

My Big Picture 2nd Quarter, 2021

Presented by

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VAN THARP INSTITUTE

Macro-Economics

- Secular (long-term) Bull Market in US stocks.
- Huge Debt and the Implications for Interest Rates. (US is bankrupt according to Fed Reserve study).
- Huge printing press operations because of COVID-19 and Biden Infrastructure plans. Fuel inflation and the bull market.
- Fiat Currency and the Federal Reserve can print money at will. Similar for most countries.

Macro-Economics

- The US Dollar is weak on a historical basis but remains the world's primary reserve currency.
- Central banks are in a competitive devaluation war.
- Gold is in a Bear Market, perhaps weakened by BTC.
- Blockchain technology exists and represents perhaps the opportunity of a lifetime.

Macro-Economics

- Bitcoin, although small by market cap, may have widespread and major implications. There are now over 10,000 different cryptocurrencies. Less than a year ago, the number of cryptos was at 2,000.
- Most new startup companies now incorporate some artificial intelligence in their offerings or operations.
- Cyberterrorism is the most likely form of war in the future and it's big now, especially ransomware crimes.

Other Major Trends

- The world population has tripled in the last 70 years (and increased from 2 billion in 1927 to 2.5 billion by 1951 despite WWI and WWII). In my lifetime, it has gone up from 2.5 billion to 7.8 billion.
- The Earth is currently undergoing its 6th mass extinction of species, the Anthropocene period.
- We are currently in a pandemic period with only a few of the richest countries seeing the light at the end of the tunnel.

Other Major Trends

- Global warming could cause the oceans to rise 25-50 feet within the next 30-50 years, putting many major cities under water. Biggest areas of concern in US are Mississippi river delta, Chesapeake Bay area, and Florida. Miami can only keep up with flood control for perhaps 10 more years.

Deflationary Forces

- Technology causes a loss of jobs and drag on income growth.
- Manufacturing jobs are being automated and exported to China.
- Service jobs are being exported to India and elsewhere.
- Bankruptcies and unemployment produce wage concessions (job recovery is manipulated).
- Competitive devaluation of currencies.

Deflationary Forces

- If the Fed continues low interest rates and ignores debt levels, we could become very similar to Japan since 1995.
- Disappearance of much of the world's wealth in the Global Financial Crisis, 2007-2009.
- The rise in the US stock markets since early 2009 has lacked of retail volume and has been due to stimulation money flowing into the markets.
- The average person is afraid to be in the market.
- Wall Street Bets and Robinhood shape what the small investor does and most of it is really stupid.

