When Lightning Strikes Our Money November 7, 2016

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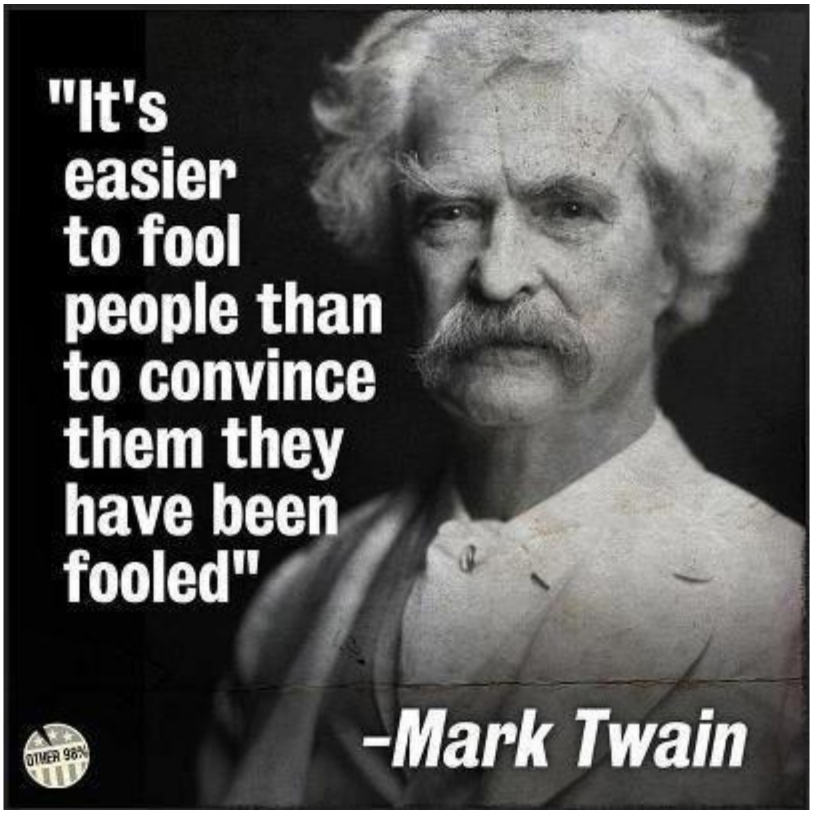

If Twain's comments were true about people in the 19th century, would we not expect them to be just as applicable to us in the 21st century?

On November 8th, Americans will vote for various races across the country, most of the focus being on the US Presidential race. No one living in the U.S. could have avoided the ongoing streams of stories surrounding this election unless living off the grid or in a cave. But with all the negative stories, have we yet seen any of it impact American equities in any meaningful way?

My focus in this article is not the election itself, but how world markets, particularly the most traded stock index in the world, the S&P 500, looks coming into Tuesday's event, what everyone would surely agree has been the most controversial election on record.

There are two charts because I was ready to go with the first chart and an article until Sunday night's power rally. This obsession with Wall Street and the central banks to give the public the illusion of "never decline" has gone parabolic, pushing risk levels ever higher with each "assisted" short squeeze to crush managers, traders, and investors even thinking about preparing for the decline of the largest financial bubble to date.

On Friday, the S&P 500 came down to its 200 day moving average of 2083, stopped, and closed at 2085. Judging from how many times the S&P 500 bounced from this line before the August 2015 crash, a decline where the Dow lost over 2,000 points in four days, it was obvious that the powers might seek to bounce stocks from this line again. What was a surprise, was all of the energy spent *before* the elections.

To make certain we are clear why the electronic casino continues to move the public further and further away from the reality of ever growing risk to their money and financial capital, I pulled two charts from an article I released on Aug 21 '15, [The Stock Nirvana is Broken](#).

When markets finally broke down on August 20, 2015 and the S&P 500 went on to produce its 10% decline in 4 days, the feeling *going into* August 19th was "'they' will not let US stocks fall". From the opening of 2012 until August 19th the day before the S&P 500 broke hard through its 200 day moving average, stocks had only close 2% of the time below this line. That's right, in 909 trading days this line had given millions of investors the false illusion that "'they' have my back".

Then on August 20th, the line in the sand overnight switched the computers from "buy" to "sell". The crowd without a sell or hedging strategy had nothing to do but hope the next central bankers' strategy would bring them back to Dow 18,000 (S&P 500 at 2100) again.

