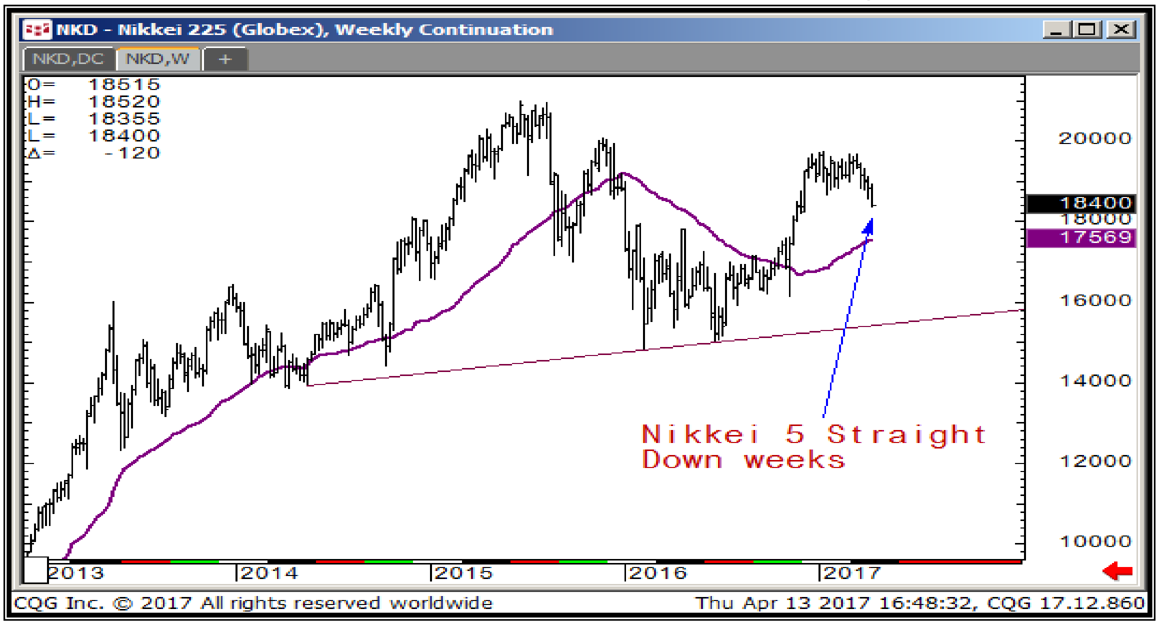
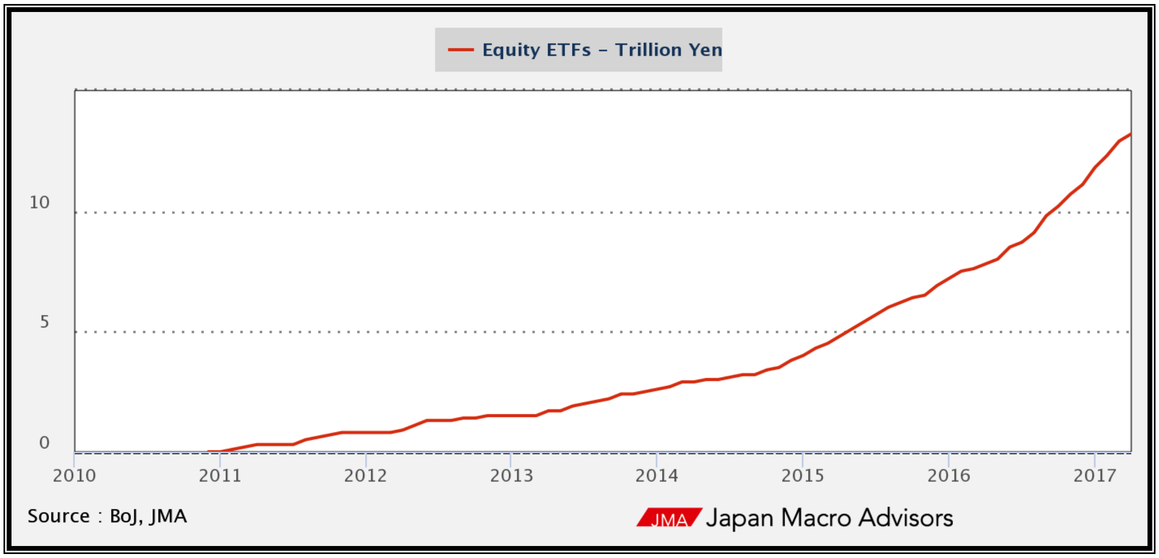
On The Brink of Change

