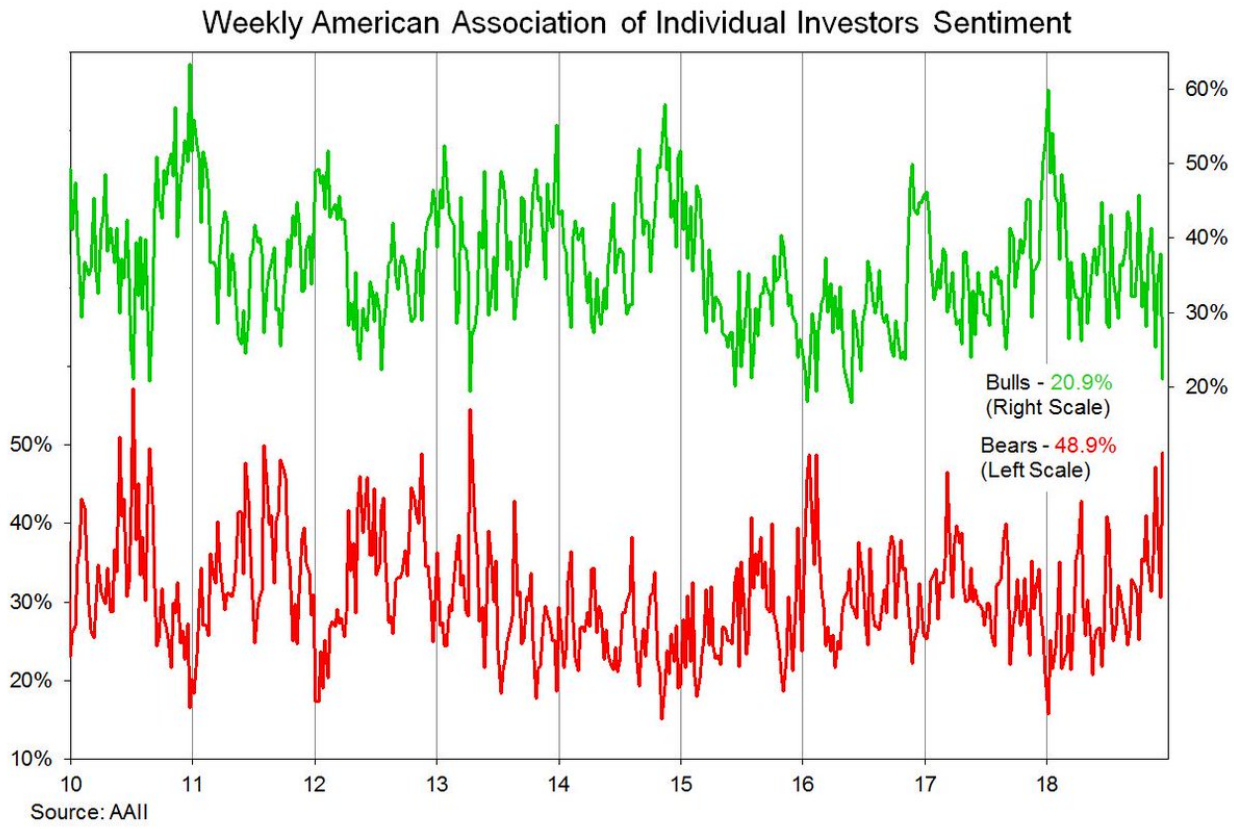


As we entered 2018, Investor’s Intelligence sentiment was in the top 5% of all readings- which has historically resulted in an average annual return of -1.6%. When their readings are in the bottom 5% as they are currently, average annual returns are 10.9%.

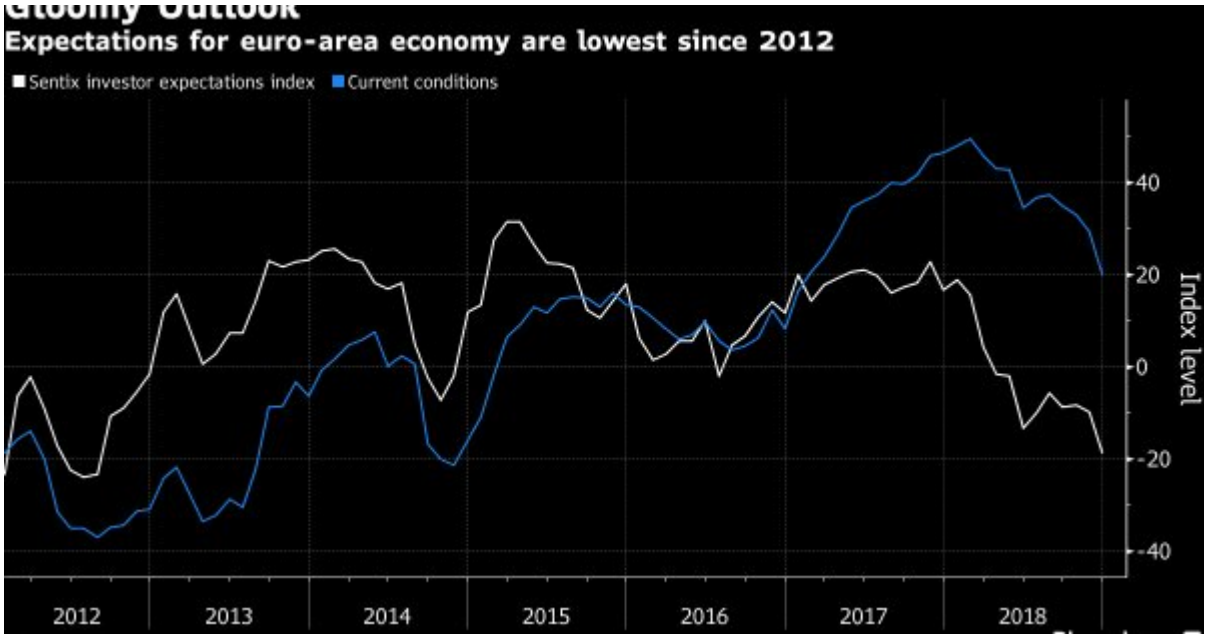
Period: Weekly, Since 1987	S&P 500 Average Forward Price Returns			
AAII Sentiment (% Bulls minus % Bears)	3-Months	6-Months	9-Months	1-Year
Extreme Fear (bottom 5% of readings)	4.2%	8.0%	8.9%	10.9%
Extreme Greed (top 5% of readings)	-0.7%	-1.1%	-1.4%	-1.6%
Differential	4.9%	9.1%	10.4%	12.5%

Currently, Nasdaq newsletter writers bullishness is lower than 98% of all readings since 2000 as they recommend ***a 55% short position (vs. 92% long at the top)*** on average.





And again, the year 2012 comes up again. Global sentiment is LOW.



INTERESTING STAT

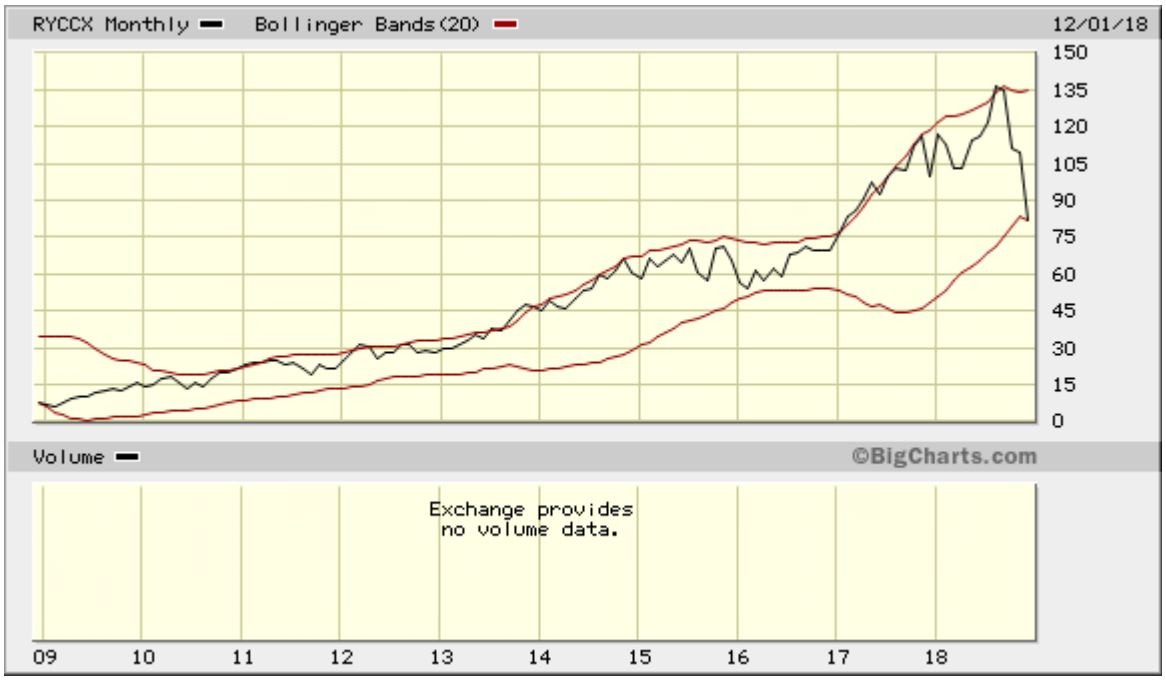
-“Since ‘84, (Excluding ‘08), when over 25% of NYSE and NASDAQ stocks are at a 52 week low, the S+P returns the following 12 months were:

-9.5%, 15.5%,17.9%, 18%, 19.6%, 20.6%, 21.1%, 21.7%, 22.9%, 24%, 25.2%, 26.1%, 27.4%, 29.1%, 29.3%, 31.5%, 33.9%, 37.9%, 39.2%, and 66.6%.”

-Sentimentrader.com

SMALL CAPS

SMALL CAP VALUE ETF MONTHLY



This note caught my attention a couple of days ago from Kuppy over at the Adventures in Capitalism blog:

"I've been involved in this sector (small caps) for nearly two decades. I can only think of two other times where I have seen so much pain and frustration amongst my small cap friends. That would be the 2008 to 2009 period and to a lesser extent during the first few months of 2016….

You are witnessing a massive culling of the hedge fund industry as hundreds of funds are liquidated and thousands more get sizable redemptions….As a result, you are seeing waves of forced sell orders and few buyers. It is creating rather insane bargains all around….

If your fund is facing a year-end redemption, you need cash in hand by December 31 and you probably finish selling a few days before then. Therefore, at most, there's 9 ½ days left to make sales….

What I suspect, is that the pain will finally abate in two weeks. Or at least the forced selling pain will be done. If you look at Q4, despite only a small drop in the S&P, it has been one of the most painful that my friends or I can remember. There are lots of guys down 20% to 30% this quarter and suddenly forced to de-lever further, to get their risk ratios in order. This sort of pain and indiscriminate selling creates lots of opportunities….

Despite my bearishness, I have been putting capital back to work over the past two weeks. Many of the companies that I am buying are down more than half this year—some are down a whole lot more. It's the most exciting opportunity I've seen since 2016…

I suspect that even if the overall market is down dramatically during 2019, the bargains of late 2018 will shine given their current valuations—especially as many institute buybacks to soak up the newly freed up shares hitting the market. Christmas has come early once again—at least in the stock market—I might as well take advantage of hedge fund Armageddon."

