Global Market Comments
January 6, 2019
Fiat Lux

2020 Annual Asset Class Review
A Global Vision

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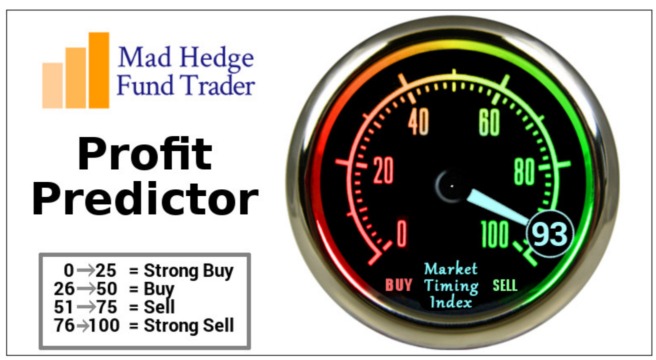
Featured Trades:
(SPX), (QQQQ), (XLF), (XLE), (XLY),
(TLT), (TBT), (JNK), (PHB), (HYG), (PCY), (MUB), (HCP)
(FXE), (EUO), (FXC), (FXA), (YCS), (FXY), (CYB)
(FCX), (VALE), (AMLP), (USO), (UNG),
(GLD), (GDX), (SLV), (ITB), (LEN), (KBH), (PHM)



2020 Annual Asset Class Review

I am once again writing this report from a first-class sleeping cabin on Amtrak's legendary ***California Zephyr***.

By day, I have two comfortable seats facing each other next to a panoramic window. At night, they fold into two bunk beds, a single and a double. There is a shower, but only Houdini could navigate it.

I am anything but Houdini, so I go downstairs to use the larger public hot showers. They are divine.

We are now pulling away from Chicago's Union Station, leaving its hurried commuters, buskers, panhandlers, and majestic great halls behind. I love this building as a monument to American exceptionalism.

I am headed for Emeryville, California, just across the bay from San Francisco, some 2,121.6 miles away. That gives me only 56 hours to complete this report.

I tip my porter Raymond $100 in advance to make sure everything goes well during the long adventure and to keep me up-to-date with the onboard gossip.

The rolling and pitching of the car is causing my fingers to dance all over the keyboard. Microsoft's Spellchecker can catch most of the mistakes, but not all of them.

As both broadband and cellphone coverage are unavailable along most of the route, I have to rely on frenzied Internet searches during stops at major stations along the way to Google search obscure data points and download the latest charts.

You know those cool maps in the Verizon stores that show the vast coverage of their cell phone networks? They are complete BS.

Who knew that 95% of America is off the grid? That explains so much about our country today.

I have posted many of my better photos from the trip below, although there is only so much you can do from a moving train and an iPhone 10x.

After making the rounds with strategists, portfolio managers, and hedge fund traders in the run-up to this trip, I can confirm that 2019 was one of the most spectacular for careers lasting 30, 40, or 50 years.

This was the year that ***EVERYTHING*** went up, the first time that has happened since 2013. Comparisons with 2008, 1999, and 1929 were frequently made.

While my own 55.77% return for last year is the best in a decade, it nearly doubles the Dow Average performance of **28%.** This keeps my ten-year average annualized return at **36.30%.**

For a decade, all you had to do was throw a dart at the stock page of the ***Wall Street Journal*** and you made money, as long as it didn't end on retail or energy.

If you think I spend too much time absorbing conspiracy theories from the Internet, let me give you a list of the challenges I see financial markets are facing in the coming year:

The Nine Key Variables for 2020

1) Will the Fed raise rates, or leave them untouched by human hands?
2) Will there be a recession this year, or will we have to wait for 2021?
3) How far can markets run without any fiscal stimulus whatsoever?
4)Will the presidential election send the market for a dive, or has it already priced in?

5) Will technology stocks maintain market leadership, or will other sectors rotate into the lead?
6) Will gold and other commodities finally make a long awaited comeback?
7) Will soaring deficits destroy the US dollar this year?
8) Will energy prices recover in 2020, or are they dead men walking?
9) Is the trade war done, or will it make a vicious comeback?

Here are your answers to the above: 1) no, 2) 2021, 3) more, 4) yes, 5) yes, 6) Yes, 7) Yes, 8) dead men walking, 9) yes.

There you go! That's all the research you have to do for the coming year. Everything else is a piece of cake. You can go back to enjoying your vacation.

The Thumbnail Portfolio

Equities - **Go Long**. The eleventh year of the bull market takes the S&P 500 up 5% to **$3,390** during the first quarter, and then down by 10%-20% in the second half. Then we rally post-election to a new all-time high.

Technology, Pharmaceuticals, Healthcare, and Biotech will lead on the up moves, and now is a great entry point for all of these. Buy low, sell high. Everyone talks about it, but few ever actually execute this.