Considering the Nikkei has had 5 straight down weeks and with the liabilities of the BOJ growing out of control, let's just take a look at a few key charts. Leading off with the Nikkei itself, not a lot of talk in the media about this index falling so consistently:



With the prior chart in mind, this next chart is the amount of ETF (Equities) the BOJ owns:



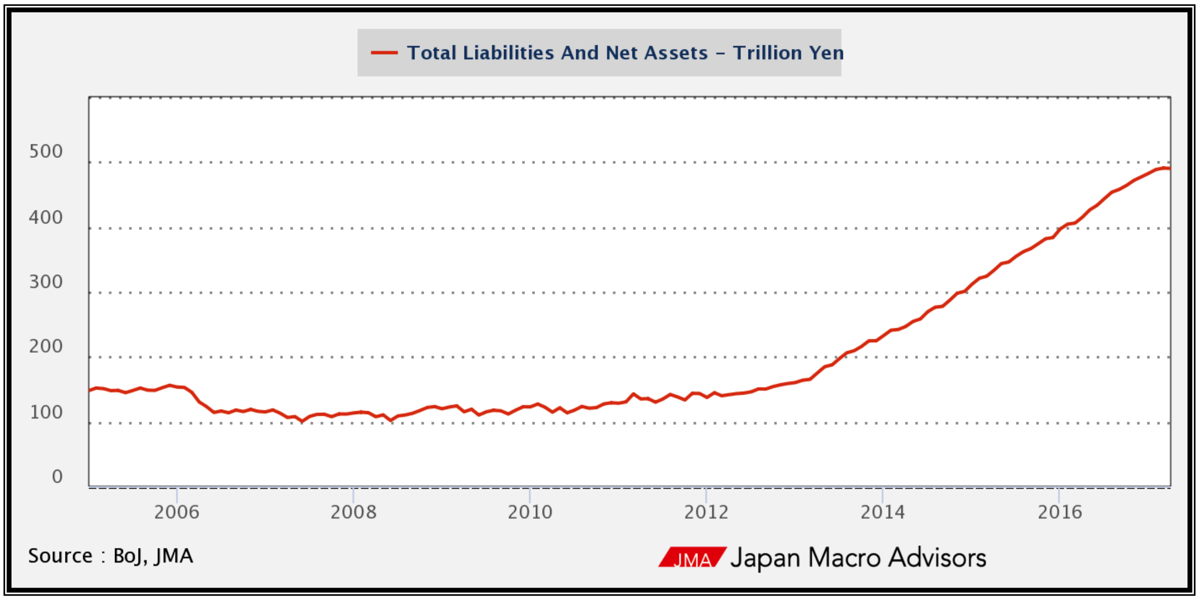
What should be obvious is the fact that in a little over 5 years the BOJ has printed $132 billion (¥13.2 Trillion) solely for the purpose of buying equity ETFs. What is further staggering is the fact that since 2015 they increased the holdings by a factor of 3.5x! We can't imagine the mark to market losses should the equity markets reach bear territory. Yeah Yeah we know central banks are the defacto Ponzi facilitator, but when a central bank puts real capital to work via purchasing equities, there is a willing and wealthy private seller on the other side of those transactions. No matter what and to simply dumb down this scenario, **what one man buys another man sells**. Many will refer to this as a zero sum game or as our favorite fictional character Gordon Gekko explains it to his young apprentice Bud Fox, when Bud makes the mistake of asking the question, **"How much is enough?"**

Gordon Replies, **"It's not a question of enough, pal. It's a zero sum game, somebody wins, somebody loses. Money itself isn't lost or made, it's simply transferred from one perception to another."** (Wall Street 1987)

With that in mind and thinking about that for about 1 long second, it should be no wonder why QE and any other type of fictitious non organic aggregate demand **does not increase inflation** and certainly does not increase the variance in the distribution of wealth. Rather it concentrates wealth at the far right of the distribution model tilted heavily toward the top 0.5%.