Inflationary Forces

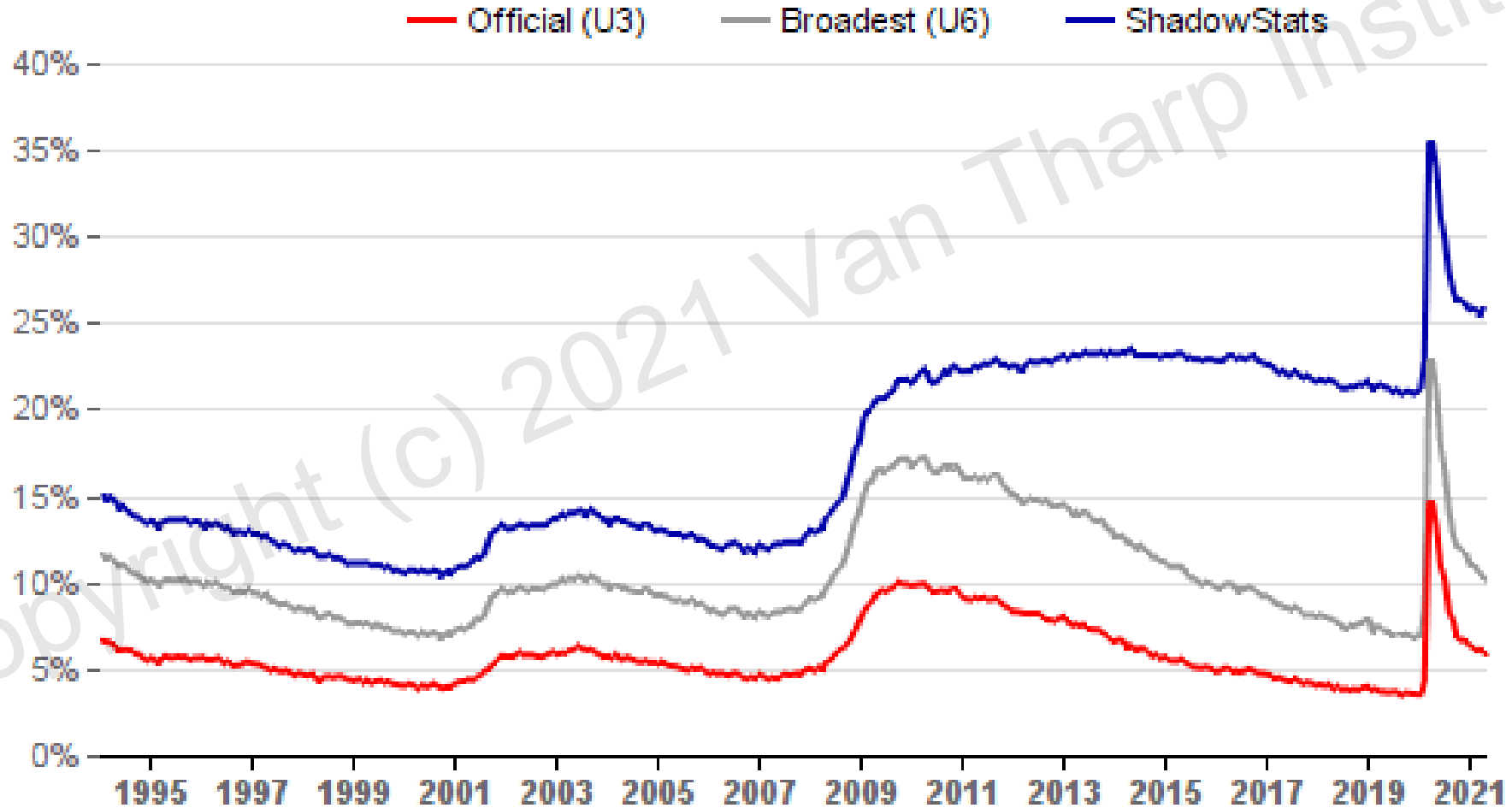
- The Federal Reserve has printed unprecedented amounts of money (QE), owns trillions in debt and continues to buy it. Many Central Banks have QE programs. There's also unprecedented new amounts of debt coming in 2021 and 2022.
- The U.S. is a debtor nation and as a result cannot afford deflation. (The government wants inflation).
- CPI was changed so as not to reflect real inflation and thus the US GDP figures are also off. (US in recession since 2000).

Inflationary Forces

- Regulatory “Inflation” by the Obama Administration
 - Affordable Care Act
 - Dodd Frank
 - Expiration of Bush Tax Cuts
- Trump’s tax cuts had major implications which are difficult to measure. Tax cuts usually cause companies to collapse as the new rules kill off their business.

Unemployment Rate

Unemployment Rate - Official (U-3 & U-6) vs ShadowStats Alternate
Monthly SA. Through May 2021 (ShadowStats, BLS)