Bonds - **Trade**. With no Fed moves expected in 2020, look for a "bouncing along the bottom" kind of year.

Foreign Currencies - **Buy**. The US dollar has just ended its six-year bull trend. Any pause in the Fed's rate rising schedule will send the buck on a swan dive. The fat lady is singing for the greenback.

Commodities - **Go Long**. Global synchronized recovery continues in the new bull market.

Precious Metals - **Buy**. Emerging market central bank demand, accelerating inflation, and a pause in the rise of interest rates, will keep the yellow metal slowly appreciating.

Real Estate – **Buy Dips**. The Golden Age of real estate still has another decade to run. A multi-decade demographic tailwind is just starting, and it is just a matter of time before prices come roaring back.

1) ***The Economy*-Slowing**

Economic growth has been in a downtrend that has been going on for two years now from 3.5% to possibly as low as 1.5% in the current quarter. The economy is now growing slower than at any time in the last decade.

In January 2020, we face a fiscal cliff when the last of the 2017 stimulus package has been spent. The trade war remains a major drag, possibly costing us 0.5% in GDP growth. You see this in capital spending, which has virtually ground to a halt, thanks to the uncertainty ignited by the trade wars.

CEOs would rather wait to see how things play out before making ***ANY*** long-term decisions. Even if a China deal is signed tomorrow, it will take six months for the economy to turn around. Many new higher tariffs will permanently remain.

Other countries are doing worse. The trade wars have shifted the global economy from a synchronized recovery to a US-only recovery, to a globally slowing one. It turns out that damaging the economies of your biggest customers is bad for your own business.

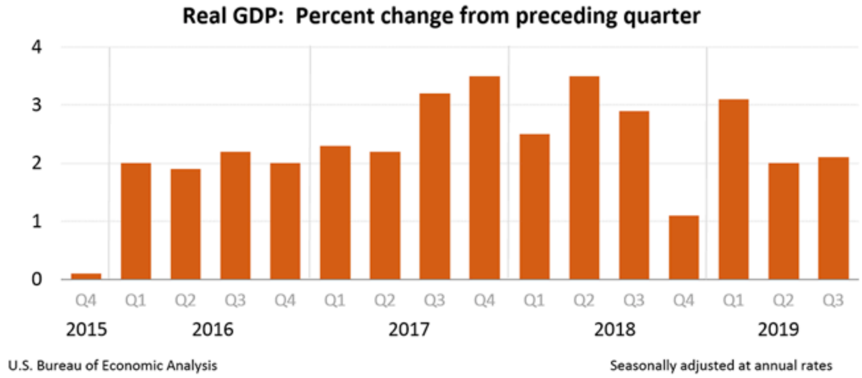
Hyper-accelerating and cross-fertilizing technology will remain a long term and underestimated positive. But you have to live here next to Silicon Valley to realize that.

The bull case for the economy in 2020 is that the trade war is settled, the Fed remains dormant, and recovering trade improves the global economy. This is certainly what the stock market thinks is going to happen.

The unknown is how much of those has already been discounted by the market. It is possible that ALL of it was discounted by the Q4 melt-up.

The party pooper could be the inflation rate, which has been running hot for the past three months. Entry-level wages are growing at the fastest pace in a decade. Too hot, and the Fed will raise interest rates, slowing the economy, and killing off the bull market.

It's also important to remember that current economic growth is entirely deficit-financed. It’s all being borrowed from the future. If the government were running a balanced budget now, the GDP growth rate would be zero. So, when the borrowing ends, so does the economy.



A Rocky Mountain Moose Family

2) ***Equities*** **(SPX), (QQQ), (IWM) (AAPL), (XLF), (BAC)**

I never thought I'd see it, but my ***Mad Hedge Market Timing Index*** is closing out the year at an all-time high of 93.

Stocks will finish higher in 2020, but with much greater volatility. The entire gain in stocks last year came from a 36% expansion in multiples, from 14 to 19. Don't count on lightening striking in the same place twice.

This meteoric gain was against an earnings improvement for the main market of absolutely zero. Tech stocks continued with prolific earnings growth, which is why I had followers up to their eyeballs in this sector for the entire year.

S&P 500 earnings per share will grow in 2020 from the current $180 to $190. If we can hold on to an earnings multiple of the current 19X, that brings us a gain of 5%. That will take the (SPX) from a current $3,230 to $3,392.

Stocks will rally from here because they are ***STILL*** receiving the greatest monetary stimulus in history. Quantitive easing has been running at a $100 billion monthly rate since the fall, and it jumps to $160 billion in January. That compares to $80 billion a month at the peak of QE3. ***ALL*** of it is going into the stock market either directly or indirectly.

And here's the part you don't want to hear. When QE ends and interest rates rise, the bull market in stocks will die a horrible death. I'll give you the heads up.