In fact QE in all its form is a stealth bailout for those at the very top of the monetary distribution chain. First and foremost the central bank owners themselves and so on and so forth down the line from the 0.1% and on, in a highly disproportionate distribution. It's fairly simply this explanation but central bankers like to completely hid the truth via fancy esoteric Greek symbol filled equations, which look great in white papers, but are mere PHD economic art designed to implement theory utilizing many chaotic and non-static dynamics in order to explain complex chaos in a nice uniform pattern.

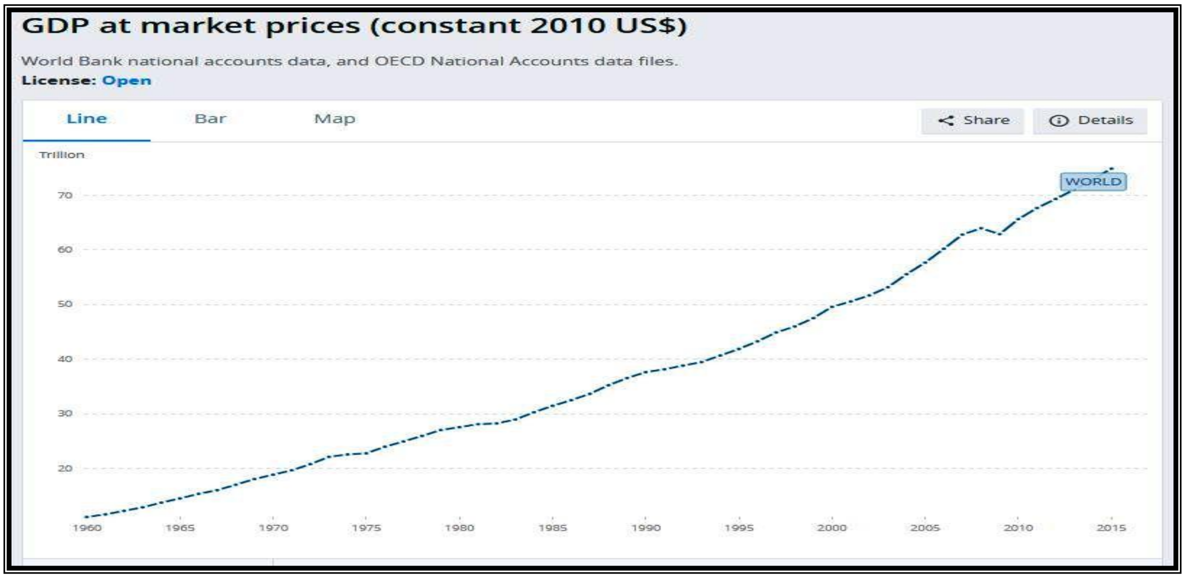
We would rather just refer to it as theory and as investors and managers, we can't fall back on theory when we have real capital at risk, academics on the other hand, have zero repercussions. Nassim Taleb does a great job in criticizing this stuff as well, but I won't go as far as using his IYI (intellectual yet idiot) acronym. We aren't that harsh, in fact we like any intellectual effort as long as it's genuine, but we have zero tolerance for academic prowess via intellectual bullying. Rather we would like to put practicality before complexity and find simpler solutions to our worlds set of problems, Occam's Razor for all you academics if you will. Anyway let's not get off track here, the next chart shows the BOJ's liabilities:



The BOJ liabilities have grown by over 3x in 4 years, yet all this printing all this asset buying, all this new debt has done nothing to dig Japan out of its deflationary spiral. What it does do is it allows for all the problems of real economics, malfeasance in capital investment, misallocation of resources and an ever increasing exponential debt load.

