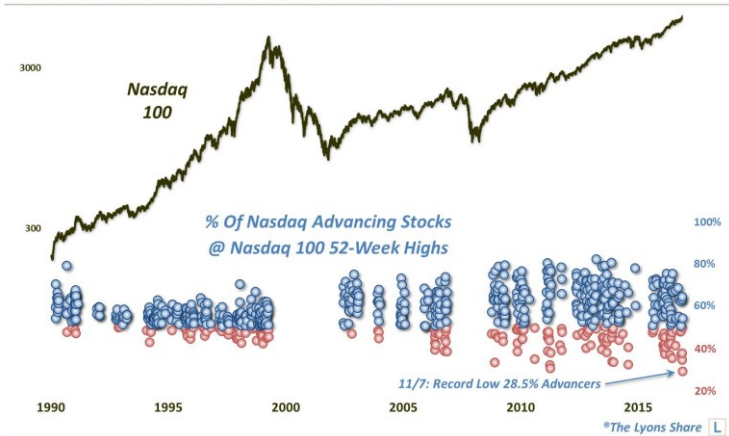


Under the Covers

As we witness the market go up up and away, we are paying a lot of attention to what is by fewer and fewer stocks over time, the institutions can sell their shares to the individuals almost on a stealth basis.

This isn't something Wall Street would ever publish, but is something everyone who has any money in markets or funds should know and know well. The chart below from our friend Dana Lyons shows just how extreme this is. Note the all time low relative difference between the overall Nasdaq and equal weighted Nasdaq. This shows in a graphic what I've been writing.

Nasdaq 100: Thinnest 52-Week High On Record



Think about this in terms of logic and the laws of large numbers. If markets continue to advance, but the number of stocks advancing is getting smaller and smaller, then the advance is thinner and thinner. We don't see this in the market indexes because they're cap weighted, which means the biggest stocks have an outsized weight on the calculation of the index level, distorting the reality of what is happening with the markets below the surface.

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4. \$ Quiz; Portugal's Bonds; Cryptocurrencies
5. Inspirational Quotes; Kids Korner

National Trends

There are a number of trends that have been going on for some time that seem to be reversing in parts of the country. Many have been big fans of these trends while others have been huge opponents. Let's explore this in some detail to see if this is the beginning of a larger move in a totally different direction as a country or if this is just a blip on the screen with the trends to resume shortly.

Chicago has recently repealed a tax on Soda that will make it a much more Soda friendly city. New York tried a few years ago to tax large Soda drinks and failed. Have we reached the end of punishing soda manufacturers via taxation and regulation? Soda clearly isn't a great beverage option but there are far worse ones, the energy drinks are downright dangerous but I would think they will see no reprieve. Cigarettes are not off the naughty list, they continue to get taxed and targeted on every level and this is something I don't see ending. Cigarettes are taxed so much today it is essentially a very effective tax on the poor, who are the largest consumers of the product.

St. Louis has reversed its minimum wage law down to \$7.70 per hour from \$10.00 per hour where it was briefly increased. The argument is that the increase will kill jobs. The University of Washington has recently conducted a study of how Seattle's minimum wage increases have impacted jobs and the costs outweigh the benefits 3:1. This doesn't appear to matter because the trend is that the minimum wage is going up all over, the actual economic impact of such a decision simply doesn't play into the equation for most bodies in charge of such decisions. Common sense folks, common sense!

Some states now allow people to carry guns in Churches and Schools. This is a big controversy today as everyone is hot about this topic. We have the epitome of an emotional conversation brewing on this topic. Many want to limit guns, some want a complete confiscation and others want to remove any restrictions on the 2nd amendment altogether. Chicago has a complete gun ban, so only the criminals and the police can have guns there, that doesn't appear to be working out too well. We'll see how this drama plays out, more and more nut cases are shooting people in public spaces. They now drive over people and do other crazy things to harm others, it may not be the tool but the societal standard and expectation that is the true issue here. It's hard to try and wrap my head around why one would want to harm another, we're all put here to help one another, not slaughter each other. The world is a better place when we work together and lift everyone up, not tear them down.