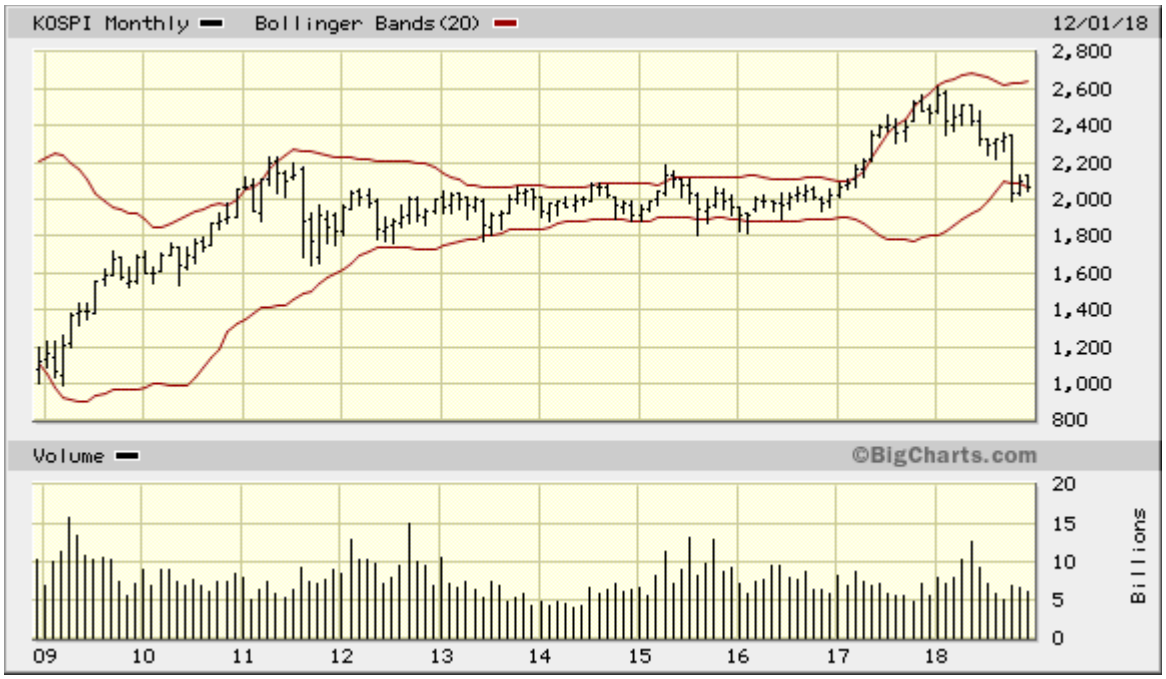
http://adventuresincapitalism.com/2018/12/16/hedge-fund-armageddon/

MONTHLY CHARTS

Here are a slew of global monthly charts that have grabbed my attention. Note how many are at their lower monthly Bollinger Bands as we enter 2019. Interesting stuff….