With all of this in mind and considering the fact that in order for GDP to stay on its linear up trend, considering hard money is no longer in existence in terms of central banking, one thing is clear, **QE and low interest rates are here to stay**. The central banks can bluff and bluff all they want, the truth of the matter is, global central bank coordination exists to simply keep the game going and in their eyes, debt does not matter, for what accumulates will simply be rolled month after month quarter after quarter and never at any costs be retired or paid down.

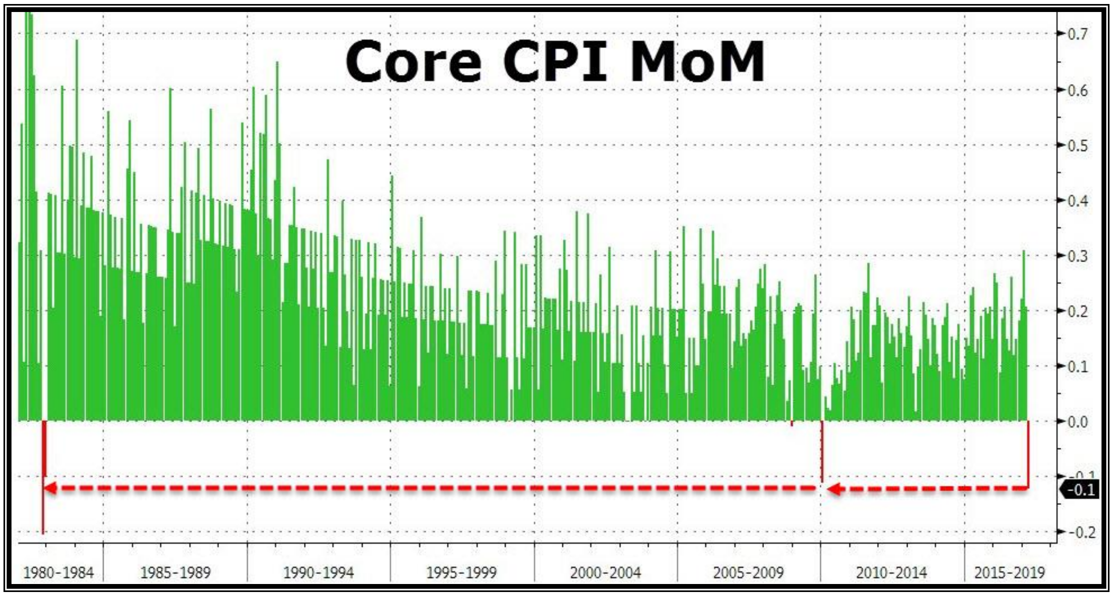
Look at this chart of Global GDP sitting at nearly $75 Trillion from the World Bank:



You see that tiny little $1 Trillion blip in 2008 that was the so called "end of the world as we know it!" Well that was some $12 Trillion ago and all but forgotten. This chart is linear for one reason and one reason only, **the constant printing of more and more debt**. Debt and money are the same, well in a central bank controlled fiat world that is.

Can things change, can blockchain technology disrupt this regime? Sure, but one thing is clear, real rates of interest cannot rise and QE can never truly be retired. Central banks can talk and talk and can raise tiny 25 basis points here and there, but there is a hard line in the sand. Where that line falls is anyone's guess, but considering the real goal of central banking and its status quo keeping policies, we find it very hard to believe that they would raise rates or remove QE to any real degree. Removing these artificial monetary growth policies is impossible when trying to keep asset prices inflated. Printing money to pay for things doesn't work for the commoner, it's illegal, but at the central bank level it's by far the most effective tool of choice and we all know once you get a taste of something so good, our addictive personalities will be hard pressed to let it go.