Continued on page 3, National Trends

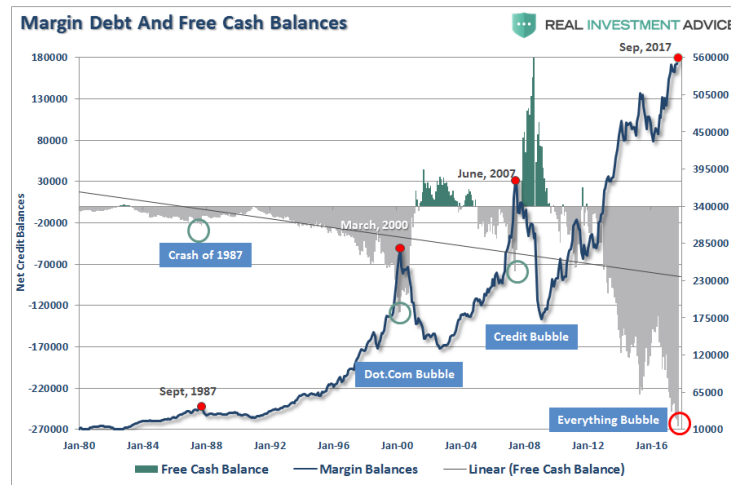
We've seen this many times before, but this is by far the slowest unfolding of the process that we've ever seen. While this is going on we're also seeing a giant sector rotational grind meaning money is moving from one sector to another sector and no real new money is coming into the system, the existing money is sloshing around very quickly. It's just a matter of time that things will come down unless a lot of new money suddenly comes piling into the markets. I don't know there is any money left as we've explained in another article, the borrowing is at highs in almost every category so where would this new money come from? Some argue that if the government prints more money there it is, and that's a possibility we cannot ignore. Even though it appears that the bulk of governments are trying to slow, stop or reverse their money printing ways we'll see how that unfolds.



The graphic above shows us the relationship between the Nasdaq 100 index, which is just an index and nothing we can invest in, against the number of stocks above their 200 day moving average. Note that this entire year we've seen the number of stocks below the average continue to accelerate while the overall market has risen. This is a 10 year chart and we have only seen this action a few times before, most notably in 2007 – 2008 and 2015 – 2016.

This can go on for some time, none of us know when it ends, but we do know it ends and the longer it goes on and the further it deviates from the norm the more drastic the snap back will be when it all comes to be. When we have this happen the great news is that the stocks that have already been battered and beaten to death are the beneficiaries when money flows out of the high flying names. The money has to go somewhere and most institutions have a mandate where they're always invested no matter what market conditions dictate. I never understood this concept of always being fully invested that many push today but it's a great thing as we can profit handsomely from as we know what has to happen, we just need to beat the large institutions to the places to be when prices are attractive so they move prices and we benefit from those movements. Metals, staples, retail and energy are attractive at current levels, we're just waiting and watching.

The concept is fantastic, let's just borrow enough money so we can do anything we've wanted to for our entire lifetime and we don't have to even consider paying back the loans we've accrued. The more we borrow, the lower the rates go so we can double our debt and our monthly payment will go down. Sounds too good to be true? It probably is, in fact it definitely is and this is a panacea situation we'd all love to have if we could make it happen. We cannot, at least not legally but governments can. They can borrow money and keep borrowing money and then have the central bank of that very same government manipulate the rates to keep going down, even to negative levels we've explored in the Portuguese article in this very newsletter.



This action today isn't true only of governments across the world but of people and institutions too. The graphic above shows us debt levels investors are using to pursue stock purchases. This is margin debt, when investors borrow from their broker to buy stocks and it's never been higher than it is right now. Conceptually it's lunacy, let's borrow money to buy stocks when they're at all time highs? I'm of the thinking I'll borrow to buy stocks when they're at all time lows or near all time lows, not now. The last 2 times we saw this action were in 1999 and 2007 and we all know how those episodes ended. This will be no different, but the cast of characters is different and the plot has a slightly different twist, but at the end of the day we're doing too much borrowing and too little producing relative to the borrowing. Prices are high because money is cheap and that's simply unsustainable. Look at the cost of cars and college, both areas where you can get credit even if you don't deserve it, just like housing in 2005 – 2008.