EMERGING MARKETS

SOUTH KOREA



SINGAPORE

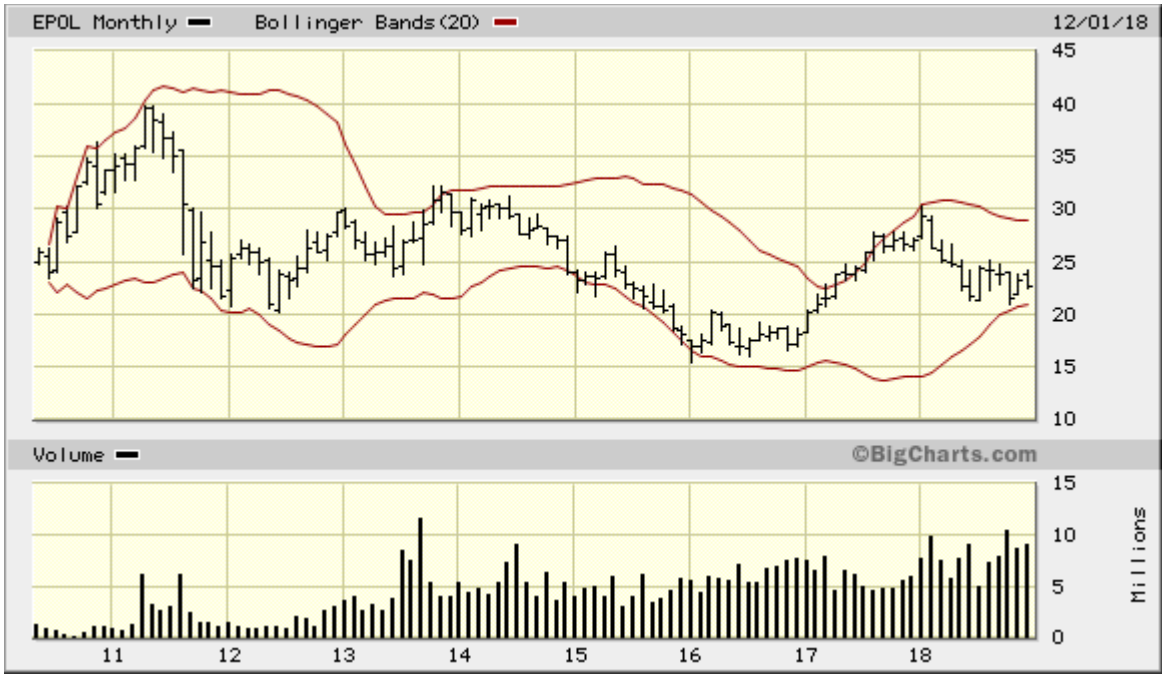
ALL CHINA ETF

FINANCIALS

INDIAN SMALL CAPS

WORLD'S LARGEST COMMODITY PRODUCER GLENCORE

POLAND

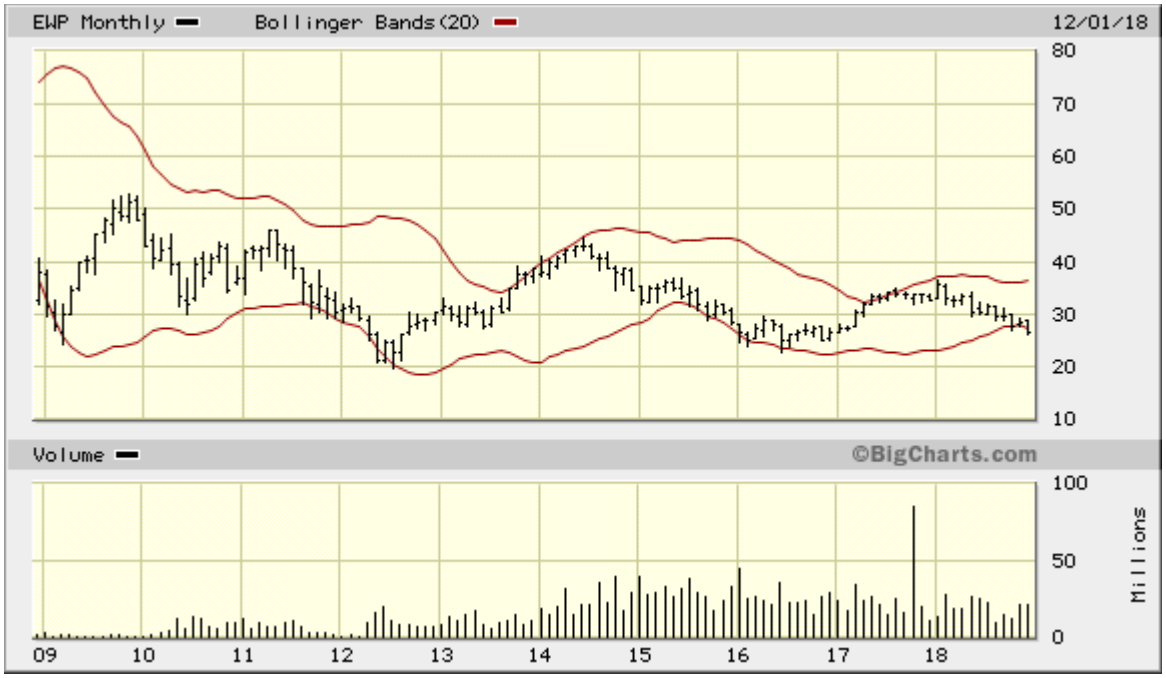


SOCIAL MEDIA ETF

CHINA INTERNET ETF

ITALY

SPAIN

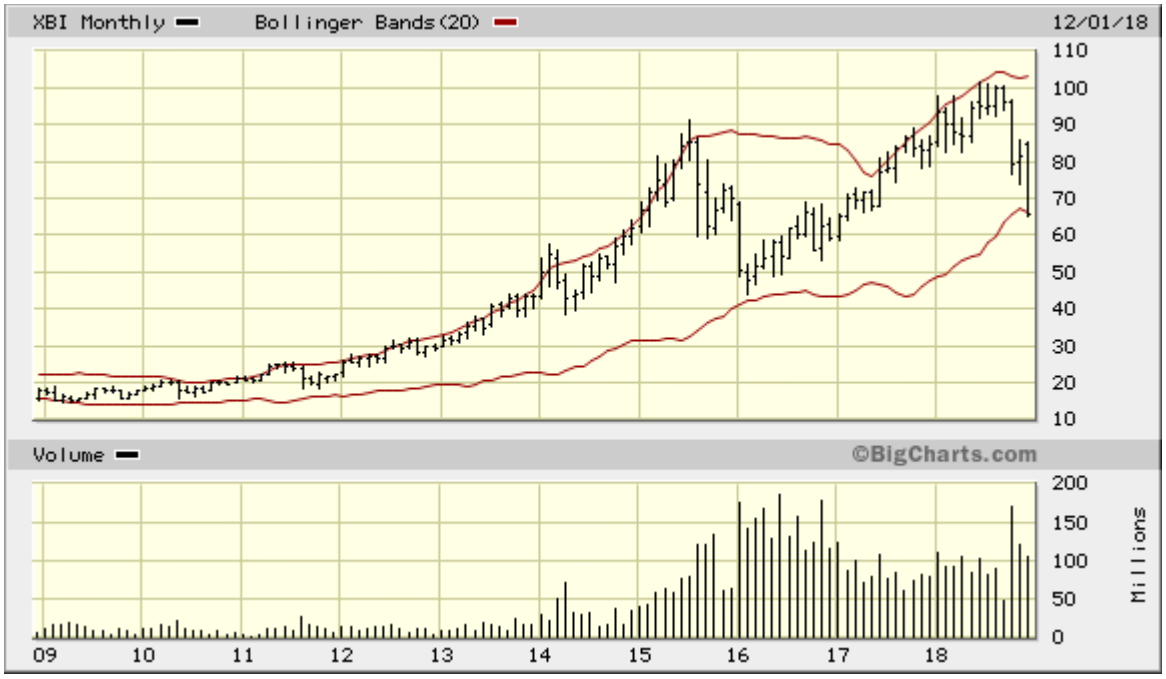


GREECE

CHINA Q's

BIOTECH CLINICAL TRIALS ETF

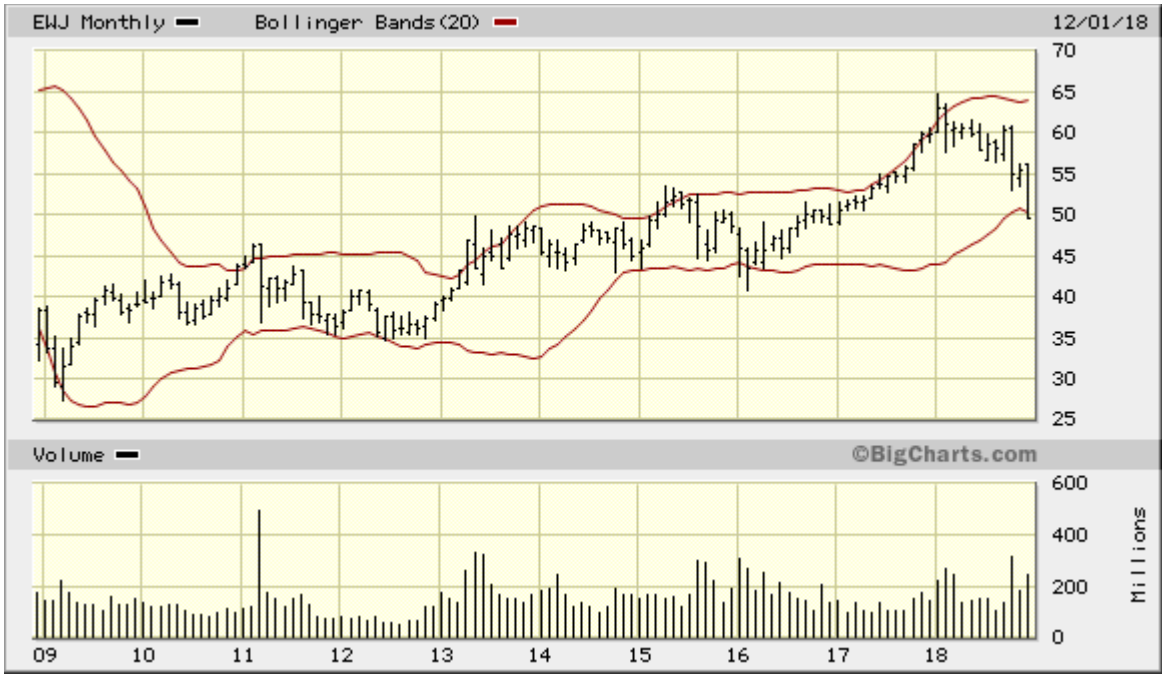
S+P BIOTECH



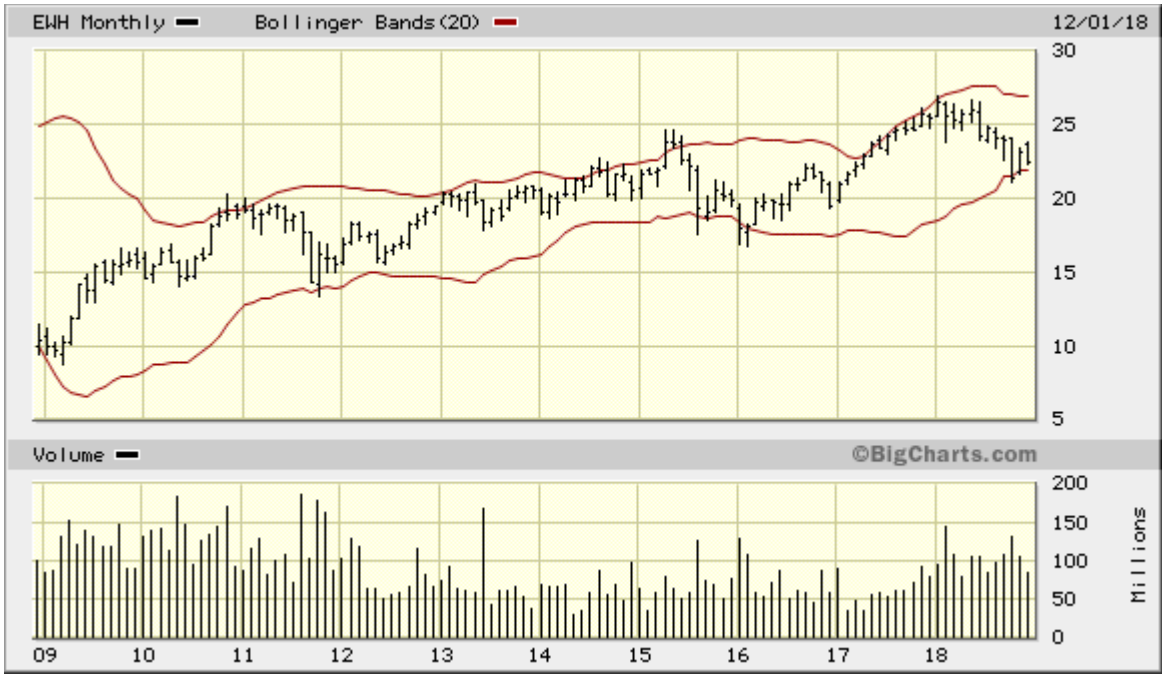
GASOLINE

IBD 50 ETF

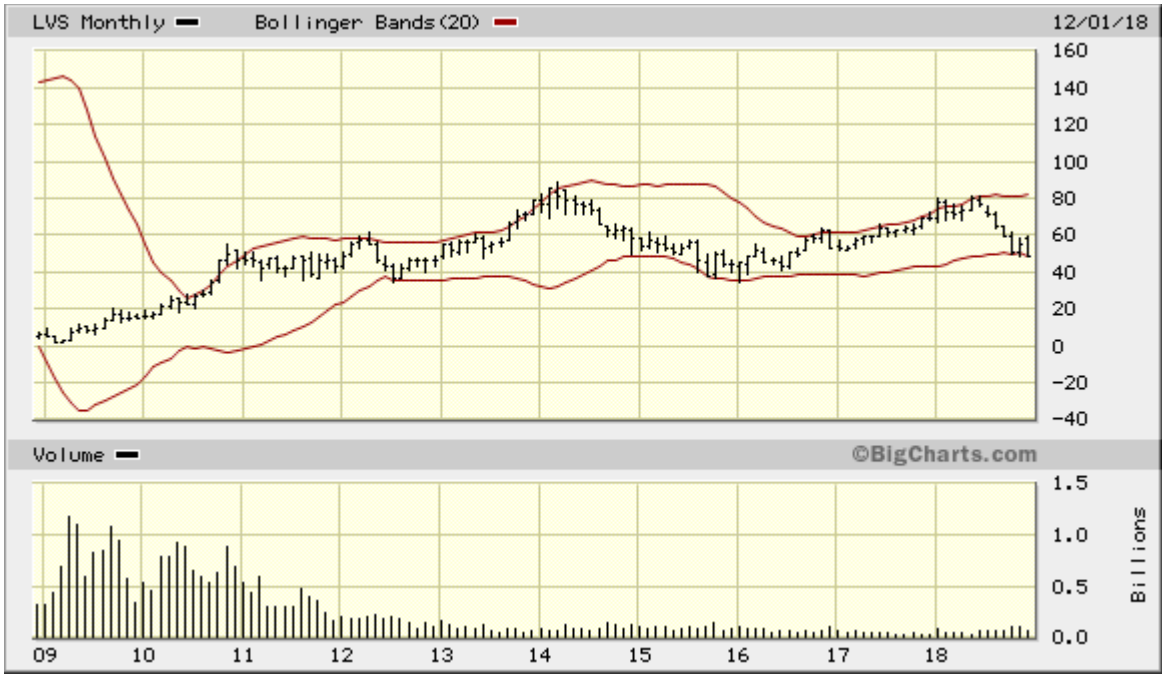
JAPAN



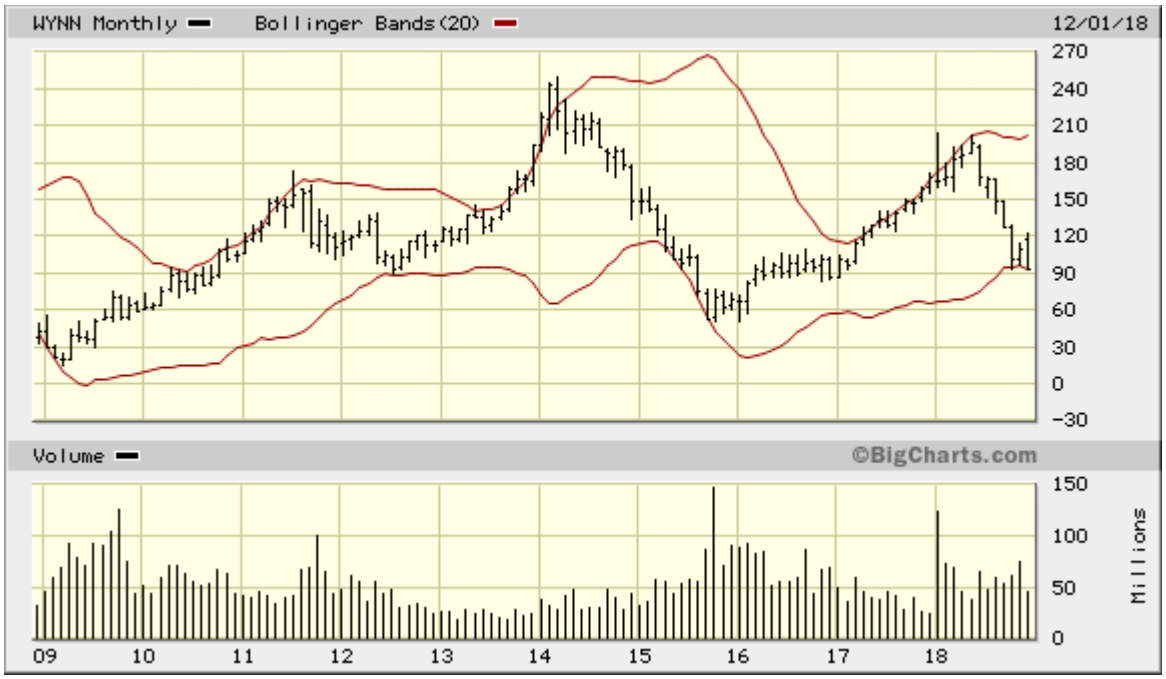
HONG KONG

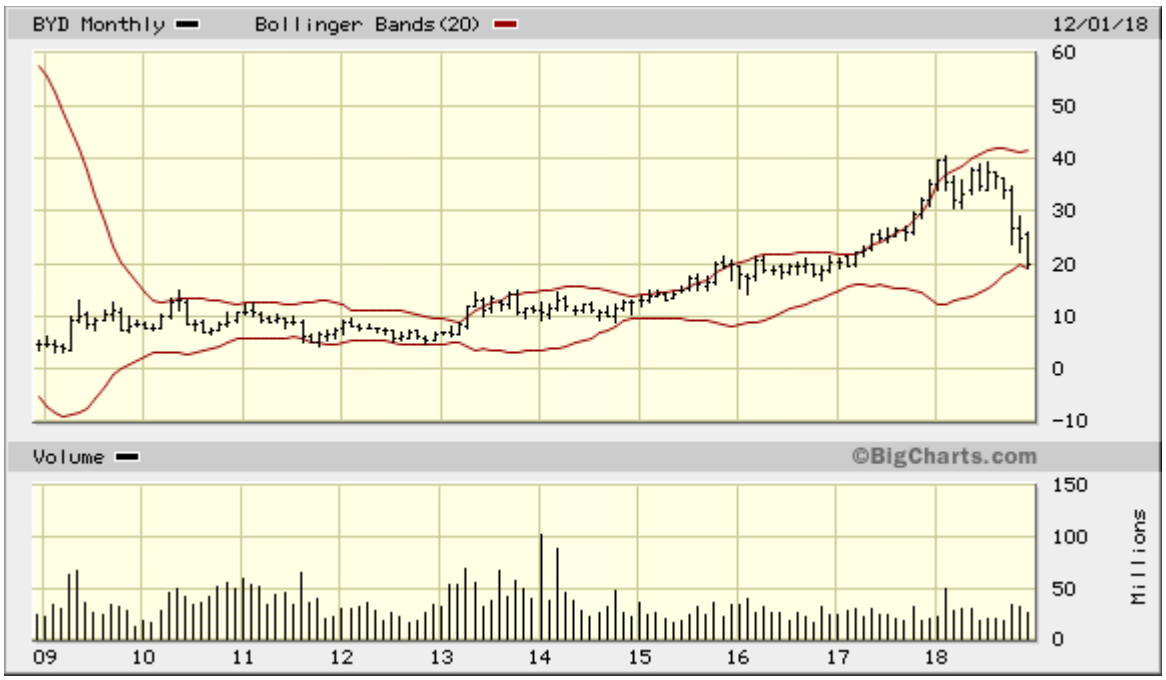


CASINO STOCKS



WYNN

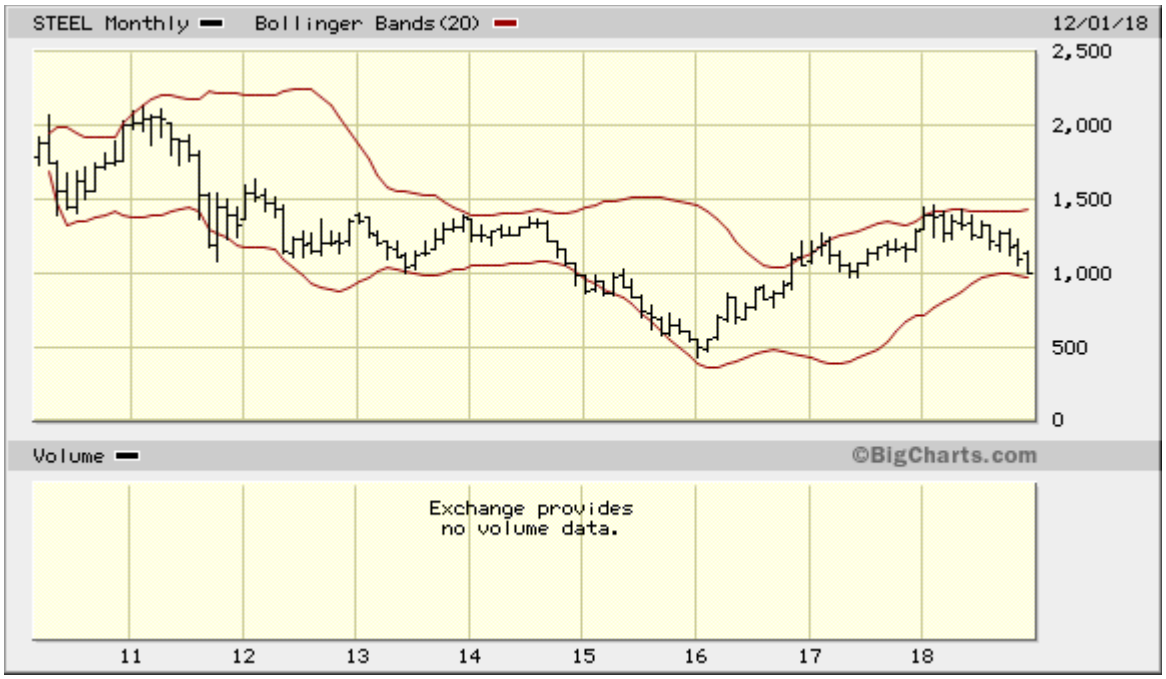

WYNN Monthly
Bollinger Bands(20)
12/01/18
270
240
210
180
150
120
90
60
30
0
-30
Volume
©BigCharts.com
150
100
50
0
Millions
09
10
11
12
13
14
15
16
17
18