For now the central banks may think they have control, but it's built on swampy fragile soil. Time and history are not on their side. Digital monetary printing or QE has not worked, will not work and it's why Japan has been in perpetual deflation. Look no further than today's well under performance of the Core CPI. This chart should certainly worry the central banks especially the FED:



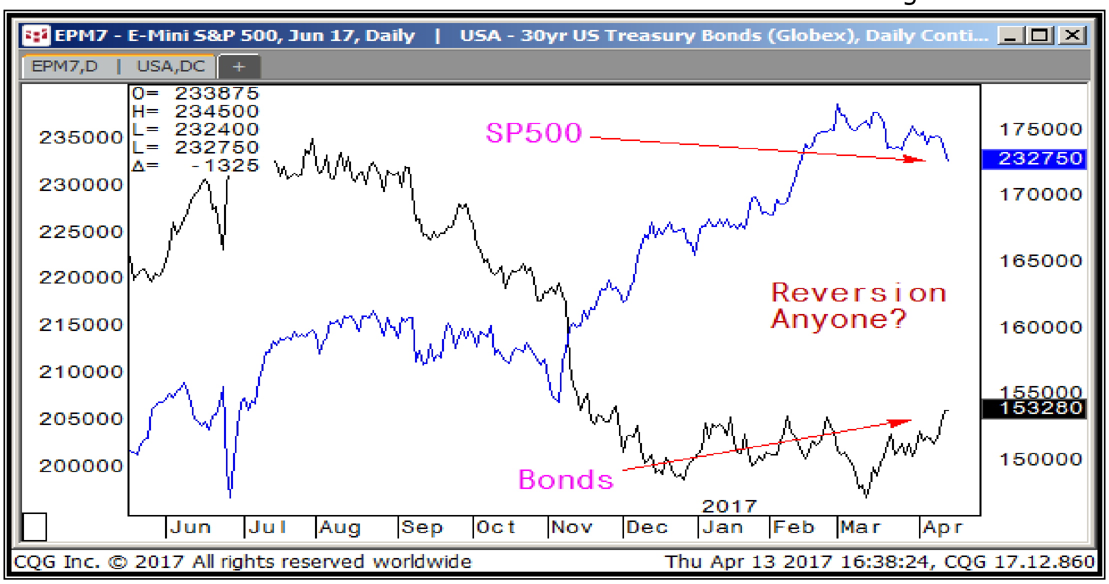
We aren't sure what the catalyst will be that may change this current and ongoing program, but it's only a matter of time, not what, that we are concerned with. Regulatory, geopolitical, military, you name it and it’s a probable game changer. Considering all the heightened tensions lately, we can only sense that the situations are growing more tense and that major disruptions are on the way. The tensions are too high and the complacency is rampant. Yet the financial markets continue to act oblivious. It can partly be blamed on all the AI that runs rampant in controlling instantaneous investment decisions. Their inherent design is to remove human emotions from their decision making processes. That is great in theory but once again, sometimes panic is the defense mechanism that saves one from losing just about everything, maybe even their life and when systems are inherently designed for passive continuation of patterns and recognition of such, well we can't help but worry a little bit about looking at the markets through these new found AI lenses.

Machines don't have regret, machines don't possess feelings of remorse, machines do not care about their well-being after the fact. We believe an increasing dependency upon machines is leading not only the entire human race toward a very uncertain future, but the financial markets are falling victim to this as well. Yeah yeah, every generation comes with new inventions that scares people that makes them afraid of change, we fully understand that. However we feel AI is something completely different, for one very specific fact, **it's designed to remove any human element what so ever**. Somehow we think it's very naïve and unnatural to put ones complete trust in someone else's design. No matter what, an AI's intelligence is reliant on initial human computation and input, and even if it wasn't we believe nature always inserts and imprints its own signature and changes things in ways that cannot be calculated. That's just us, but you put your own trust in what you feel is best, we would rather have some say so in our fate.