We don't seem to learn too well, for being the supposedly smartest creature on the planet why do we keep repeating the same mistakes of our past? I don't get that at all, for me it only takes one bad experience and I'll never do it again, whatever it may be.

Noteworthy News!!!

- Congratulations to Kim Murtaugh on her new job as a Principal in the Wolcott school district! 😊
- Our condolences to the Patrick family on the passing of Ann, a wonderful woman, wife, mother, aunt, sister, grandmother and great grandmother.
- Congratulations to the Blakeslee family on the birth of baby Ian! He joins big brother Nathan to make it a very busy household! 😊
- Congratulations to Dan LaMesa on the start of his new business, Down to Earth Consulting, LLC. What a perfect name for a Geotechnical Engineering firm! 😊

Question & Answer

Ask any financial question you have and we'll address it here.

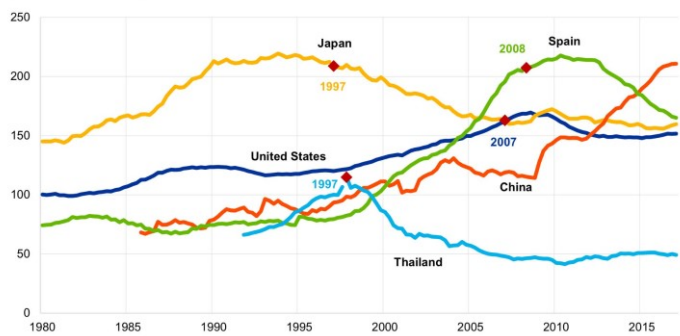
Q: What is the debt status of most countries today and over the past decade?

Great question, and a surprising answer. Most countries are far more in debt today than they were ten years ago, sadly including America. Global acceptance of fiscal folly has gripped the world like we haven't seen since the 1920's and people are in full debt mode. The graphic below shows us where some of the major developed countries are in terms of the levels of credit to GDP. Note the GDP of most countries has risen considerably from the 2007 levels so if the debt ratio is higher today than it was in 2007 that is truly a scary sign as it's a relative comparison. If GDP is higher, much higher in some cases and debt is higher ratio wise then the ultimate debt level is exponentially higher for many countries.

A few things that stick out is China, the notion that China owns America is wrong on every level and their debt trajectory is simply unsustainable. Note the Spanish are doing a very nice job of lowering debt levels and the Asian nation of Thailand is also doing the same, and has been for 20 years. We need to start to follow that path.

Credit-to-GDP ratios in selected countries

(as a percentage of GDP)



Source: Bank for International Settlements.

Notes: Credit to private non-financial sectors at market value as a percentage of GDP. The red diamonds indicate years of crises according to Laeven, L. and Valencia, F., "Systemic Banking Crises Database: An Update", IMF Working Paper No 12/163, 2013.

Americans are unplugging their TV sets from cable and satellite TV companies at the highest rates on record. They're choosing to go with the old fashioned antenna, the online entertainment options such as Netflix, Roku, Firestick etc. as an alternative to subscription TV packages that cost as much as a cheap car.

Cell phones are losing their subsidies. Up until recently the cell phone company paid the cell phone manufacturer the lump sum price for the phone and the consumer was locked into a contract to subsidize that payment. Now the carriers have smarted up and the consumer now pays the up front money for the phone, yet the price of the service is still about the same. This is causing people to flee the name brand carriers such as AT&T and Verizon for other carriers who are less well known but have service that is presumably equal on many levels to the big boys. The question is how long will people continue to pay 600-1k for a phone and continue to upgrade that phone every few years. The incentive to upgrade is now gone, the upgrade came from the old method when the phone was paid off by carrier to the cell phone manufacturer. Has the industry simply pushed forward sales a year or two to then lose it down the road? It appears that way, but we'll see how it plays out.

People are wearing thin on political correctness. Brexit has happened and is underway, our elections have surprisingly spoken, people are moving toward things that resonate with them and they're done with everything is okay and there are no standards. It's high time to call a spade a spade and not endlessly worry about what may or may not be offensive to someone or some portion of people. The millennials need to thicken their skin and suck it up a bit as we all did as we entered adulthood. We all should be kind and cordial to one another of course, but the degree to which it has gone is indeed overboard and is no longer about right and wrong but is now a political tool of attack.