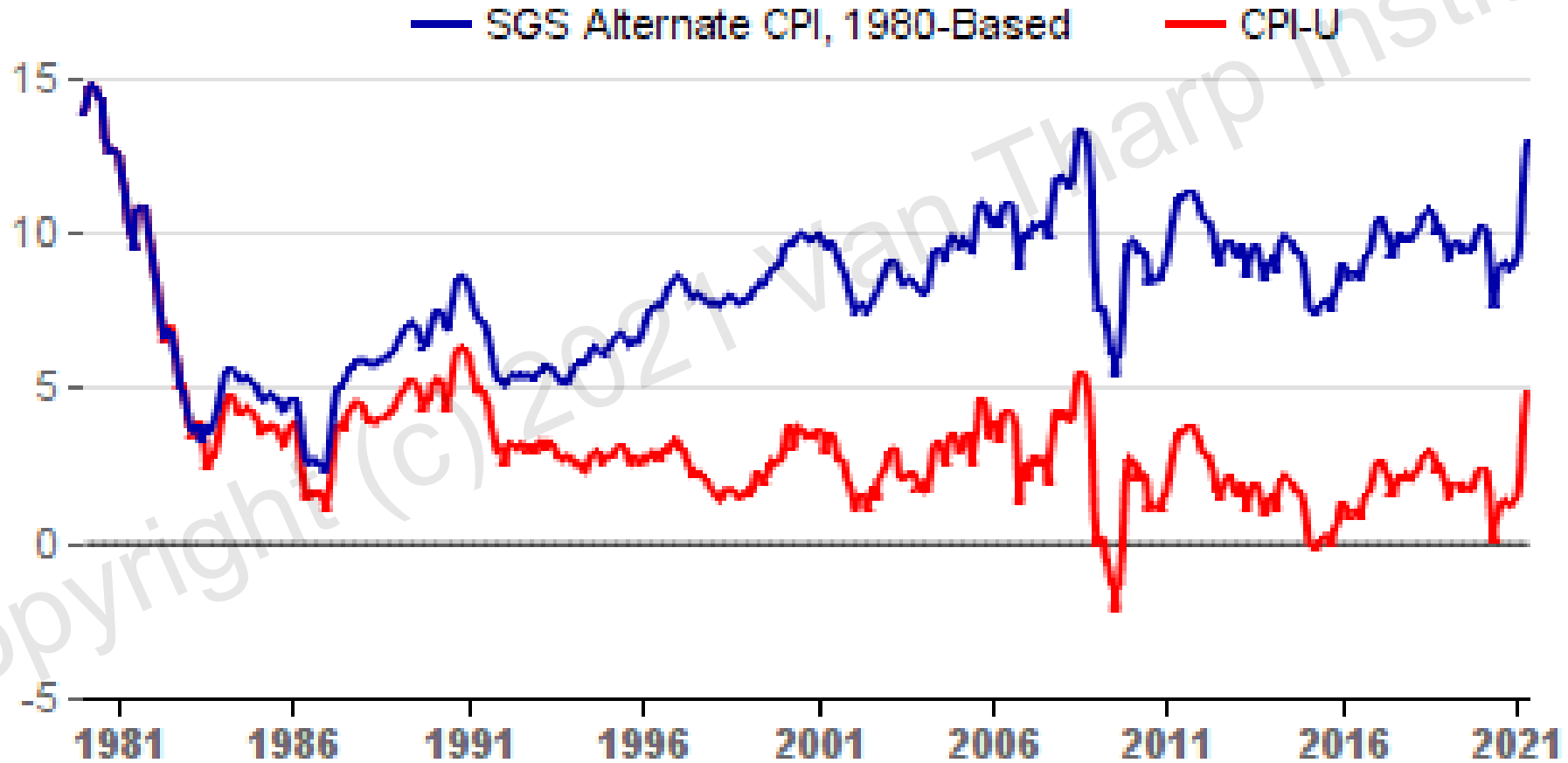


Published: June 4, 2021

ShadowStats.com

What Inflation Line Do You Believe?

Consumer Inflation - Official vs ShadowStats (1980-Based) Alternate
Year to Year Change. Through May 2021