Technology stocks will continue their torrid rise until they don't. Love them or hate them, big tech accounts for 26% of stock market capitalization but 50% of US profits. That is where the money is. However, in 2020 they will be joined by Biotech and Healthcare companies as market leaders, where political risk is being wildly overestimated.

The golden age of passive index investing is over. This year portfolio managers are going to have to earn their crust of bread through perfect market timing, sector selection, and individual name-picking. Good luck with that. But then, that's why you read this newsletter.

I expect the 2019 rally to continue into 2020. After that, I expect a 10%-20% correction, triggered by a failed trade deal or sudden uncertainty over the election. Then we rally into the yearend one more time once the election uncertainty is out of the way.

It makes no difference who wins. Your entire year will be made buying the next correction bottom. Piece of cake!


SPY SPDR S&P 500 ETF NYSE + BATS
© StockCharts.com
31-Dec-2019 1:48pm
Open 320.53 High 321.54 Low 320.15 Last 320.88 Volume 17.7M Chg -0.20 (-0.06%)
RSI(14) 68.96
90
68.96
50
30
10
SPY (Daily) 320.88
MA(50) 310.43
MA(200) 293.74
Volume 17,732,540
325
320.88
315
310.43
305
300
293.74
290
285
280
275
270
265
260
255
250
245
177325
200M
150M
100M
50M
2019
Feb
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Sep
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Nov
Dec
MACD(12,26,9) 3.538, 3.465, 0.073
3.538
2
0.073
-2
-4
-6
2019
Feb
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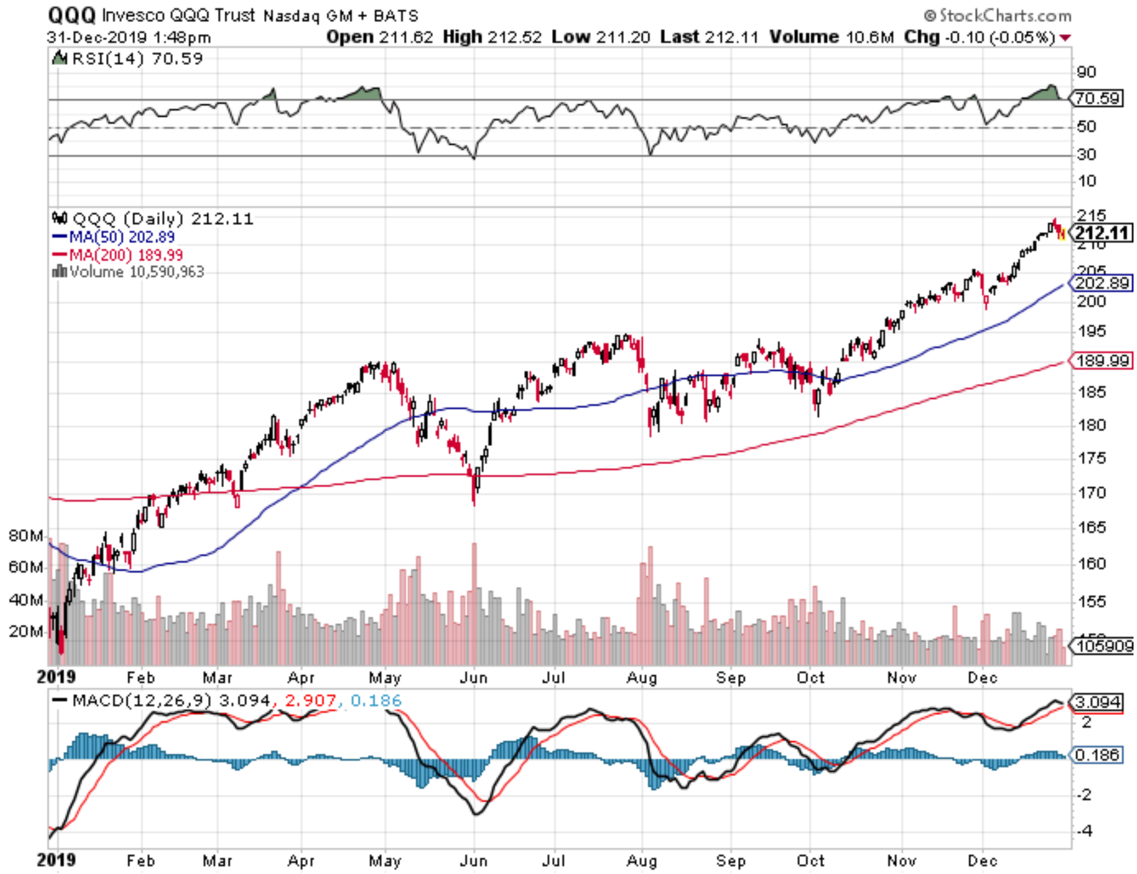
QQQ Invesco QQQ Trust Nasdaq GM + BATS