With all this in mind and considering the fact that Trump has indeed left his populist ways for a more of the same type political drone like candidate, we can't help but think diplomacy is going to fail and action will prevail. The narratives have been too strong not to resolve without some major lines being drawn. We suspect the usual propaganda and war drums to be beat very hard here and someone will be forced to put up or shut up. American media will continue to paint the picture as if the US has to be the world's peacekeeper and that the usual axis of evil is once again trying to provoke America. As last week's letter exposed we aren't sold on the idea that the American populace is into this perpetual foreign intervention. War comes at a price and that price is not only in mega monetary waste, but in human pain and suffering. We thought with this new president things would be different, but it’s taking on a very different tone and one we would rather not see.

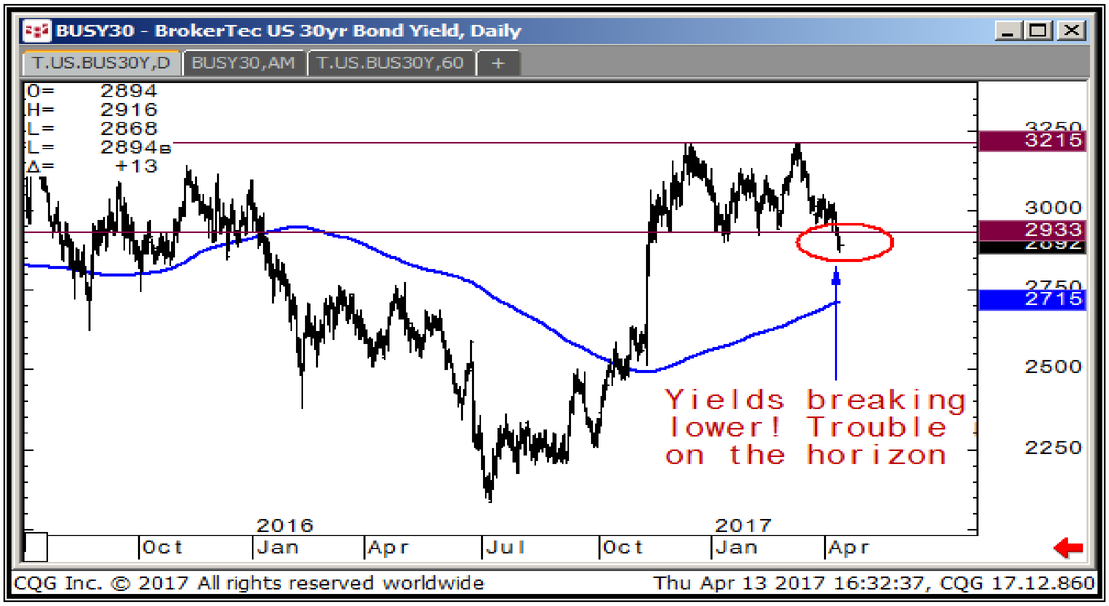
Anyhow all of this comes at a time where by markets have somewhat stagnated or have begun to turn from their respective trends. **We know calling tops in equity markets is the mother of all widow trades** and one look at that global GDP chart can explain that, but somehow, military action trumps all when it comes to financial intervention, including that of any central bank. Why? Because conflict is obvious and it scares people and all though AI tries to remove emotion, there are many investors and managers who still humanly possess control of their actions. So let's look at a few charts to explain ourselves shall we.

One of our favorite charts is the SP500 US 30YR Bond future analog chart:



Who wants to be long bonds and short stocks? Precisely! But as Buffett always said, "Sell when others are buying and buy when others are selling!"