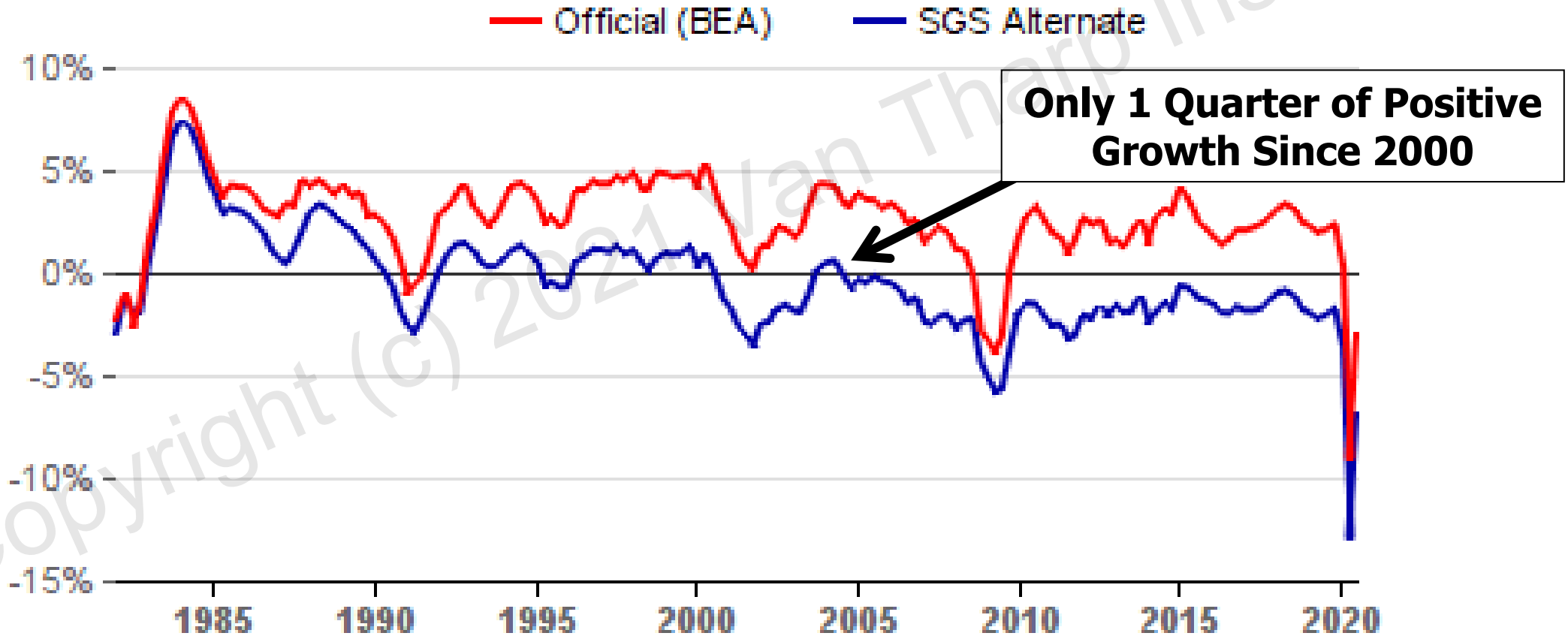
Published: June 10, 2021

ShadowStats.com

And if Real CPI is used to Adjust the GDP – We've Been in a Recession since 2000!

GDP Annual Growth - Official vs ShadowStats

Annual Change through 2020q3 (ShadowStats, BEA)