Things should work for the greater good, not for one individual or a small pocket of people but for the majority of those impacted and involved. We're seeing this on many levels and the battle for small groups continues but is losing steam. The largest battle on this front is unions, especially public sector unions who have been so strong for so long they're now strangling the public pocket book. This is so acute the supposedly ultra liberal places that have historically been so union friendly are now beginning to move towards the center. We're seeing it all over Europe and domestically even in Connecticut the tide is shifting. Public sector unions on average account for 1-2% of the public at large and that is certainly a minority who have been chosen up until now. I don't see the class suddenly being down and out of jobs, but the benevolence of the public dollar has likely seen its most extreme times and now the pendulum begins to swing towards fiscal sanity and stability for the greater good.

We still await common sense changes being demanded by the public from the political class. They've passed so many laws they're exempt from and they're the bulk of the problems we face as a nation and globe.

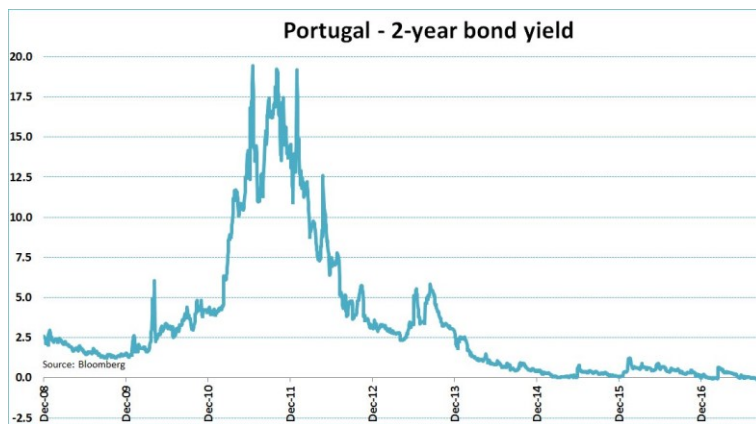
Money Quiz



This month's challenge is on standards of living. In America we enjoy the best standard of living for a large economy. China is now the 2nd largest economy on the planet. We have a GDP of \$61,687 per person, what is China's GDP per person? Last month's quiz was won by Bang Chang, 62% of people think now is a good time to buy a home! Wow, let's buy high folks! Winner goes to Ruby Tuesday on us! 11/13/17: 12

Portugal's Bonds!

Sadly the southern European block is still in fiscal trouble, real trouble despite the apparent calm of the world at this time. The chart below shows us the bond yields of Portugal over the past decade. Note today the yields are slightly negative, which means investors are paying to hold Portugal's bonds. This is a bit of insanity but since the markets keep pushing bond prices higher, the price is now so high that the yield is negative.



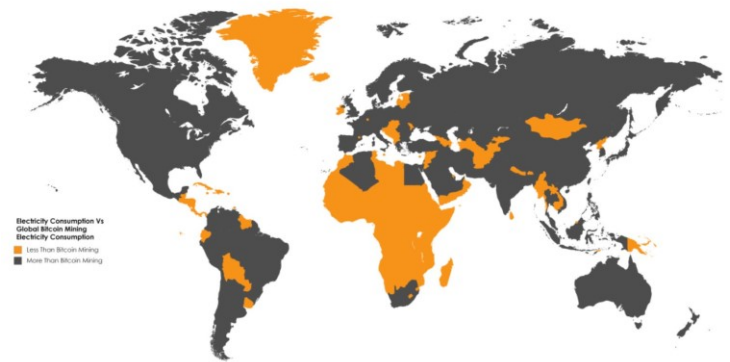
In 2011 we see that the yields on the very same bonds were almost 20%, meaning that the prices of the bonds fell to well below par value (typically 1000 per bond) and that pushes the effective yield way up. Now prices are well over par so the yield is pushed artificially low. Scary to think people are holding onto these and other bonds from other countries with just as bad of fiscal affairs and they're not getting paid. In fact, investors who hold these bonds to maturity, if no restructuring is done to the country between now and then, are guaranteed to lose money on bonds.