BYD Monthly
Bollinger Bands(20)
12/01/18
60
50
40
30
20
10
0
-10
Volume
©BigCharts.com
150
100
50
0
Millions
09
10
11
12
13
14
15
16
17
18

GOLD

SILVER (Tight monthly closes:))

STEEL

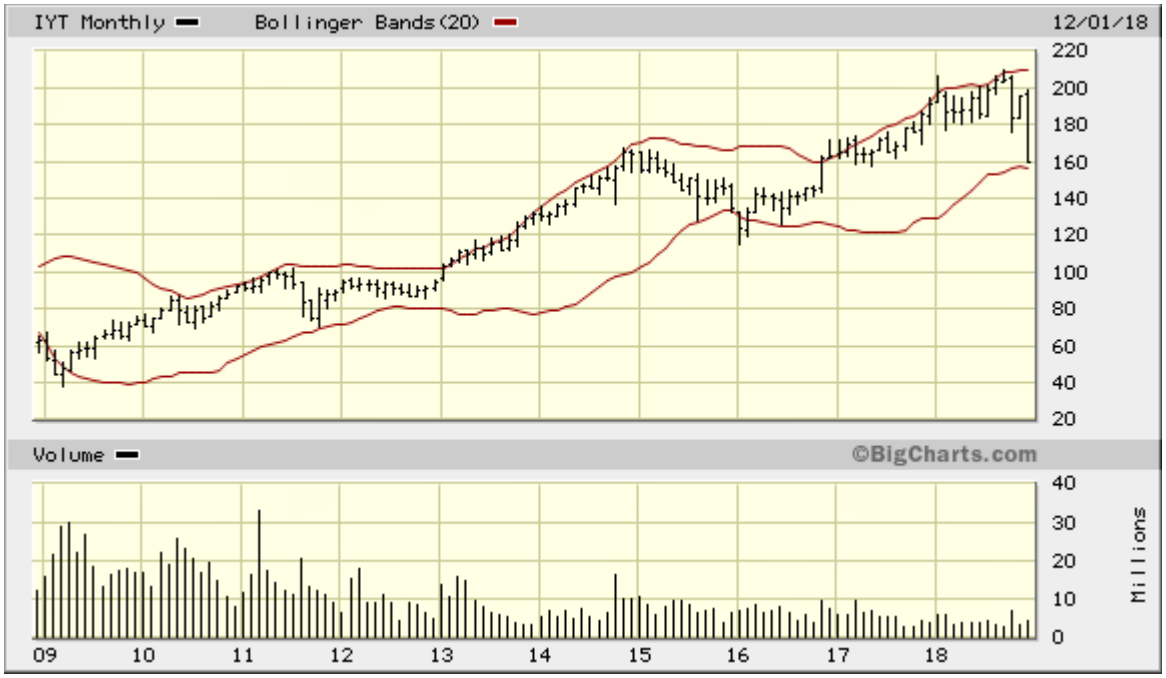


OIL

MICROCAPS

INVERSE VIX

TRANSPORTS



NYSE

GLOBAL 100 ETF

HIGH BETA STOCKS

SEMICONDUCTORS. (Not quite there yet).

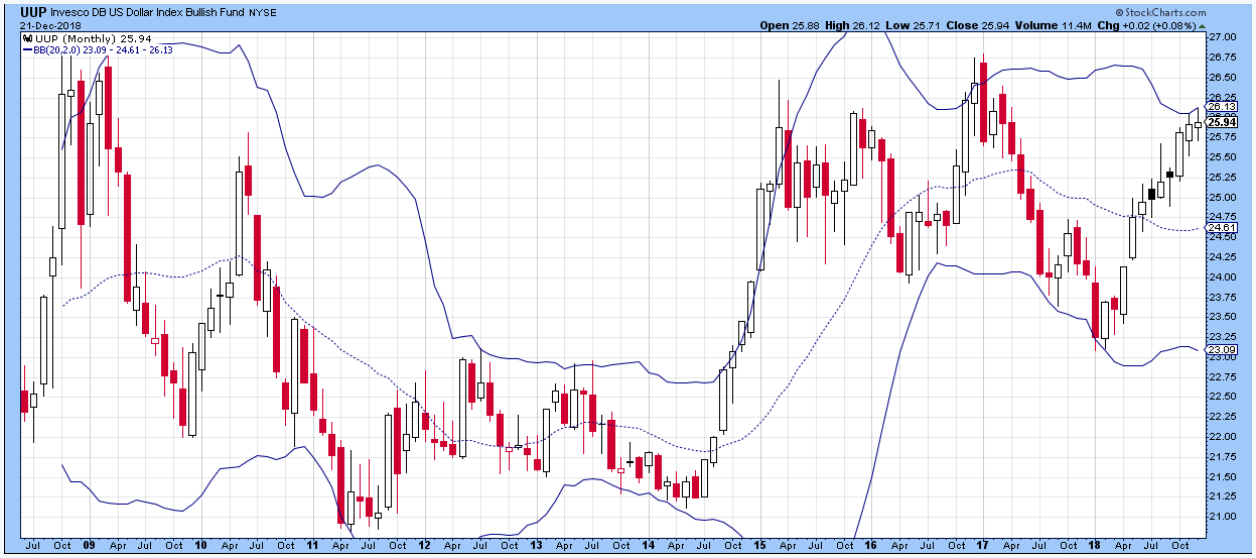
CURRENCIES

Dumb money hedge funds all piled into “FANGS”. Hedge Funds are now going belly up. Their next groupthink “great trade” is the U.S. dollar. OOPS!.....

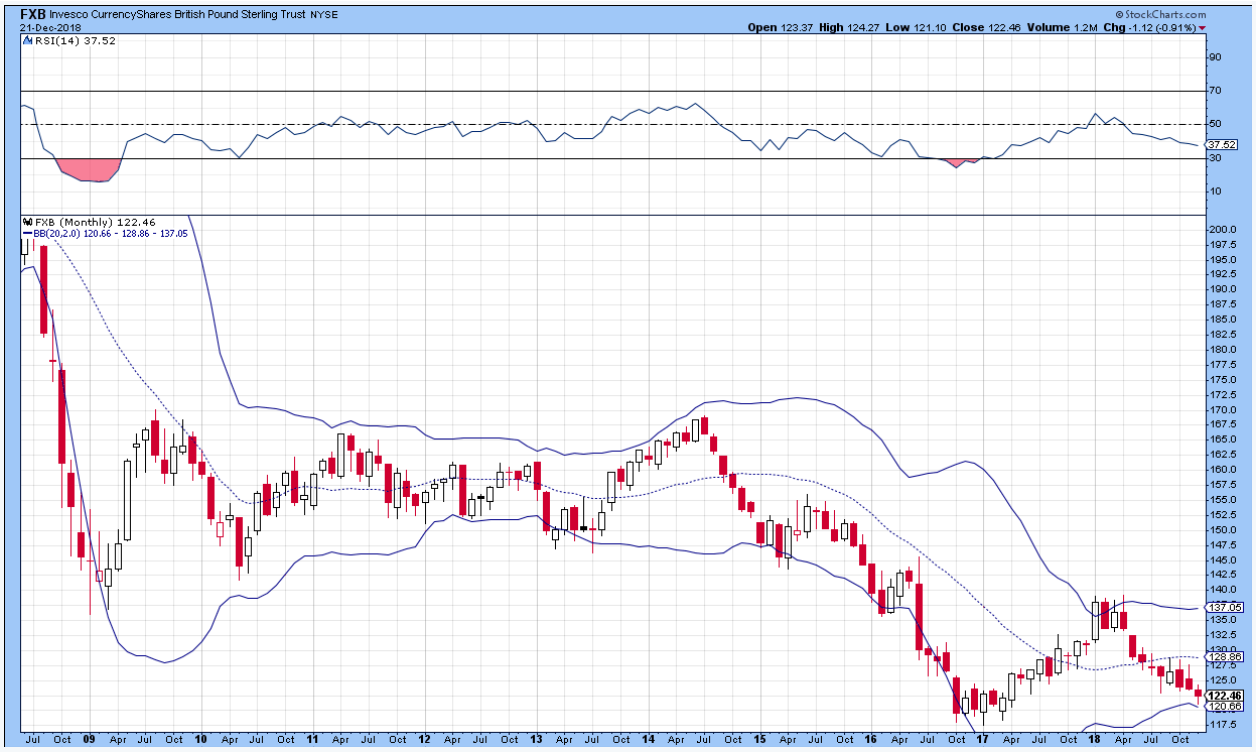
CNBC @CNBC

After an epic run, the tech "FAANG" trade is no longer Wall Street's favorite. The dollar has become fund managers' number one. cnb.cx/2Erqx5g

Time for S+P earnings to accelerate due to a drop in the dollar????

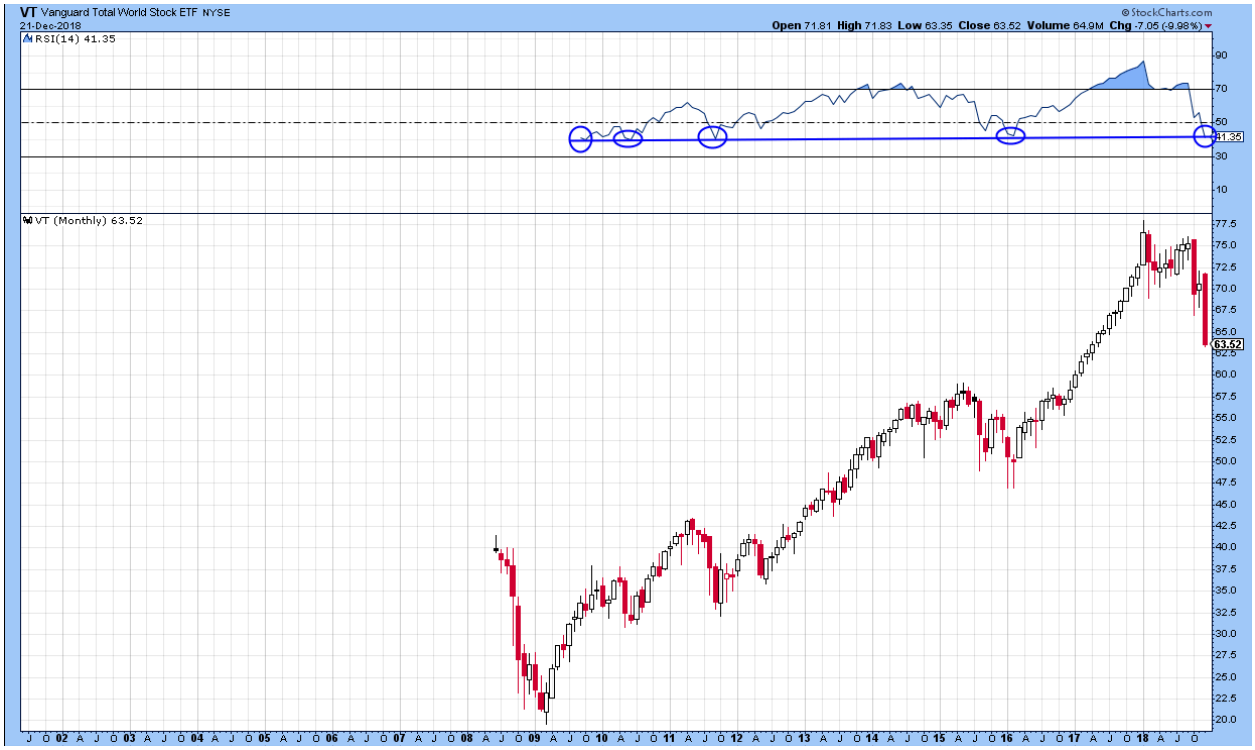


We could see some sort of “favorable” resolution for “Brexit” coming out of left field….