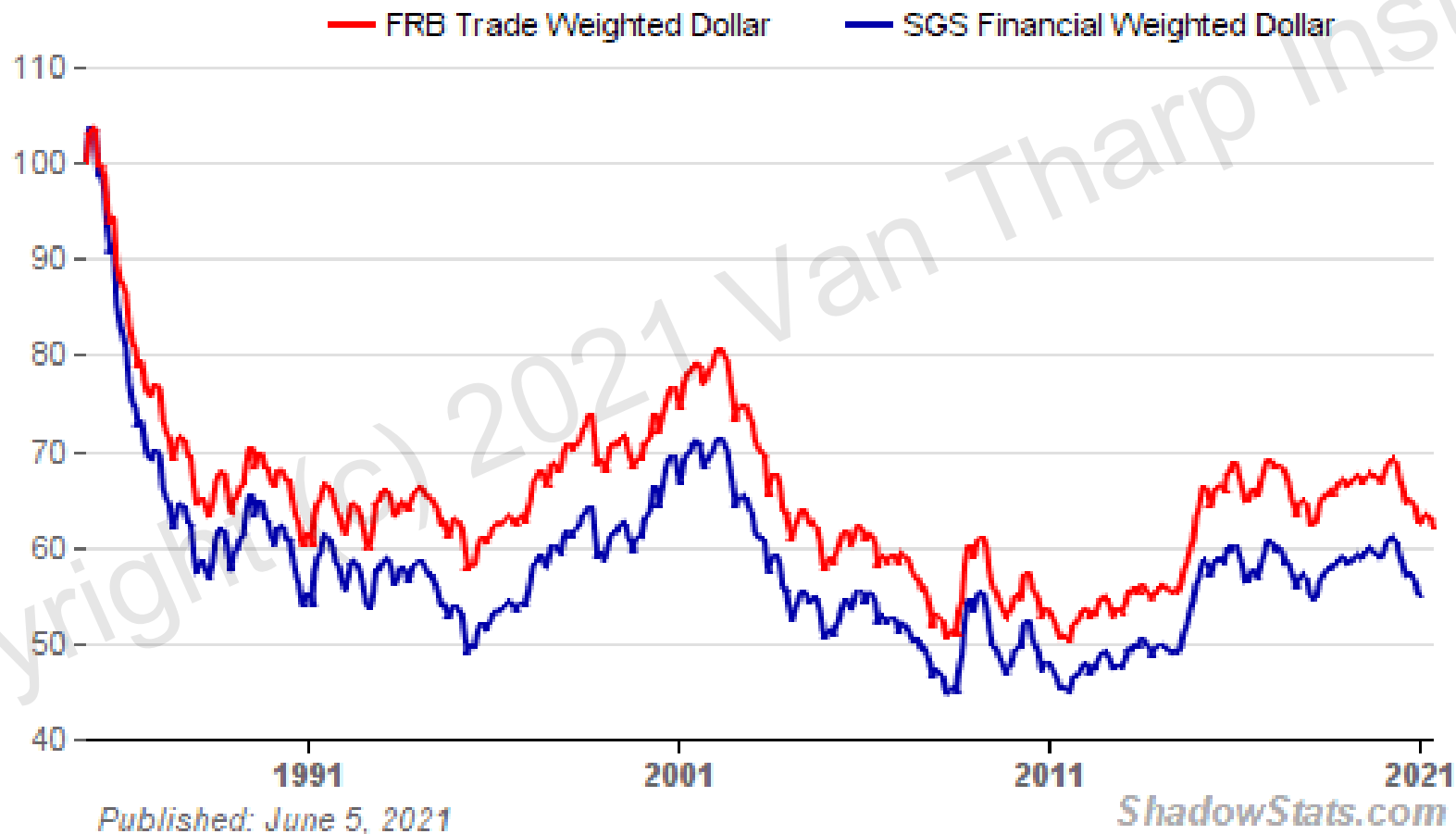
Published: Nov. 7, 2020

ShadowStats.com

Reverse in US Dollar Trend?

