Knowledge Is Power

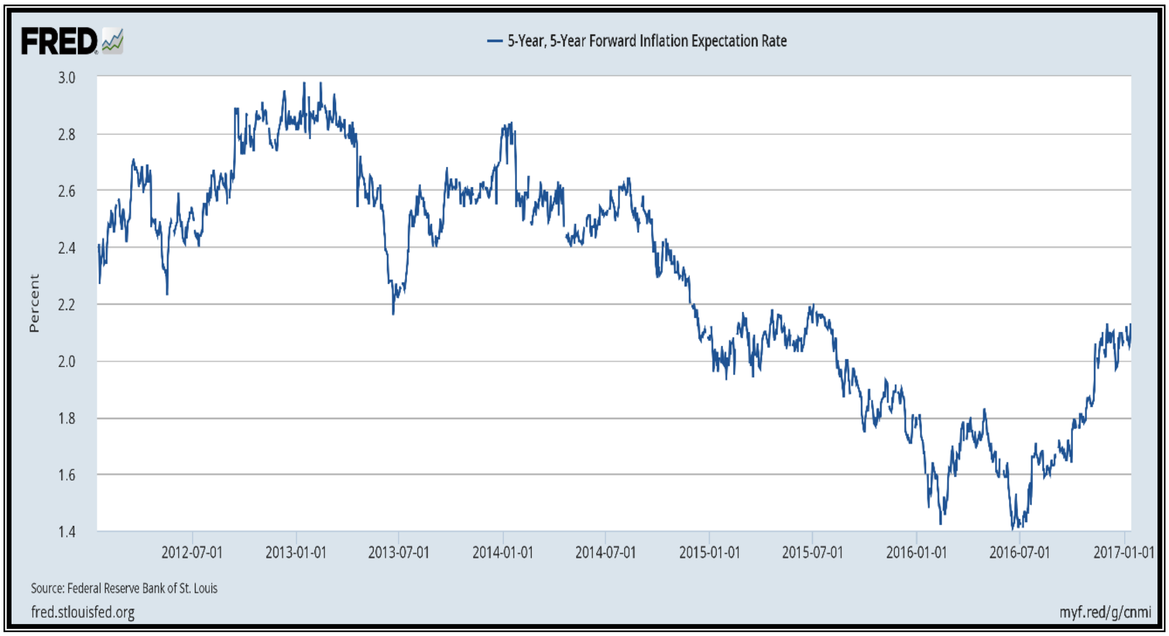
It's hard to believe that Dr. Martin Luther King Jr. was murdered nearly 50 years ago. It's rather astonishing to see how far this country has come since those volatile civil rights movements of the 60's. Astonishing in regards that we are in the last week for our first African American president. We are quite sure that Dr. King would undoubtedly say that there is a lot more work to be done. In the face of adversity and extreme racism, Dr. King stood up for natural human laws, in which he knew were not prejudice in no certain circumstance of race, color or creed. He was the quintessential leader of the civil rights movement and he exerted the type of courage that very few possess. We often wonder what the world would be like if we all had the same conviction, if we spoke up in the face of adversity knowing all too well the risks and the consequences that may lay before us. It is in his honor and prestige that our country reserves this special Monday in January to acknowledge his courage and for that we can all take time and reflect on his work and how we ourselves can leave this world a better place than the way we found it.

This week will also see Donald Trump accept his electoral victory and be rightfully and duly sworn in as the next President of the United States of America. His election will go down as one of the biggest upsets in US history and of course as much notoriety and fan fare as any other we can remember. We know that he won on the appearance of appealing to the commoner as being a liberator of all the ills that have plagued Washington under the cloak of career politicians and connected families. This however comes with a bit of irony considering he himself has done a lot of palm pressing and face time with most of the Washington power elites. We often wonder if this will just end up being a case of the more things seem to change, the more they simply stay the same. Time can only tell.

He has a lot of promises to keep and we are certain that the torch and pitchforks won't take long to rear out of the woodworks if he should begin to stumble on his promises. We would be more inclined to think that perhaps there is more to him than meets the eye, perhaps he will be a breath of fresh air from the stale Washington rhetoric of election promises to only be filled with nothing but "hot air." Much like the Federal Reserve, politicians merely buy time till the next election in hopes that nobody notices that they actually don't accomplish much of anything. We are a bit anachronistic and believe that a good ole fashion house cleaning is about to come to Washington and a whole lotta people are very afraid. With this fear comes rash decision making and we just hope that the broader strokes keep peace and prosperity at the forefront.