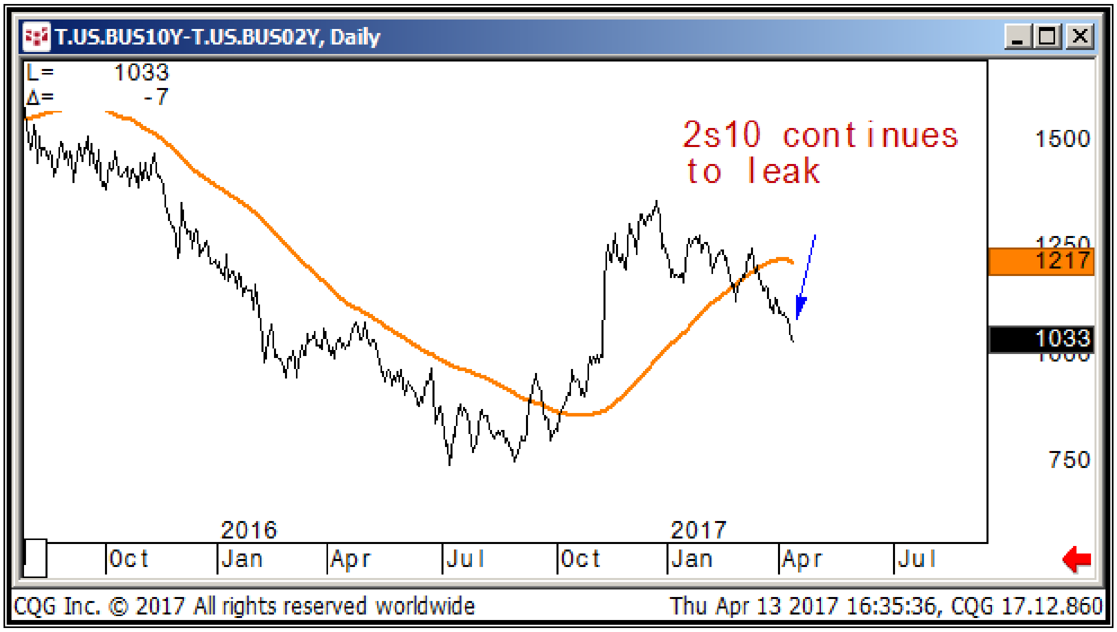
Sticking with the US 30YR Treasury, here is the yield chart:



When yields fall and the short rate (Libor) rises this compresses carry and lessens the free arbitrage profits for the banks and they won't like that very much!

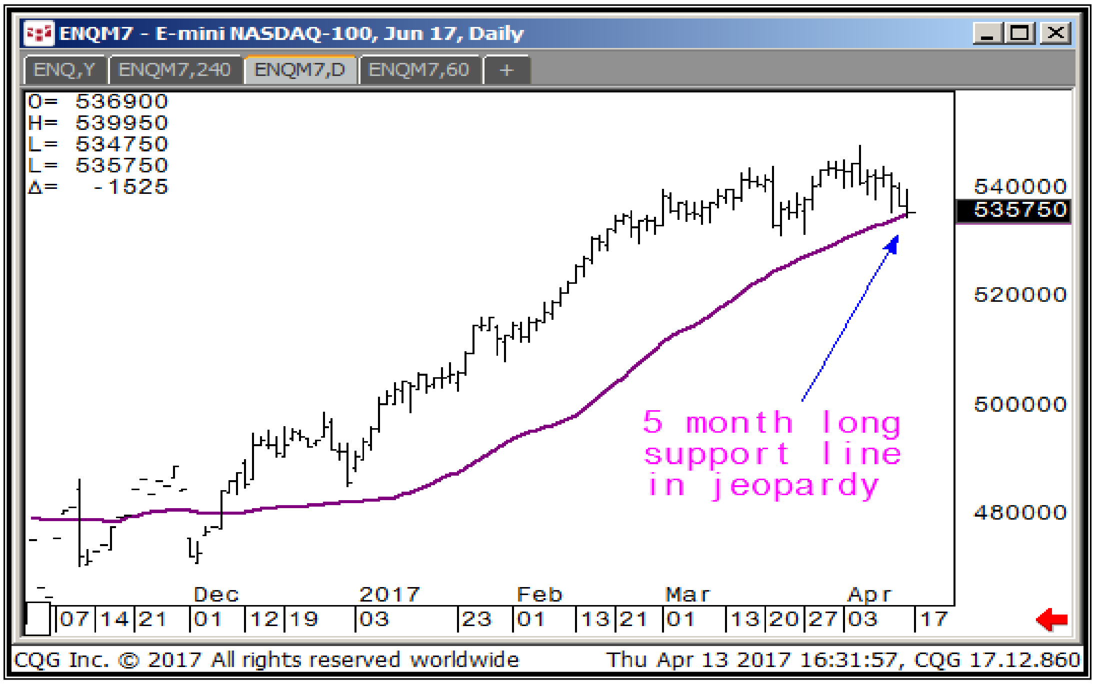
Last week saw someone hammer the 10s30 NOB spread, but this week a slow and steady grind reversed that course and saw the NOB back at new highs (Steeper)