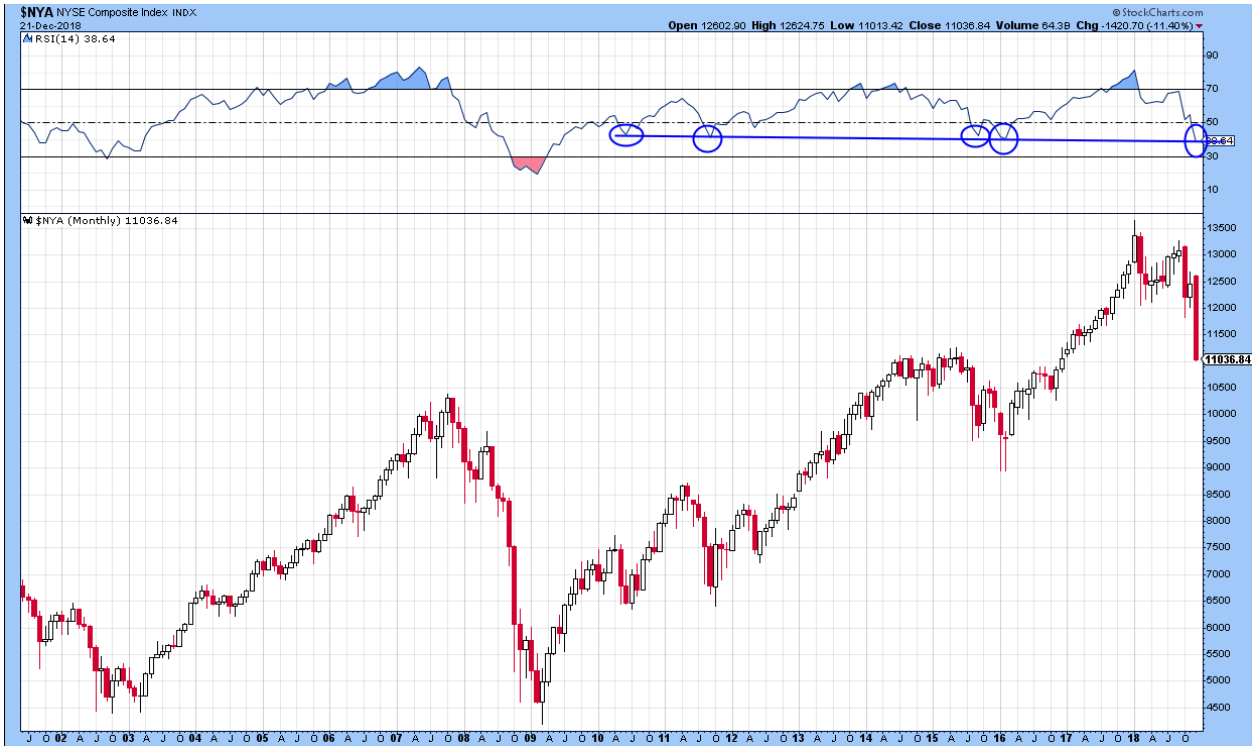


MONTHLY RSI CHARTS OF INTEREST

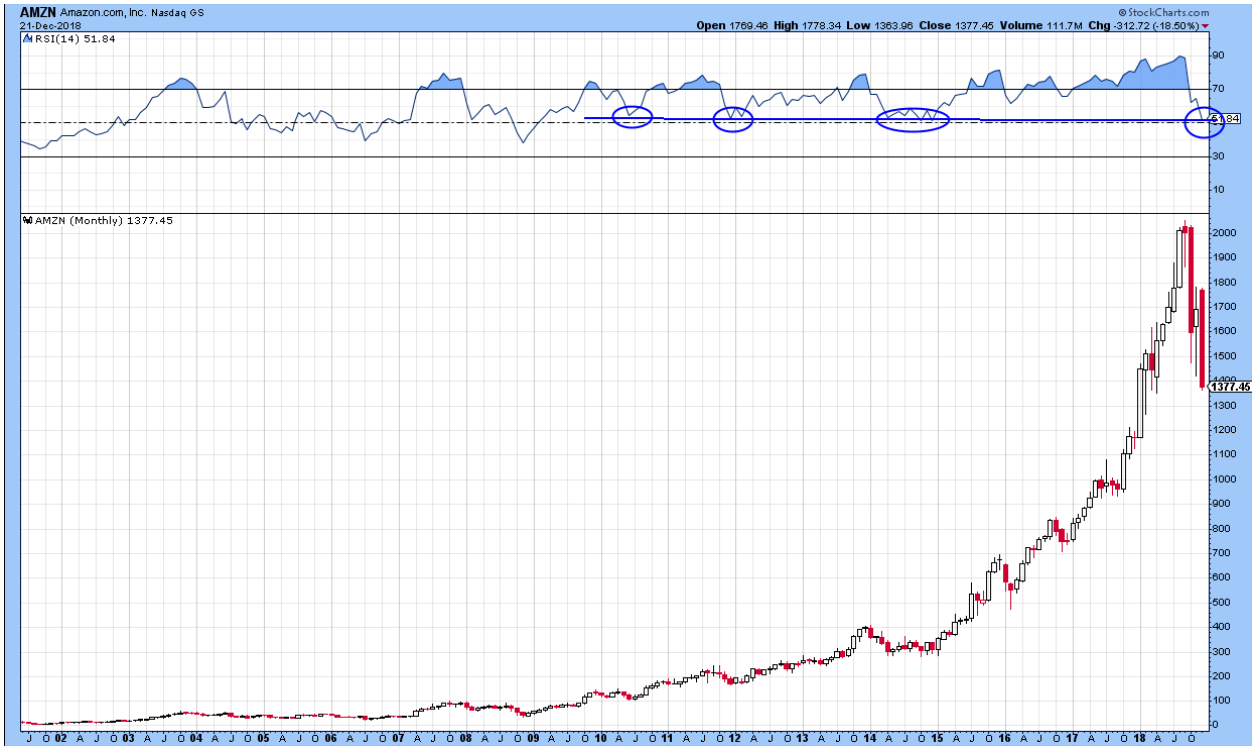
Total World ETF



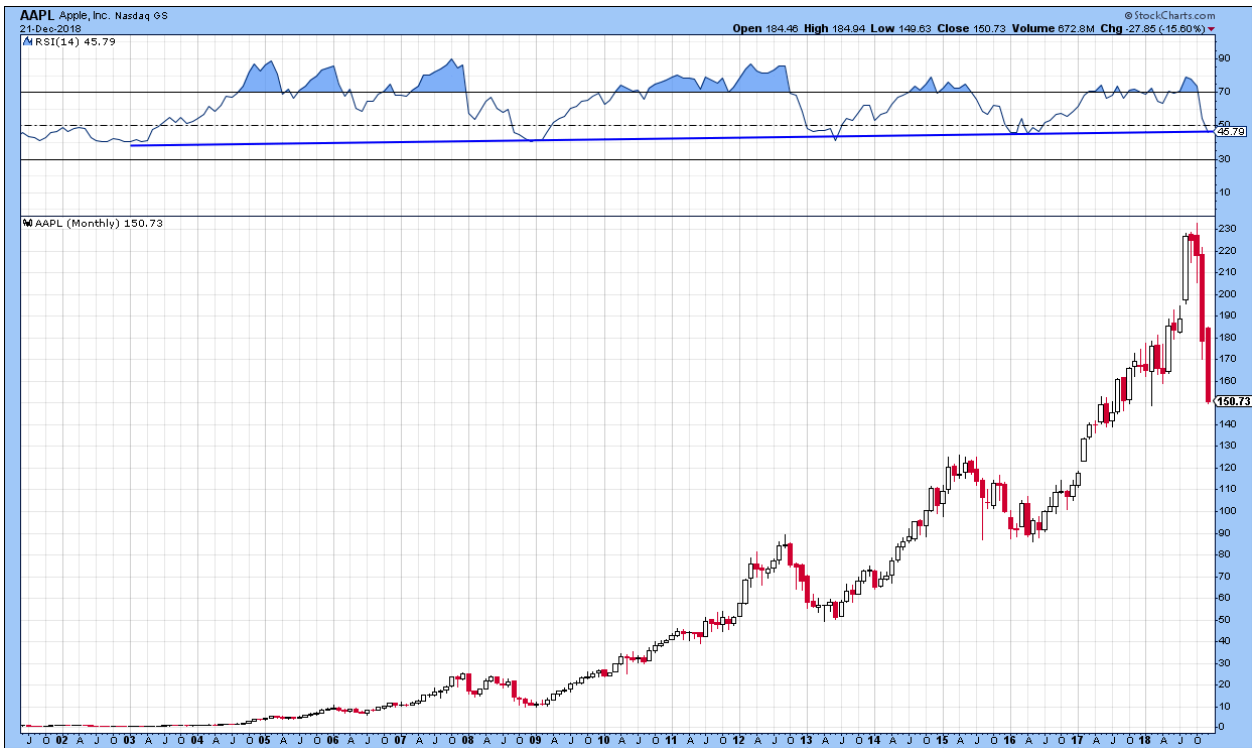
NYSE


$NYA NYSE Composite Index INDX
21-Dec-2018
© StockCharts.com
Open 12602.90 High 12624.75 Low 11013.42 Close 11036.84 Volume 64.3B Chg -1420.70 (-11.40%)
RSI(14) 38.64
$NYA (Monthly) 11036.84
11036.84

AMAZON

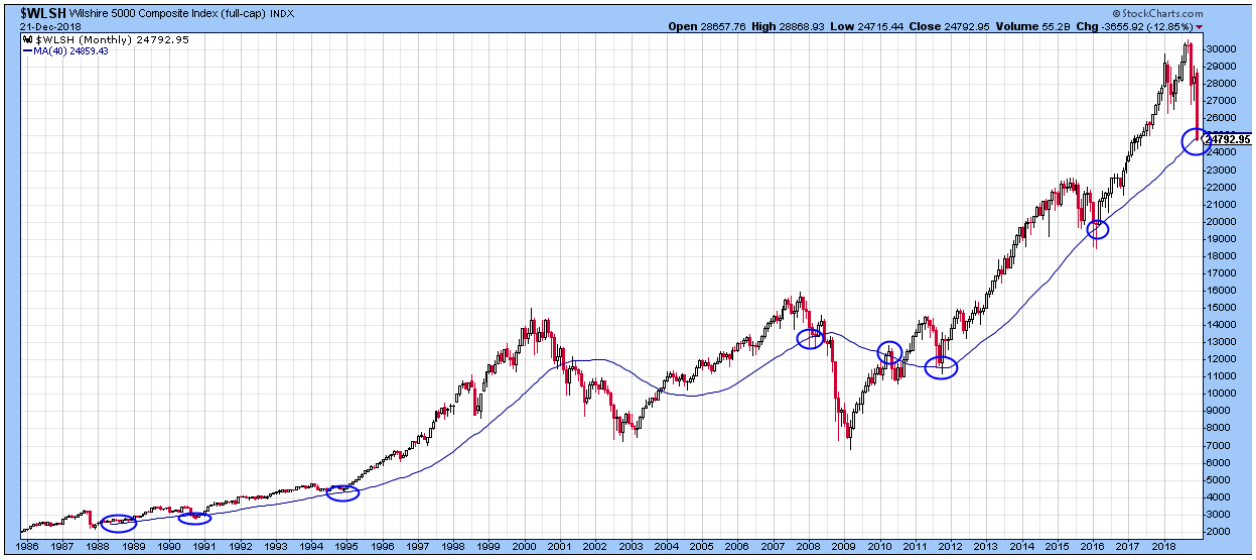

AMZN Amazon.com, Inc. Nasdaq GS
21-Dec-2018
© StockCharts.com
Open 1769.46 High 1778.34 Low 1363.96 Close 1377.45 Volume 111.7M Chg -312.72 (-18.50%)
RSI(14) 51.84
AMZN (Monthly) 1377.45