Financial- vs Trade-Weighted Dollar indices

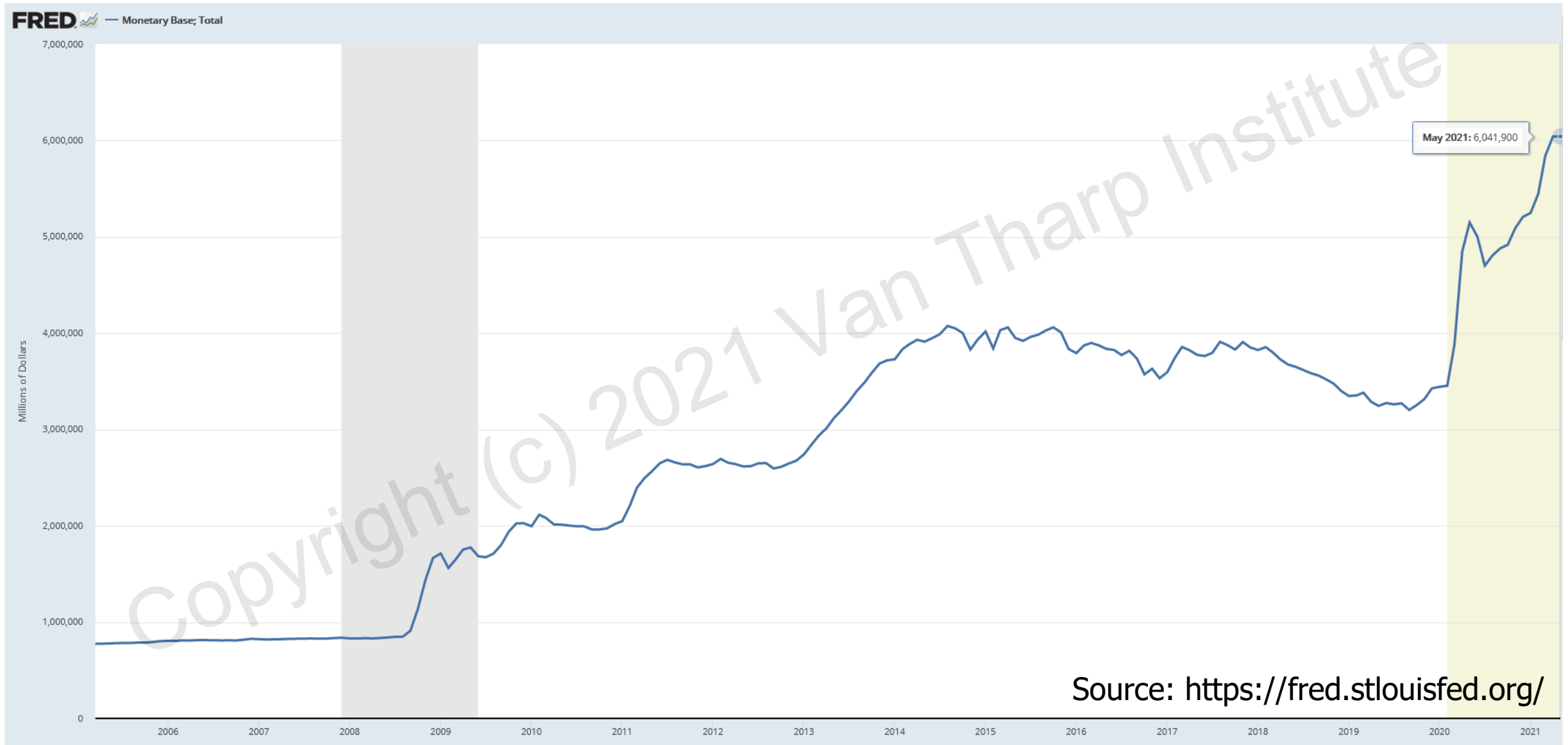
Jan. 1985 Index = 100. Through May 2021. (ShadowStats, FRB)