We see this daily, bonds being priced so high today it no longer makes sense to hold them, you'd be guaranteed to lose money.

The rage of the day isn't only in high tech and high flying stocks, it's in alternative currencies. The frenzy investors are in today is amazing on many levels. The party is intoxicating, however the hangover will be painful and extreme. We have bitcoin as the main cryptocurrency but there are dozens of them all along the lines of doing something that global governments cannot manipulate.

Something people don't talk much about is what happens to these blockchain currencies if a virus hits them? If power goes out? What about the green folks, nobody is talking much about how much power it really takes to "mine" these cryptocurrencies.

The graphic below shows just how much power it takes to make Bitcoin on a global basis.



Source: <https://powercompare.co.uk/bitcoin>

The map above shows which countries consume less electricity than the amount consumed by global bitcoin mining

Note how it truly is a power intensive operation to "mine" bitcoins. The graphic shows us that the orange countries consume less power as a nation than it takes to mine Bitcoin. I'm blown away the green folks are not talking about this, this is a really big deal in terms of how it negatively impacts the world in terms of pollution, etc. We're at a place in time where only some things in society are discussed. Not all topics are treated equally either, and I can only extrapolate that the privileged topics are in a bubble and exempt from valid talking points. Only time will tell, but in the interim, we should be cautious of how this unfolds.

Our position on the cryptocurrencies is that they have a very valid point, we need a global currency system that the leaders of governments and central banks the world across cannot manipulate for political purposes. We've been living in a world where for almost 10 years now the ruling powers of the world have been printing money to do what they want and not really dealing with reality or how they'll ever pay these debts they're creating. Is a digital currency the real answer? Perhaps, but we view the risks of such a tool as serious, the two most pertinent being a virus in systems of any or all of them or power connectivity disruptions make the worthless instantly. As this bubble gyrates and eventually pops, the true beneficiary of such a move will be the metals and other hard assets that politicians cannot manipulate. We're already there, just waiting patiently.

Inspirational Quotes

- If we see someone throwing money away, we call that person crazy. This bothers us, in part, because money has value. Wasting it seems nuts. And yet we see others and ourselves, throw away something far more valuable every day: Time, Shane Parrish
- Be kind, for everyone you meet is fighting a hard battle, Plato
- All that is gold does not glitter, not all those who wander are lost, Robert Frost
- You talk when you cease to be at peace with your thoughts, Kahil Gibran
- To live is the rarest thing in the world. Most people exist, that is all, Oscar Wilde
- Wanting to be someone else is the waste of the person that you are, Marilyn Monroe
- A wise man makes his own decision, but the an ignorant man follows the public opinion, Chinese Proverb



We can piece the puzzle together and make your money work for you!

Kids Korner

Anxiety and kids is nothing new, but are we seeing more of it in this generation than ever before? I think we may be, the same thing for depression and part of the problem may be screens, devices and communication skills.

The kids seem to spend more time on devices and communicating electronically than they do person to person as we all did when we were children. We didn't have a choice, cell phones didn't exist, and neither did the internet or any of today's most popular communications methods of the youth.

Reports show our kids are more fragile, less resilient and much more likely to be overwhelmed than their parents when growing up. I wonder is this a result of our babying this generation, making them all think they're winners at everything, handing out participation trophy's for showing up and then allowing the kids too much screen and device time? I cannot help to think these factors are attributing to the number, and they're scary. In 2015 3 million kids ages 12 – 17 had at least one major depressive episode. The kids are worried about their "likes" on social media and arguably don't have the communication and people skills to build the relationships we had with other kids at that age.

It's up to us as parents and grandparents to make sure our kids have the skills necessary to excel today. I'm a believer in little to no cell phone use at home and certainly not carrying around these devices on your person. Put it on the counter and use it only when traveling.

If anyone you love or care about would benefit from receiving our newsletter, tell us who they are and they will be included on our mailing list. They'll certainly appreciate you thinking about them and having their best interests at heart!

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