We know what has happened twice since then to bring the Dow back to the 18k level. Anyone looking at a price chart of the last 23 months can see very clearly that this is a critical level for the political side of the money game. If we are going to keep the public as uninformed about the ever rising levels of risk from trillions in QE, the Dow must be artificially played to stay at or above this level.

Now to Sunday night.

Dow futures opened up almost 200 points, yet the outcome of the election would not be known for two more days. What "good news" powered this excitement? The only obvious story that seemed to fit the happy juice short squeeze power rally narrative, was the one below.

[Stocks, Dollar Jump After FBI Says It Won't Charge Clinton](), WSJ, Nov 7

[Hillary Cleared As FBI Folds Again: Comey Says "No New Conclusions" After Clinton Email Review](), Zero Hedge, Nov 7

But in training the public at large that a line in the sand kicks off power rallies, and declines take weeks and weeks to occur, we have totally distorted the history of markets where rallies took longer than declines. Remember this?

By Wednesday, we will know who won the election. However, we already knew before today's power rally, that Friday's close in the Dow at 17,888 was the 506th day since it reached 17,991 on December 5, 2014 for the first time. Sure in 2015 the Dow managed to reached 18,351 in May. Sure in 2016 the Dow's current high in August was 18,668. But this took over $3.5 trillion in QE pouring into global markets that as of November 2016 has not seen China's Hang Seng, Japan's Nikkei, and Germany's DAX anywhere close to their 2015 highs.

So we continue watching week by week, as five weeks after November 9th the Federal Reserve has market participant's seeing rate hike odds now at 70% in December, the second rate hike since going to zero in December 2008.

Fed expected to Tee Up December Interest Rate Hike, MarketWatch, Nov 2 '16

We saw what happened in January after the December 2015 rate hike.

Shouldn't Wall Street and central bankers be trying to inform the public about all the risk that continues to build month after month because of these games to keep US stocks at a certain level, or as see last Friday, at levels seen 23 months ago?

At the speed of November 7th stock rally, it is clear that a lot of traders were in place hedging for a fat tail event that has been talked about repeatedly for weeks now. If Clinton wins, most commentary I have seen thinks stocks will stay the same or move a few percentage points higher. It Trump wins, it would be like the Brexit vote only creating an even sharper drop, impacting everything from stocks to bonds to currencies to gold.

As we wait for the outcome of the vote and to see who will be the next President of the United States, one thing is for certain. As soon as this bubble breaks, like all before it in history, we will have an explanation for the event that "popped" the bubble.

Could geopolitical risk be one of the factors that finally impacts capital market prices?

These are headlines a month ago.

US To Suspend Diplomatic Talks with Russia Over Syria, Chicago Tribune, 10/3/16

Russia Moves Nuclear-Capable Missile System Toward Polish Border, WSJ, 10/6/16

These were headlines over the weekend.

CIA Reportedly Preparing Major Cyber Assault Against Russia in Wake of Hack Attacks, Fox News, Oct 15 '16

U.S. Govt. Hackers Ready to Hit Back If Russia Tries To Disrupt Election, NBC News, Nov 4 '16

Russia Demands Washington Explain After Reports Say US Military Hacked into Russian Networks, RT, Nov 6 '16

The bursting of financial bubbles creates opportunities, as seen in the movie The Big Short. Watching central bankers pour trillions worldwide into asset purchases for 8 years now as produced some powerful market "electricity". Like lightning, electricity when harnessed, can be a powerful resource and provide opportunity. When not used correctly, it can become very dangerous. This is why anyone seeking to navigate and grow assets on the downside of financial bubbles, must be willing to change tools and respect what has been a part of market history for centuries.

Maybe Mark Twain had something we should all consider in a period driven by image more than substance.

When The "Nirvana Line" Breaks, What is Your Plan?

Whether you are a professional trader, investment adviser, or retail investor, we are all living through the same period in market history. After 8 years of the largest intervention by central bankers ever, we are all moving toward the most tumultuous markets seen yet. Frankly, the markets have a great deal of catching up to do with the geopolitical and economic trends that are ahead of them.

To access my observations across markets on Tuesday and the months ahead, click here to start a six month subscription to The Investor's Mind and *ongoing* trading reports.

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