APPLE

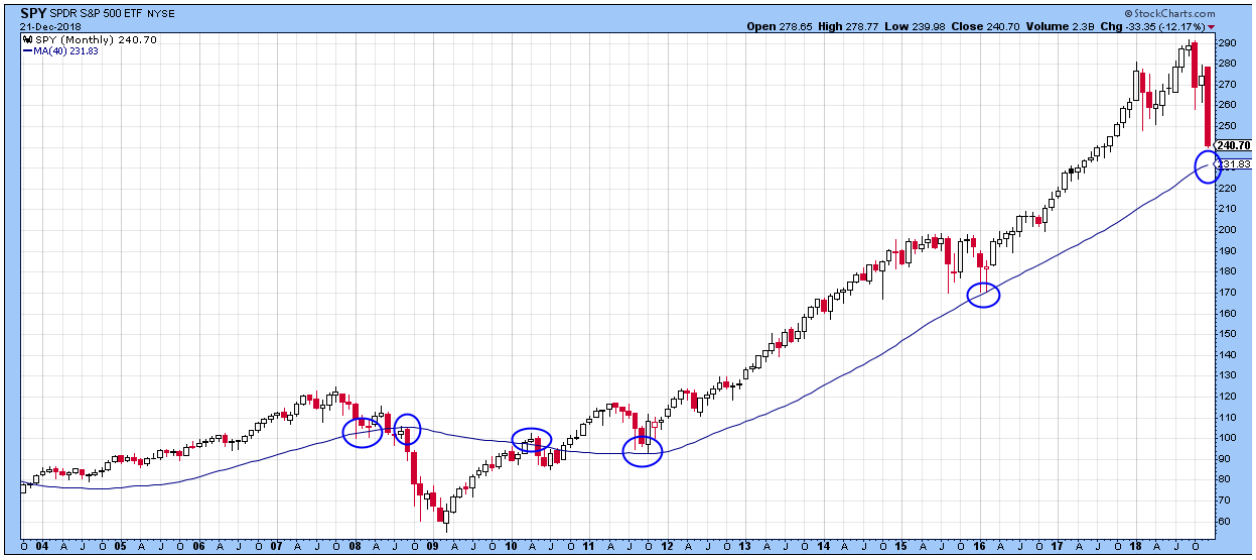

AAPL Apple, Inc. Nasdaq GS
21-Dec-2018
© StockCharts.com
Open 184.46 High 184.94 Low 149.63 Close 150.73 Volume 672.8M Chg -27.85 (-15.60%)
RSI(14) 45.79
AAPL (Monthly) 150.73

40 MONTH MOVING AVERAGE CHARTS

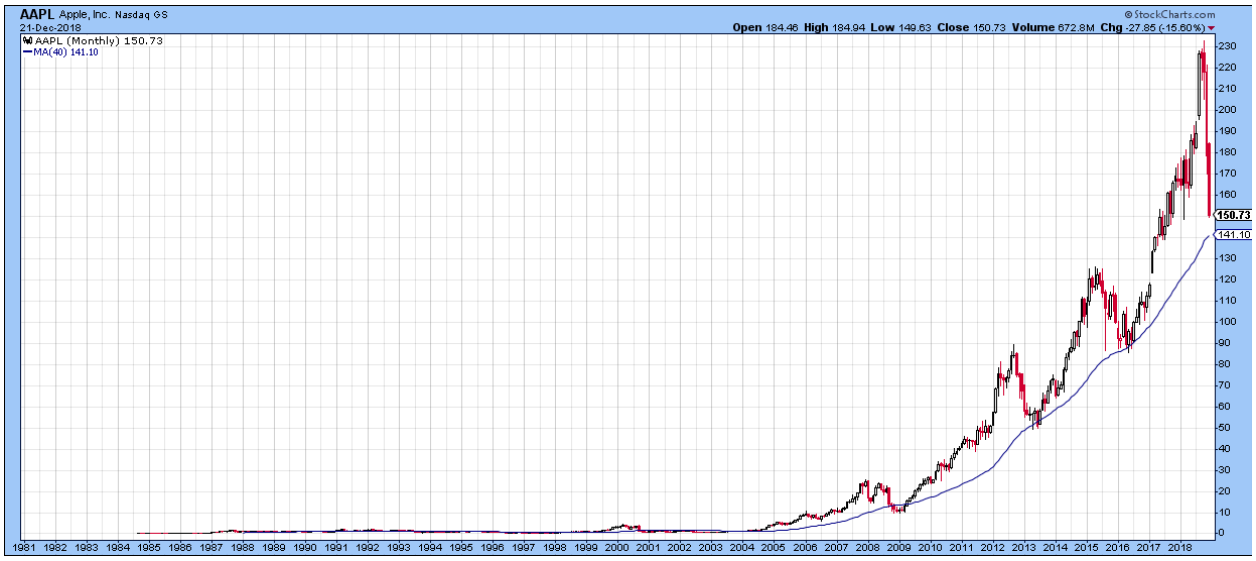
WILSHIRE 5000



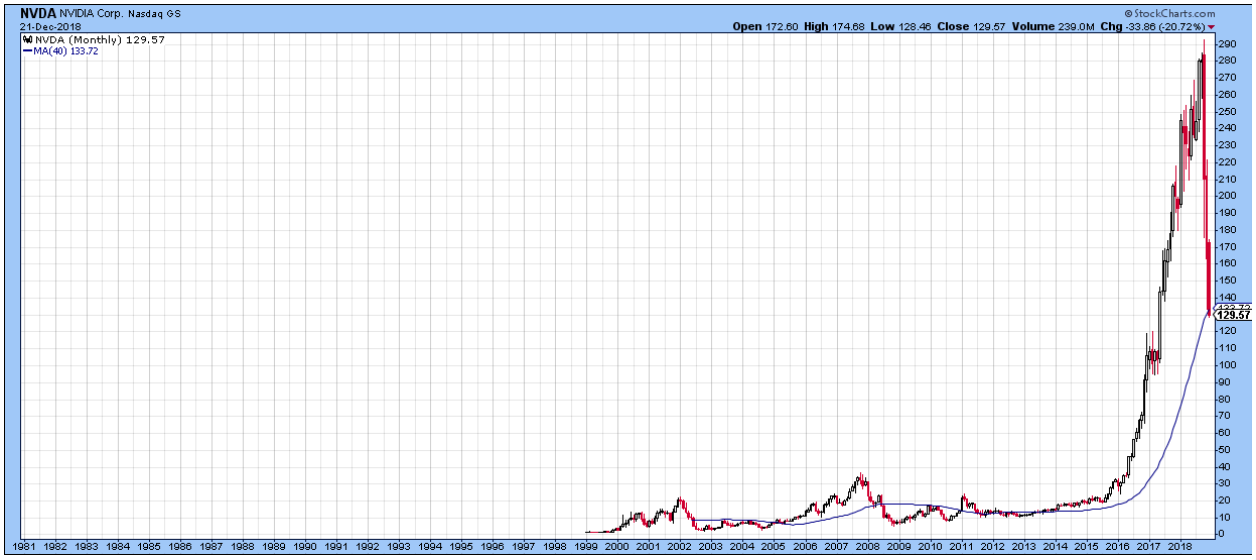
S+P



AAPL sucks. BUT, it might be due for a big mean-reversion rally.

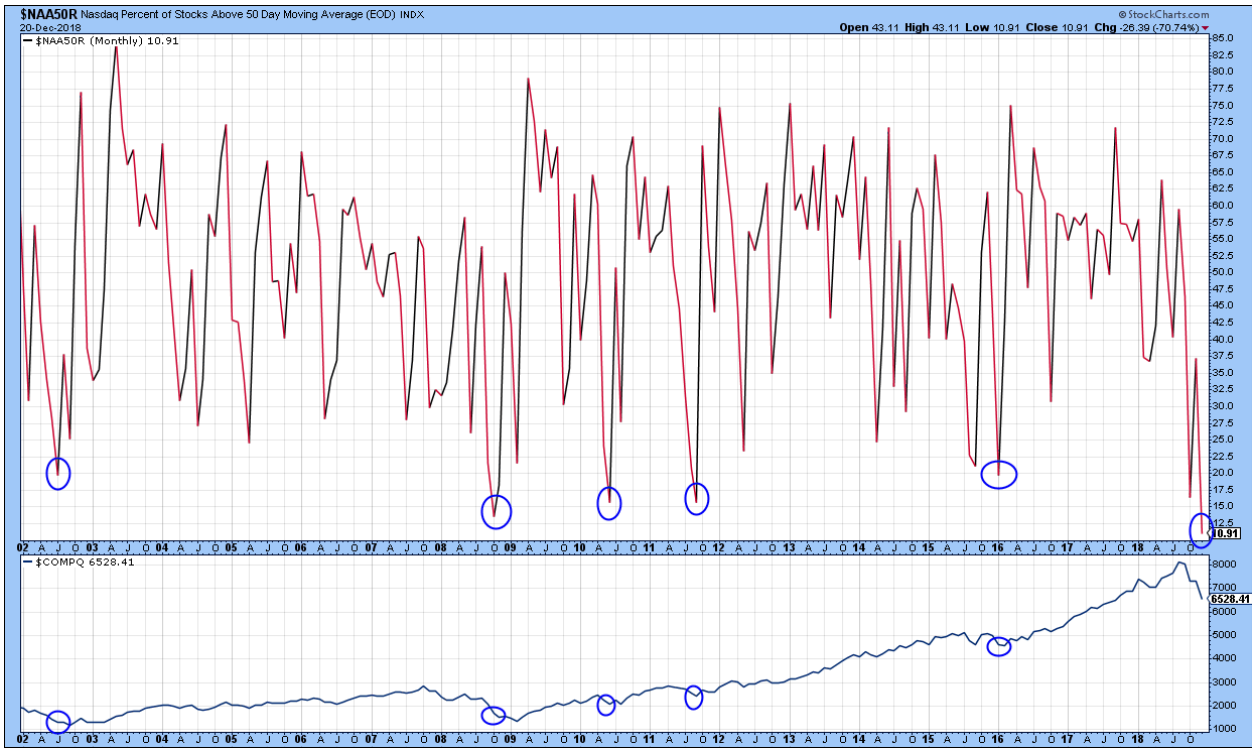


Same story with NVDA

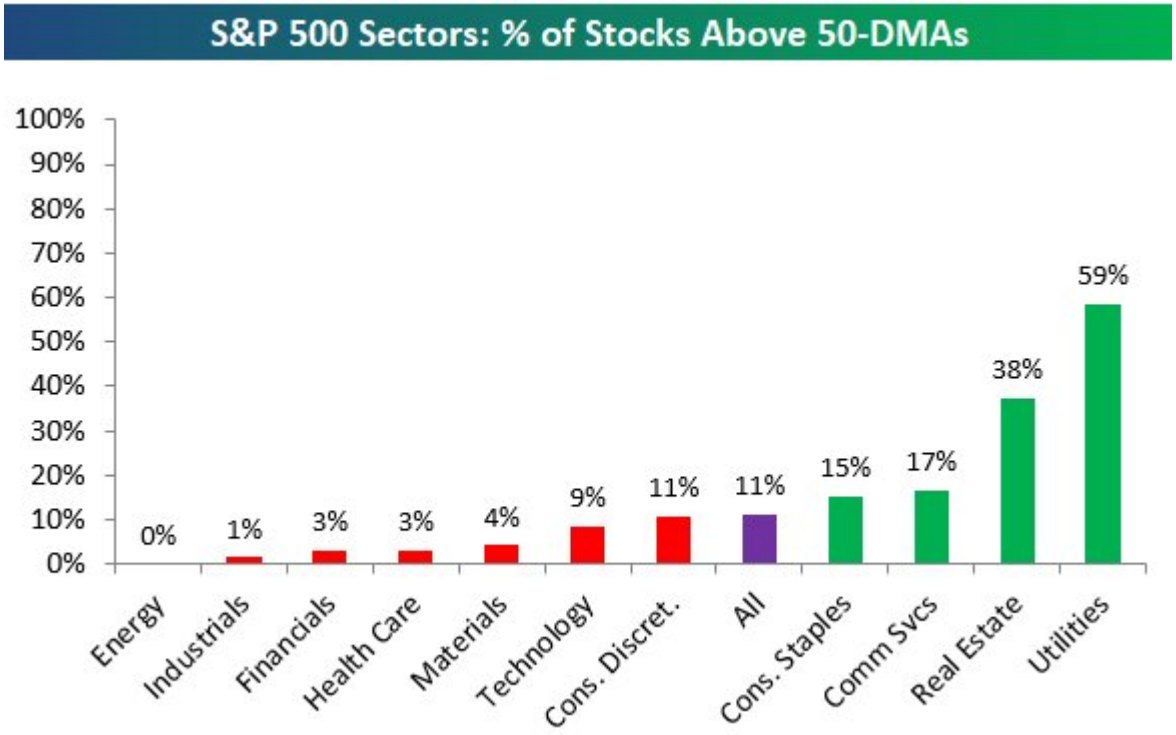


Semiconductors are not quite there yet.