Despite the Huge Growth in Money Supply . . .

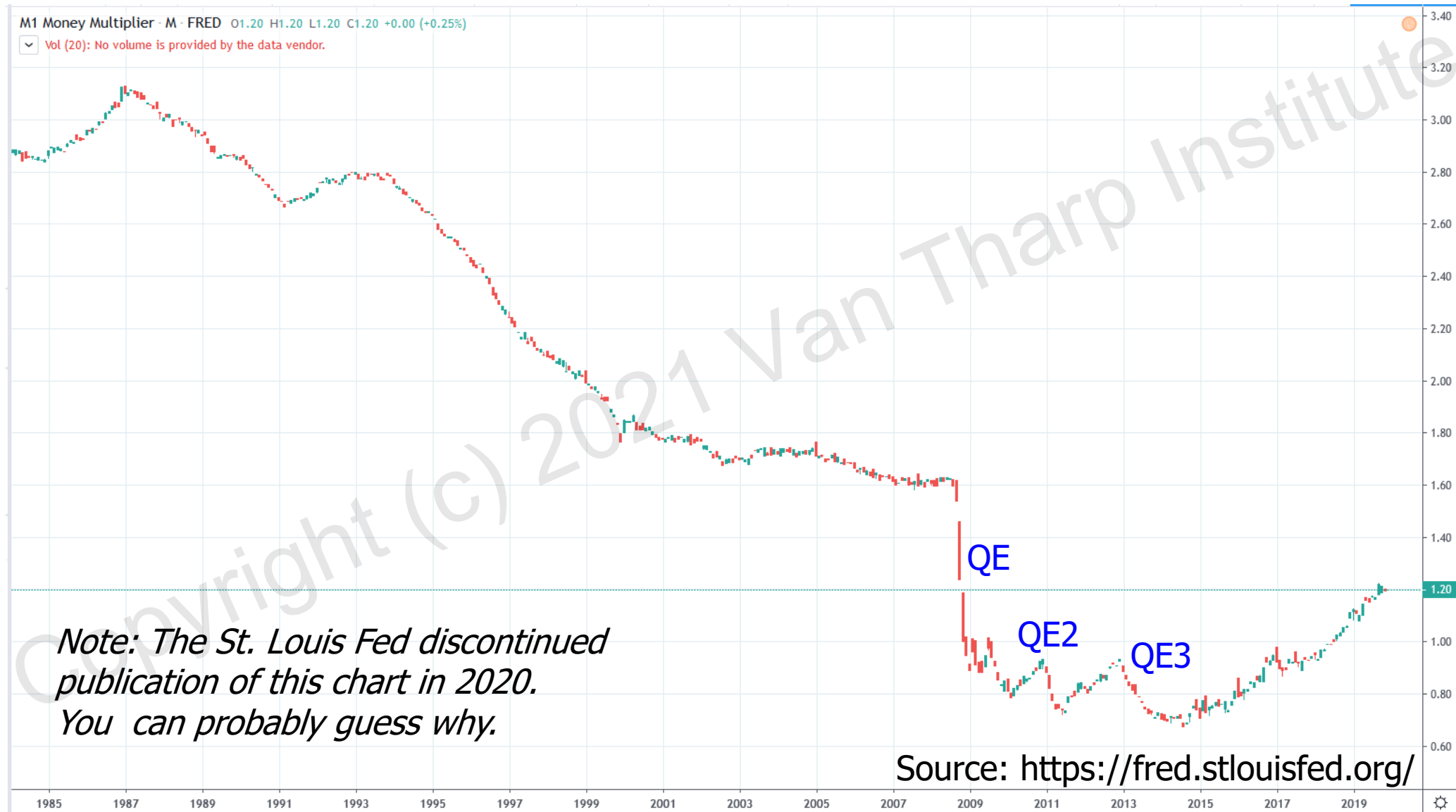


... And "Huge" is Relative ...



Source: <https://fred.stlouisfed.org/>

. . . The Banks Have Been Slow to Resume Lending . . .



The United States Is Bankrupt



Is the United States Bankrupt?

<http://research.stlouisfed.org/publications/review/06/07/Kotlikoff.pdf>

Laurence J. Kotlikoff

Is the United States bankrupt? Many would scoff at this notion. Others would argue that financial implosion is just around the corner. This paper explores these views from both partial and general equilibrium perspectives. It concludes that countries can go broke, that the United States is going broke, that remaining open to foreign investment can help stave off bankruptcy, but that radical reform of U.S. fiscal institutions is essential to secure the nation's economic future. The paper offers three policies to eliminate the nation's enormous fiscal gap and avert bankruptcy: a retail sales tax, personalized Social Security, and a globally budgeted universal healthcare system.

Federal Reserve Bank of St. Louis *Review*, July/August 2006, 88(4), pp. 235-49.

Market Regulation Changes

- 2001
 - Decimalization
 - 4 day trades = day trader => \$25K account minimum but get 4X leverage
- 2010 - Enforcement of shorting rules
- 2014 - Onerous record-keeping regs for individual traders
- 2015 - Retirement account trading restrictions
- 2017 – Fiduciary Rule changes on retirement accounts
- 2018 – The Trump Tax cut
- 2022 – Biden Tax Increases?

How Big Money Plays The Game

- Get paid on fees and tell people to buy and hold.
- Must stay invested at all times.
- Concentration is on picking stocks and asset allocation.
- But they are moving money much faster.
- The “How Big Money Trades” workshop covers this area in much more detail.

How Big Money Plays The Game

- Trillions of dollars in currencies traded by bank traders who don't know what they are doing.
- Government manipulation.
- Futures Market controlled by CTAs.
- Sophisticated hedges (for example, Carry Trade).

How Big Money Plays The Game

- Big money doesn't like decentralization (blockchain) so they complain but they will probably take it over (i.e., Poloniex and Goldman Sachs).
- A lot of big money has been interested in cryptos and the crash of 2Q 2021 didn't stop their interest.