The 2s10 US Treasury curve continues to flatten, which is consistent with 10yr strength:



The SP500 chart paints a perfect picture of a trader/investor dilemma, one that can only be answered by the individual, do you see value or do you see risk?

The Nasdaq market continues to turn over and now rests at major support:



The Crude market seems to be supported by the ongoing Middle East conflicts, which we feel is enough to keep the short term down trend sideways for now:

Gold and Silver continue to have a good year as both charts look constructive as they break out of their respective channels:

In conclusion, we know the buy the dip mentality is firmly ingrained and nobody is expecting anything to transpire, but we feel the writing is on the wall. Our job is to inform you of our concurrent viewpoints in hopes that you make your own cognizant decisions. This is also why, we will decidedly end all our notes with our reaffirmation of the growing need for alternative strategies. We would like to think that our alternative view on markets is consistent with our preference for alternative risk and alpha driven strategies. Alternatives offer the investor a unique opportunity at non correlated returns and overall risk diversification. We believe combining traditional strategies with an alternative solution gives an investor a well-rounded approach to managing their long term portfolio. With the growing concentration of risk involved in passive index funds, with newly created artificial intelligence led investing and overall market illiquidity in times of market stress, alternatives can offset some of these risks.

It is our goal to keep you abreast of all the growing market risks as well as keep you aligned with potential alternative strategies to combat such risks. We hope you stay the course with us, ask more questions and become accustomed to looking at the markets from the same scope we do. Feel free to point out any inconsistencies, any questions that relate to the topics we talk about or even suggest certain markets that you may want more color upon.

Please find the weekly settles for Thursday April 13th.

13-Apr		Weekly	Weekly	YTD
Instrument	Price/Yield	Net Change	% Change	Change
US 30yr Govt	2.88%	-12 bp	4.0%	5.6%
US 10yr Govt	2.23%	-14 bp	5.9%	8.4%
US 5yr Govt	1.76%	-15 bp	7.9%	8.7%
JUN Bond	154-00	2'16	0.4%	3.6%
JUN Ten Yr	126-02+	1'08+	0.2%	1.9%
JUN Five Yr	118-20	0'26	0.1%	1.1%
JUN SP500	2327.5	(24.75)	-1.1%	4.2%
JUN DOW	20414	(185.00)	-0.9%	3.8%
JUN Nasdaq	5359	(62.25)	-1.1%	10.1%
JUN Nikkei	18405	(435.00)	-2.3%	-3.1%
JUN Dax	12129	(116.00)	-0.9%	5.5%
Shanghai Comp	3275.96	(10.66)	-0.3%	5.6%
MAY WTI Crude	$53.18	0.94	1.8%	-3.5%
JUN Gold	$1,288.50	31.20	2.5%	11.6%
MAY Silver	$18.51	0.36	2.0%	15.3%
JUN Dollar Index	$100.46	(0.66)	-0.7%	-1.8%
JUN EURO	106.54	0.30	0.3%	0.8%
JUN YEN	91.900	1.69	1.9%	6.9%
Bitcoin (BTC)	1,186.91	0.33	0.0%	24.5%

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Capital Trading Group, LLLP ("CTG") is an investment firm that believes safety and trust are the two most sought after attributes among investors and money managers alike. For over 30 years we have built our business and reputation in efforts to mitigate risk through diversification. We forge long-term relationships with both investors and money managers otherwise known as Commodity Trading Advisors (CTAs).

We are a firm with an important distinction: It is our belief that building strong relationships require more than offering a well-rounded set of investment vehicles; a first-hand understanding of the instruments and the organization behind those instruments is needed as well.