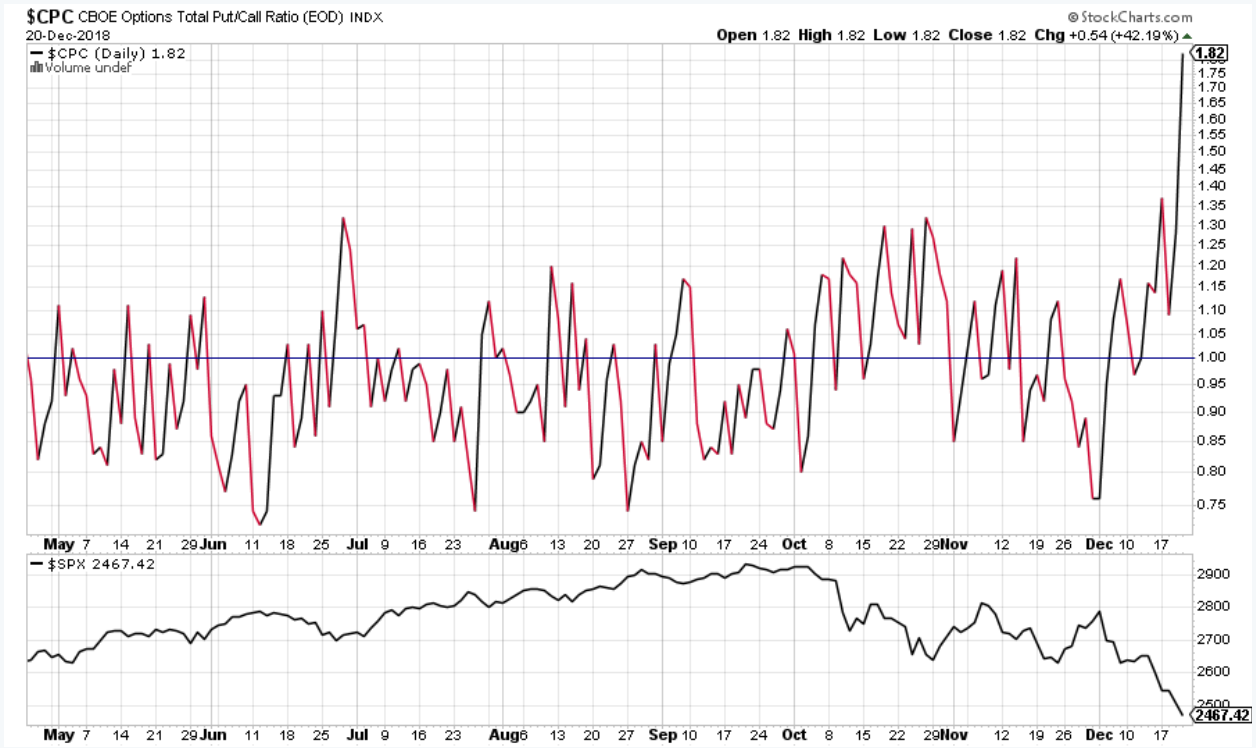
THE # OF STOCKS ABOVE THEIR 50 DAY MOVING AVERAGE HAS PLUMMETED.



For tax loss plays, I'd probably look at financials and energy. For instance, natural gas producers will be making great EPS in '19 at current strip prices. They have sold off DRAMATICALLY due to the decline in the energy sector. Not a stock that I'd buy, but insiders in CHK have been buying shares hand over fist.

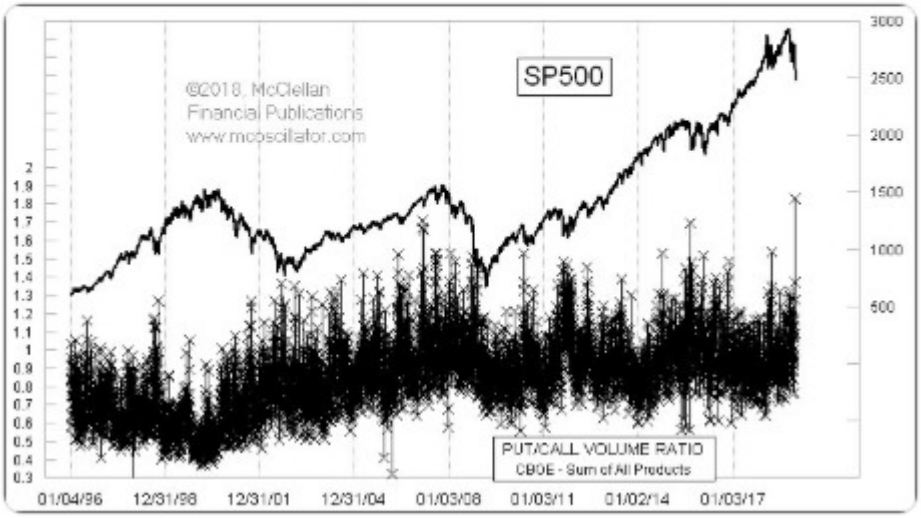


Meanwhile, investors have piled into the protection of puts...



Tom McClellan @McClellanOsc · 8h

Rechecked my records; my "all products" Put/Call data only go back to 1996 because the CBOE only started aggregating and reporting them Jan. 9, 1996. So while options did indeed trade before that date, the data do not exist at CBOE, so this is a quasi "all-time" high P/C Ratio.



IT’S ALWAYS DARKEST BEFORE THE DAWN

Here are some interesting “before” and “after” charts. Just imagine what prevailing sentiment was like at the time.

1998


RUT Daily
10/08/98
500
480
460
440
420
400
380
360
340
320
300
Volume
©BigCharts.com
Exchange provides
no volume data.
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct

AFTER


RUT Daily
7/16/99
480
460
440
420
400
380
360
340
320
300
Volume
©BigCharts.com
Exchange provides
no volume data.
Nov
Dec
99
Feb
Mar
Apr
May
Jun
Jul

2008


RUT Daily
3/06/09
800
750
700
650
600
550
500
450
400
350
300
Volume
©BigCharts.com
Exchange provides
no volume data.
Oct
Nov
Dec
09
Feb
Mar

AFTER


RUT Daily
3/04/11
900
800
700
600
500
400
300
Volume
©BigCharts.com
Exchange provides
no volume data.
A M J J A S O N D 10 F M A M J J A S O N D 11 F

2011


RUT Daily
10/03/11
870
840
810
780
750
720
690
660
630
600
Volume
©BigCharts.com
Exchange provides
no volume data.
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep

AFTER


RUT Daily
3/30/12
850
825
800
775
750
725
700
675
650
625
600
Volume
©BigCharts.com
Exchange provides
no volume data.
Oct
Nov
Dec
12
Feb
Mar

2015


RUT Daily
2/09/16
1,230
1,200
1,170
1,140
1,110
1,080
1,050
1,020
990
960
930
Volume
©BigCharts.com
Exchange provides
no volume data.
Oct
Nov
Dec
16
Feb

AFTER


RUT Daily
12/05/16
1,350
1,300
1,250
1,200
1,150
1,100
1,050
1,000
950
900
Volume
©BigCharts.com
Exchange provides
no volume data.
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec

*KEY TAKEAWAYS

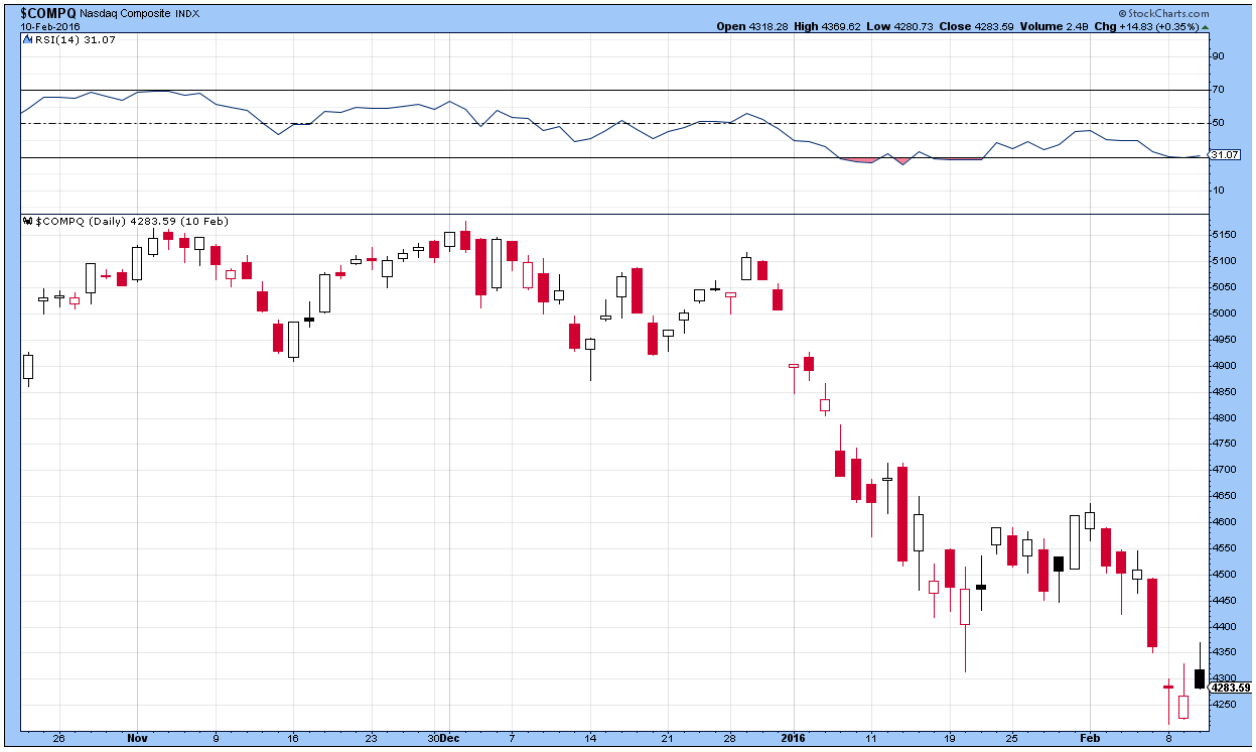
This is what I wrote in February of 2016 when I landed in Southern Thailand….

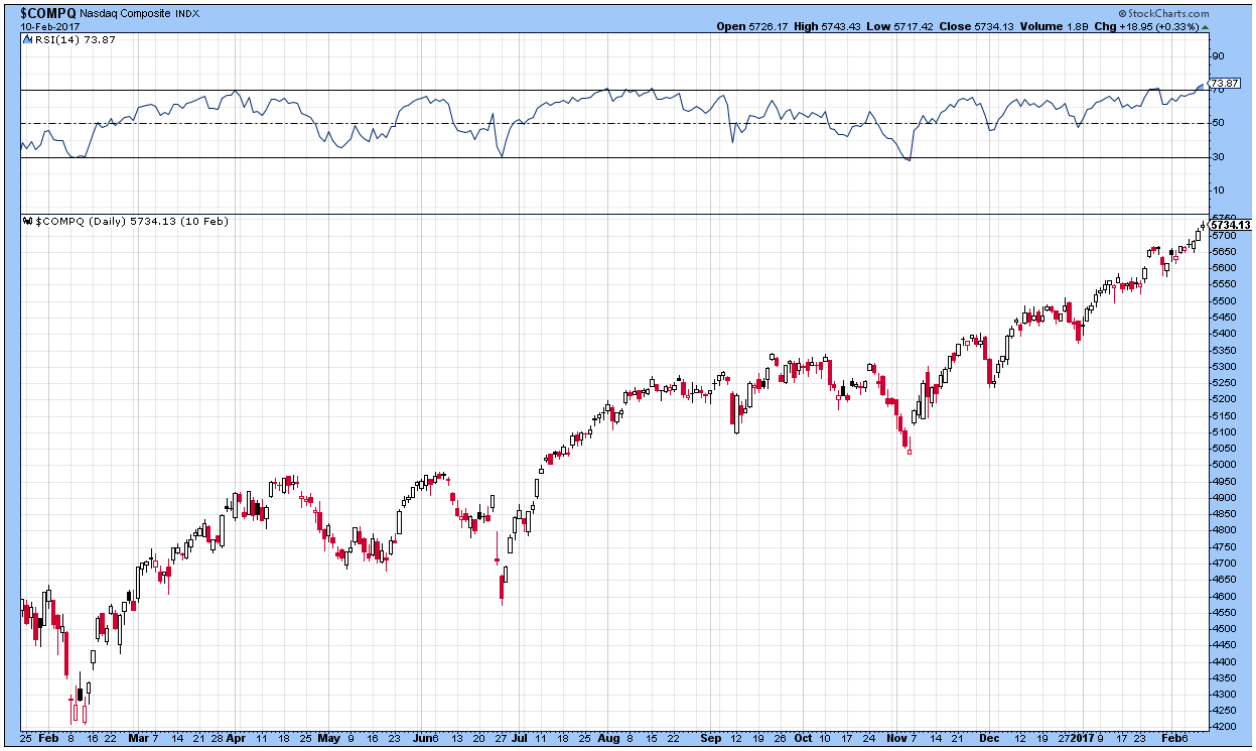
“Let’s try to step out of the groupthink box for a second and step into the common sense corner:

- Retail traders (dumb money) are always wrong at inflection points. As of a week or two ago, dumb money equaled their highest short position in years (last time was Black Monday).
- The last blogger data available had them at 56% bearish.
- Markets across the globe just hit their lower MONTHLY Bollinger Bands (buy signal).
- We’ve gone over several charts that indicate that we may have seen a bottom in oil. If oil goes up 40% in a month and/or 75% within 2-3 months, what happens to global markets? They would most likely skyrocket.”