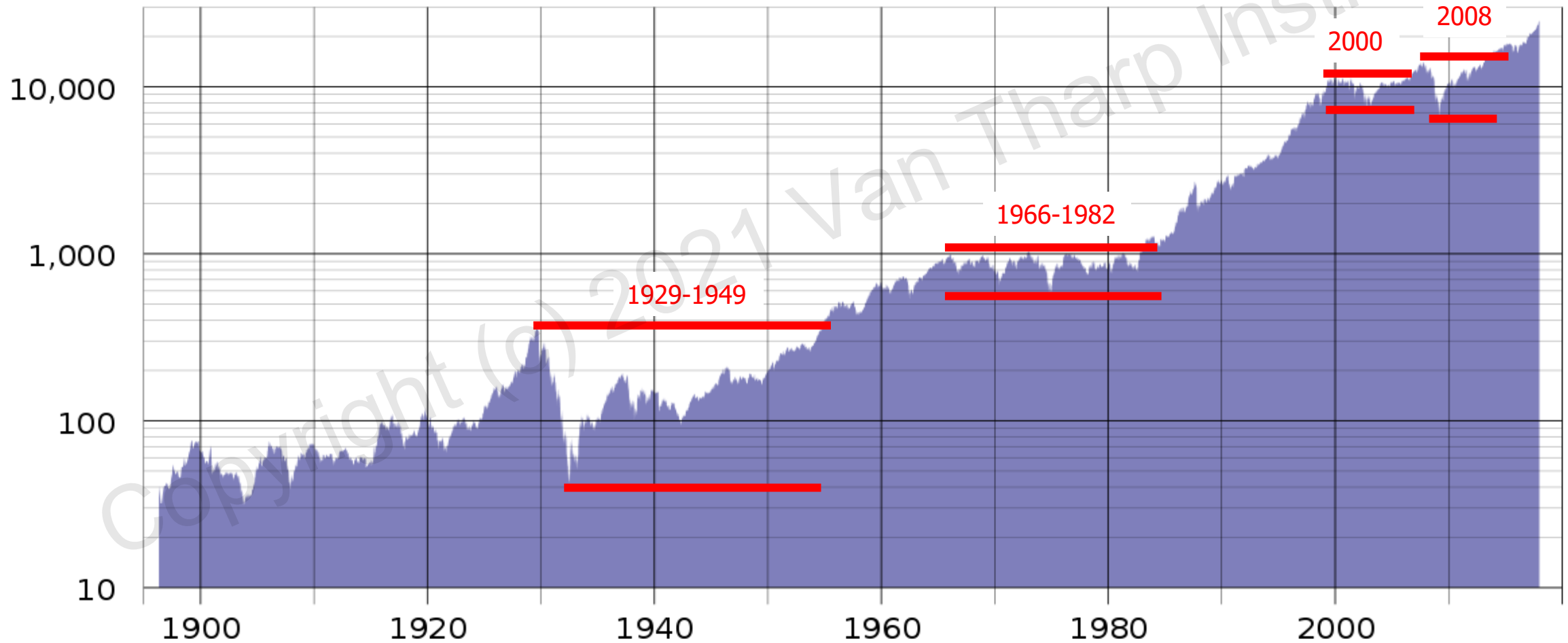
Primary Bull and Bear Markets Since 1900

Primary Market	Approximate Dates	Real Yearly Returns (NYSE)
Pre WWI Bull	1896-1906	9.6%
Banking Crisis Bear	1906-1921	-1.9%
Roaring 20s Bull	1921-1929	24.8%
Great Depression	1929-1949	1.2%
Post WWII Bull	1949-1966	14.1%
Inflation Bear	1966-1982	-1.5%
High Tech Bull	1982-2000	14.1%
Terrorism Bear	2000-2008	-1.7%
A. I./Blockchain Bull	2009 -	15.41%

The Last Deflationary Bear – 1929-1949, 2000-2009

The Last Inflationary Bear – 1966-1982

Dow Jones Industrial Average



Strategies That Will Probably Work

- Today's stock market level is higher than it was in 2000, but it is not terrific when measured against real inflation (which no one considers).
- We are right now in a huge secular bull market in which buy and hold (i.e. a 25% trailing stop) works.
- Look at AI stocks, pot stocks, electronic vehicles, 5G Stocks, cryptocurrency stocks, etc.

Bull Market – When Is It Over?

- Extreme Optimism
 - Everyone is in the stock market. Right now most people are outside looking in, however, the 20 something crowd supports cryptos like DOGE and stocks like GAMESTOP.
- Blue Chips
 - Will have PE ratios over 25 (already exists)
- Extreme inflation or extreme deflation? Possible triggers -
 - Debt crisis
 - US Dollar no longer world reserve currency
 - China sells their US Treasury bonds
 - China gives cryptos a hard time while their central bank already has its own crypto.

How Do You Keep Up with the Big Picture?

Van Tharp updates his big picture on the 1st Wednesday of every month in his free Tharp's Thoughts weekly newsletter.

Key Questions for You to Answer and Record in Your Planning:

- What does my big picture look like?
- What will I monitor?
- How often?
- How will I know a change has happened or is happening?
- How will my big picture and changes in it affect my trading?