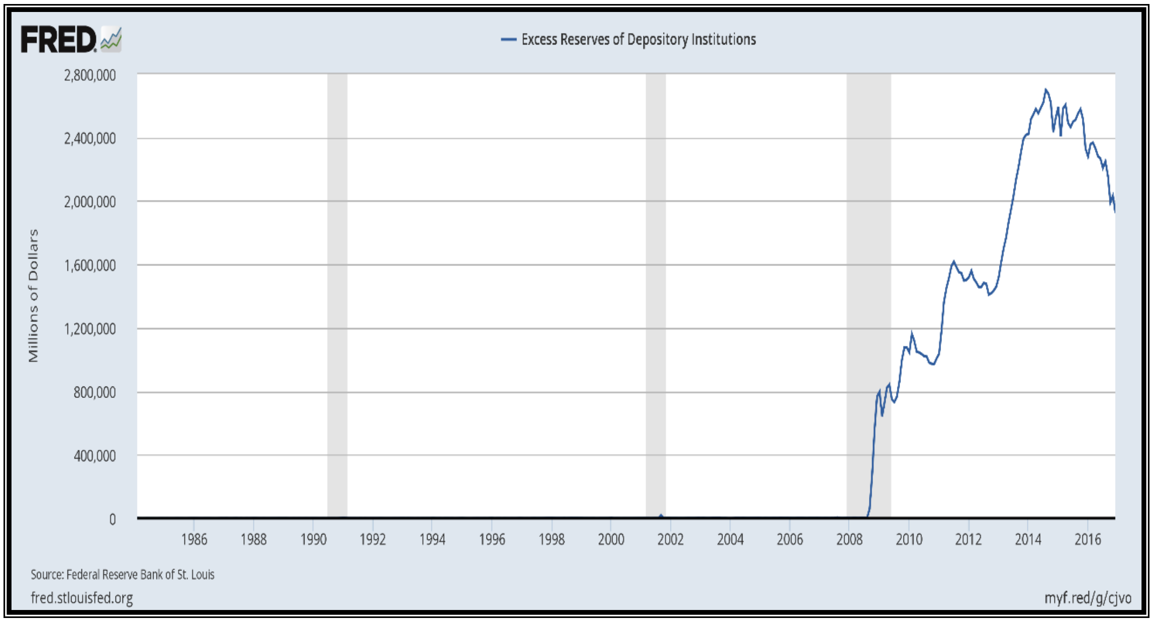
If it is true that Trump threatens establishment and old fashioned Washington cronyism and K Street lobbyists control, than we are in for one heck of a ride. On an investment trading side, well, we certainly like volatility, for it breeds opportunity. However there is a flipside, like anything else too much of a good thing, well tends to turn out being a bad thing. We wish President Trump all the best with a whole lot of luck, he is going to need it.

Now back to a bit more of a financial theme. We have been trying to figure out the FEDs dilemma of trying to raise rates in front of coming inflation, but without hampering the already long in the tooth recovery. We know a stronger dollar is certain to continue if the FED does indeed continue to hike rates. We know the FED watches the 5y5y forward inflation charts, to better ascertain what it is it may be staring at for the future. The chart presently looks like this:

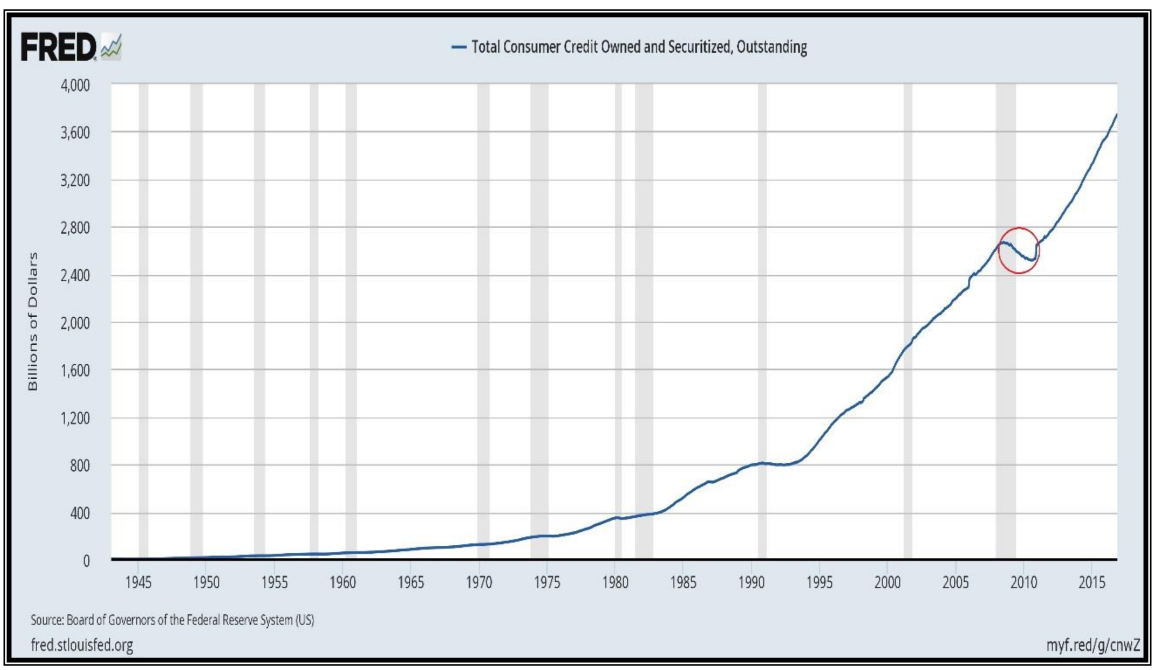


As you can see 5y5y inflation expectations are up over 50% since July 2016! Now we know the FED sees this but we also know that we have been running below their long term inflation target for some time now and that this is a welcome pick up. However the FED also knows that if it is not preemptive, this can get away from them very, very easily. Considering all the money the world has printed, we can see why they might be just a bit worried. This is a very slippery slope, we know it and they know it. The only question that remains is does the FED have the guts to normalize rates knowing all too well the consequences of the sheer mathematics of repricing Trillions in debt? Not to mention the effect on overall asset prices in general. If printing money and zero rates for nearly 9 years brought us here, we would be stupid to think taking away money and raising rates will continue to work in such a favorable manner.

Furthermore we can also see that Excess Reserves peaked around August of 2014 at $2.7 Trillion and have now come down to $1.9 Trillion. What this tells us is that the risk appetite may begin to pick up as this excess money finds its way back into the retail banking system to then grow even further through the fractional reserve channels. $800 Billion moving out of the Excess Reserve column is quite a staggering number, chart shown here:



Now when we look at a chart of total consumer credit outstanding, well, we become very worried about the Great Recession 2.0. We circled the "deleveraging" of some $150 billion during the great recession and now you can see we are some $2.2 Trillion dollars higher. It's pretty safe to say the next TARP will be double the amount of its predecessor:



The strange thing is, the velocity of money in terms of the MZM money stock continues to fall to new lows down at 1.29. So inflation is picking up in terms of asset prices, commodities, etc, yet the velocity of money is continuing to move lower. This may provide the FED with some comfort to continue to raise rates because if the velocity of overall money is stagnant to lower, than perhaps the chance of runaway inflation is also low or at least is not being driven by robust economic activity and turnover. We hate to say it but this chart looks eerily similar to a chart of the US 10yr Treasury in yield. Now if the bond bulls have indeed been tamed by the Matador than surely this chart will have to turn higher, but it hasn't MZM chart first then 10yr US Treasury in yield next:

Can it be that the concentration of wealth is so great now, that the commoner doesn't even figure into the equation? Have we reached some sort of paradigm by which old fundamental metrics are no longer valid? We aren't quite sure **but something isn't adding up and when it doesn't add up, you have to find the proof. The**

concentration of wealth in the hands of very few large players may indeed be the cause of why fundamentals and valuations of old aren't validating this asset price appreciation. We suppose that pension funds, sovereign wealth funds, and all the other large players, like insurers, central banks themselves have decided to turn finance upside down. Well we suppose right side up from their perspective. Perhaps this is now about control and who actually has it. Anyway we can't seem to figure out exactly how other than monetary printing at this point, asset prices can sustain such valuations without simultaneously causing inflation to run out of control.

It seems to us that the central banks solution and their cure for the markets ailments seem to also be their poison. We think they know this and we think the only solution is to concentrate so much wealth in so few hands that they can more easily manipulate the cyclicality of natural market tendencies. Being the naturalists at heart, we can only infer that this type of mentality is not consistent with any rational basis and is destined to fail miserably.

What's that old saying, ahh yes **"One often ends up finding their destiny on the road they took to avoid it," We** think the FED is so blinded by their own power that they are willing to risk everyone's life savings for their own grand experiment. This is a tremendous amount of trust to concentrate among so very few especially at a time where the demographics suggest risk chips should be taken off the table not added to it.

Well we can only hope that we see what's coming before most. We pride ourselves in esoteric research and nonlinear thinking, which often leads us toward unknown conclusions. We can only demonstrate our ways in our brief missives in hopes that you too do your part and understand that we are all in this together and everyone has a part to play and that epistemology is for everyone not just those that are cognizant of it! Cheers

US Curve a bit steeper and Crude and Bitcoin the biggest losers on the week:

13-Jan			
Instrument	**Price/Yield**	**Wk Net chg**	**Wk % Chg**
US 30yr Govt	2.98%	-2 bp	0.8%
US 10yr Govt	2.38%	-4 bp	1.7%
US 5yr Govt	1.88%	-4 bp	2.1%
MAR Bond	152-09	0'16	0.33%
MAR Ten Yr	124-25	0'12	0.30%
MAR Five Yr	117-27	0'06+	0.17%
MAR SP500	2272.5	1	0.0%
MAR DOW	19832	-65	-0.3%
MAR Nasdaq	5061.25	57.25	1.1%
MAR Nikkei	19300	-285	-1.5%
MAR Dax	11619	27.5	0.2%
Shanghai Comp	3112.76	-41.56	-1.3%
MAR WTI Crude	$53.15	-$1.63	-3.0%
FEB Gold	$1,196.20	$22.80	1.9%
MAR Silver	$16.77	$0.25	1.5%
MAR Dollar Index	$101.19	-$1.02	-1.0%
MAR EURO	106.68	1.07	1.0%
MAR YEN	87.520	1.85	2.2%
Bitcoin (BTC)	823.48	-59.11	-6.7%

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