The current environment seems somewhat similar to early 2016, doesn’t it?

Here’s what how the market looked before and after that point in time...


$COMPQ Nasdaq Composite INDX
10-Feb-2016
Open 4318.28 High 4369.62 Low 4280.73 Close 4283.59 Volume 2.4B Chg +14.83 (+0.35%)
© StockCharts.com
RSI(14) 31.07
$COMPQ (Daily) 4283.59 (10 Feb)
4283.59
31.07


$COMPQ Nasdaq Composite INDX
10-Feb-2017
Open 5726.17 High 5743.43 Low 5717.42 Close 5734.13 Volume 1.8B Chg +18.95 (+0.33%)
© StockCharts.com
RSI(14) 73.87
$COMPQ (Daily) 5734.13 (10 Feb)
5734.13
73.87

HOW MIGHT SENTIMENT SHIFT?

With sentiment literally as bad as it's ever been, we need to start looking at what could possibly shift that sentiment upwards.

So, what could potentially come out of left field to shock the market out of its current malaise?

-Tariff resolution stimulating global economies?
-U.S. dollar falls, which would increase S+P earnings?
-What if the Fed stops raising rates?
-What if a recession is priced in and no recession appears?
-What if oil prices recover from crash levels bringing global markets higher?
-*OR* counterintuitively, what if new lower gasoline prices stimulate global economies?
-What if bank stocks rebound?
-What if China rebounds from the gutter?
-What if the slew of globally depressed markets rebound?
-What if small caps rebound?
-What if there's no government shutdown?
-What if there's a favorable Brexit solution?
-What if tax loss selling ends?
-What if Trump starts behaving rationally? (Christmas joke:))
-What if hedge funds stop liquidating?
-What if valuations are so low that people simply start buying?
-What if Mom and Pop take Prozac, sentiment improves, and put money back into market?
-What if German Dax hits head and shoulders projection bottom and rebounds?
-What if Buffett filings show large capital deployment (Bank stocks? Berkshire buyback? AAPL buys?)

From the Paychex (PAYX) earnings report this week:

"If you look at the vectors in our business, they're pointing up; not down. They're not pointing neutral; they're pointing up. When we look at the wealth of data we have on everything from

clients who go out of business to sales to new clients, it looks positive to us."

"THE NEXT GREAT DEPRESSION"

It's assumed that every pullback is the next Great Depression or '08 Armageddon- especially if we're looking at a Guru's reality-distorting logarithmic chart. For our own long-term mental health, in my opinion, it's prudent to assume that markets are innocent until proven guilty.

The fantastic news is that despite the current market, you are still alive (if you are reading this) and hopefully you're enjoying the holidays. And more importantly, hopefully you have your health. Even *IF* this is a bear market, history suggests that we should have a one to three month rally at a MINIMUM.

More good news is that the best thing about this decline is that it's happening rapidly. Can you imagine if a 3 year slow grind lower brought us to this point? That would be pure torture.

Despite a gloomy market, don't lose your discipline. My view is that there's no need to rush out and be a hero. Just wait for great opportunities to emerge...they always do. Earnings season is rapidly approaching (get ready!) and we could see some "good" news flow should companies show stable forward guidance.

SIGNALS TO LOOK FOR

Here are some things I'm looking for as we move forward:

-A possible 1-2 day "washout" event resetting markets.
-A NASI buy signal.

-A large number of my favorite stocks setting up in low-risk entries simultaneously.

-Solid bases in key stocks.

-Double bottoms and/or higher lows in indexes and indicators like percentage of stocks>200dma.

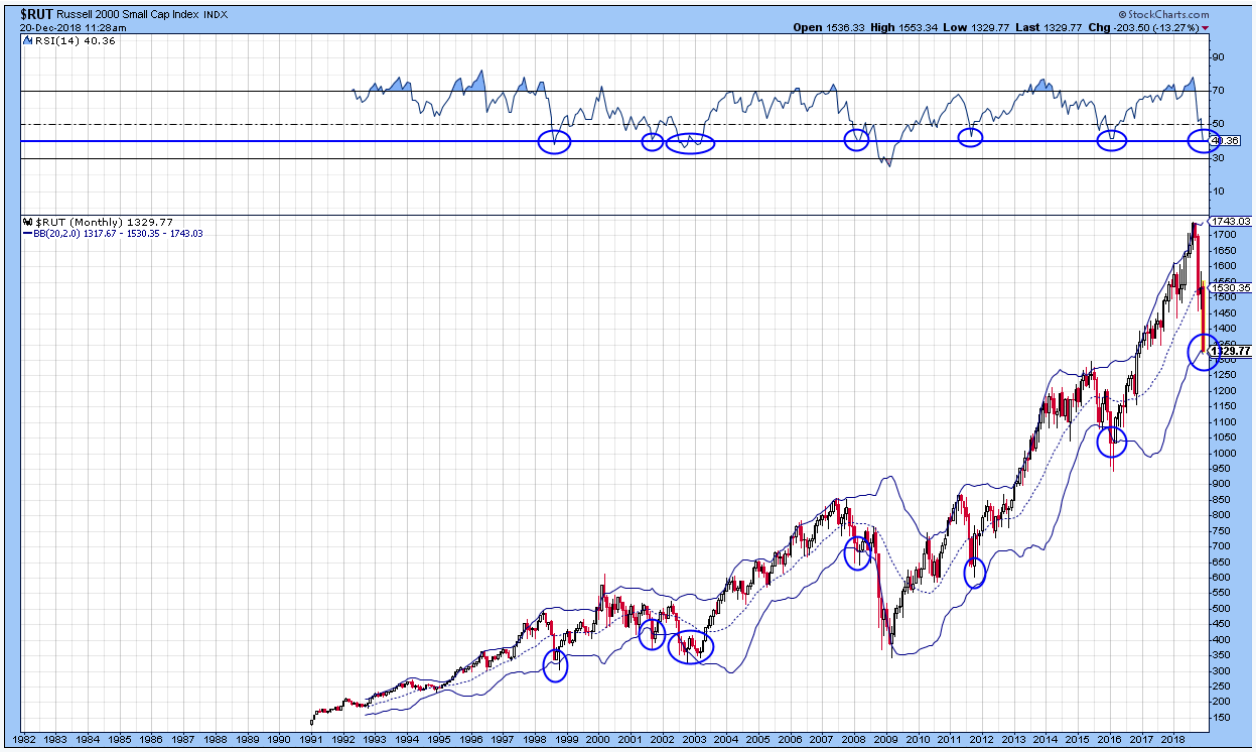
-Smart money hedger net positions in Nasdaq and Dow futures reaching extremes (they may be there now, but current data not released yet.)

-Stocks breaking above their 10 day moving averages.

A COUPLE OF THE BEST TIMES TO INVEST

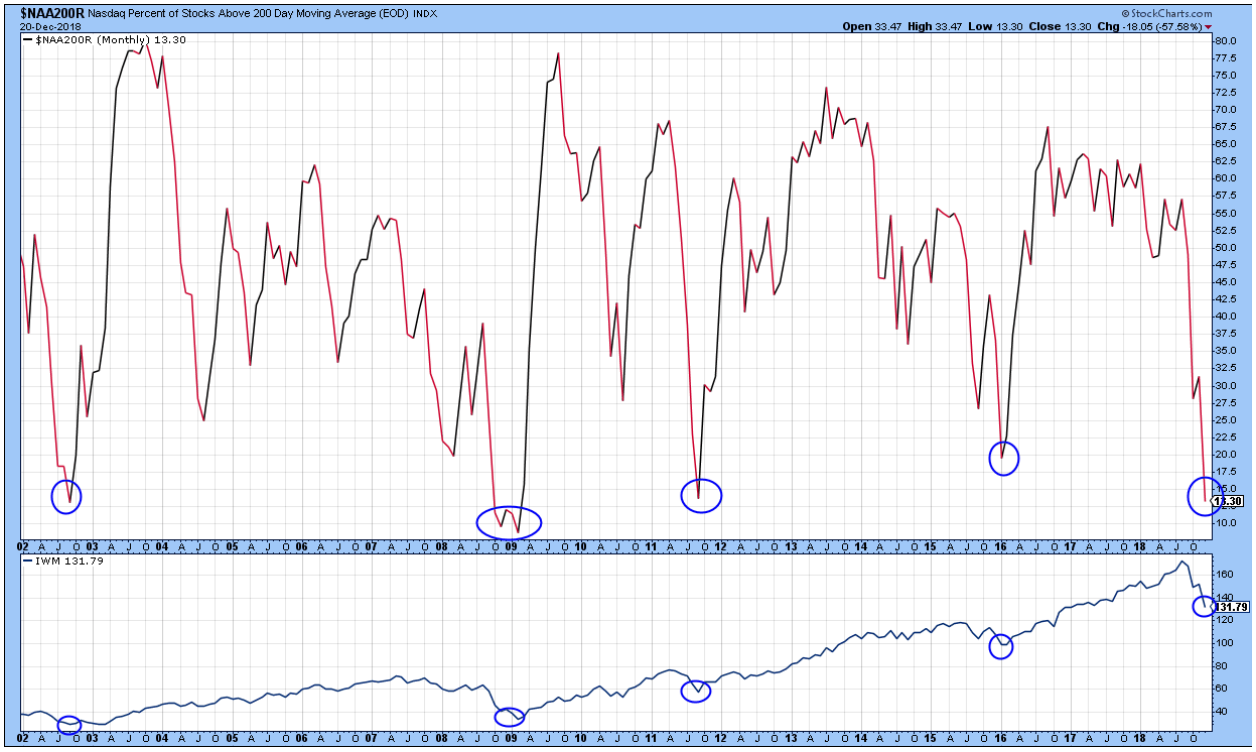
Historically, here are a couple times when it's been a good idea to get interested in stocks.

At lower monthly Bollinger Bands and monthly RSI support.



THE % OF STOCKS ABOVE THEIR 200 DAY MOVING AVERAGE

Another good long-term accumulation zone has been when the monthly number of stocks above their 200 day moving average reaches extreme levels. When this indicator starts rising, the winds are truly at your back.



Before I let you go watch football, I want to share some cool stuff-

-The best podcast episodes of 2018:
https://podcastnotes.org/2018/12/17/top-10-2018/

Brief (very brief) summaries of some of the best books.

https://jamesclear.com/book-summaries

HBO Warren Buffett documentary. AWESOME.

https://www.youtube.com/watch?v=RYHPlLsdW0A

Lastly, I don't have the link, but definitely watch the John McAffee ("Bitcoin to $500,000 or I will eat my di%k on national television" fame) documentary on Netflix. Warning- disturbing.

Have a great holiday everyone!

Jesse

"I am fundamentally an optimist. Part of being optimistic is keeping one's head pointed toward the sun, one's feet moving forward. There were many dark moments when my faith in humanity was sorely tested, but I would not and could not give myself up to despair."
—Nelson Mandela

"The longer I live, the more I realize the impact of attitude on my life. Attitude, to me is more important than the past, than education, than money, than circumstance, than failure, than success, than what other people think, say, or do. It is more important than appearance, giftedness, or skill. It will make or break a company... a church... a home."
- Dr. Charles Stanley

"Think outside the box- I am convinced, based on years of experience working with successful traders, that there is no edge in being consensus. If you are part of the herd looking at the same charts, regurgiting the same narratives, there is no way to achieve distinctive returns."
-Brett Steenbarger

:)