© StockCharts.com
31-Dec-2019 1:48pm
Open 211.62 High 212.52 Low 211.20 Last 212.11 Volume 10.6M Chg -0.10 (-0.05%)
RSI(14) 70.59
QQQ (Daily) 212.11
MA(50) 202.89
MA(200) 189.99
Volume 10,590,963
MACD(12,26,9) 3.094, 2.907, 0.186
2019
Feb
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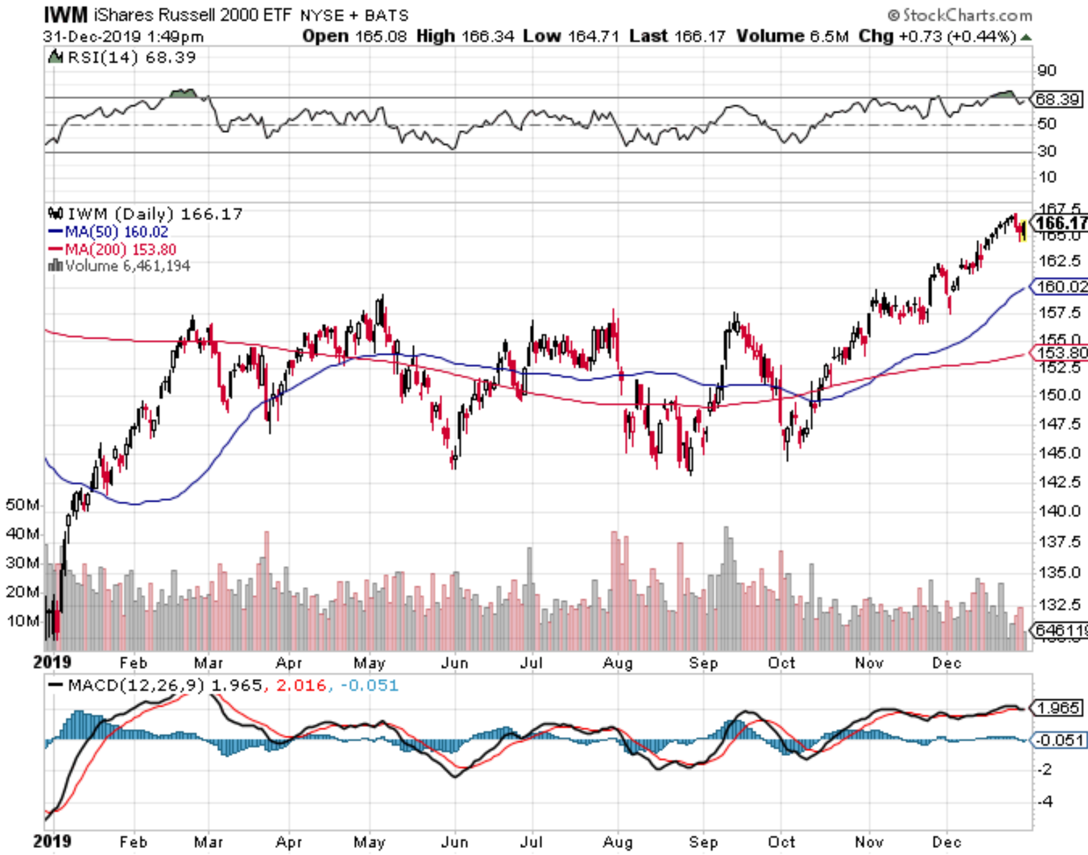
Dec



Frozen Headwaters of the Colorado River

3) *Bonds* (TLT), (TBT), (JNK), (PHB), (HYG), (MUB), (LQD)

Amtrak needs to fill every seat in the dining car to get everyone fed, so you never know who you will share a table with for breakfast, lunch, and dinner.

There was the Vietnam Vet Phantom Jet Pilot who now refused to fly because he was treated so badly at airports. A young couple desperately fleeing Omaha who could only afford seats as far as Salt Lake City. After they sat up all night, I paid for their breakfast.

A retired British couple was circumnavigating the entire US in a month on a "See America Pass." Mennonites returning home by train because their religion forbade automobiles or airplanes.

Government borrowing should balloon to an eye-popping $1.8 trillion in 2020, a post-World War II record. The national debt is on track to reach $24 trillion by the end of the year. Government borrowing is now so enormous that the issuance system is starting to break down, creating overnight interest rate spikes to an occasional 5%.

Yet, as long as global central banks are flooding the money supply with trillions of dollars in liquidity, bonds will not fall in value, and may even rise. Bonds with interest payments rose by 16% in 2019.

With a stable Fed, the best-case scenario is that they will remain unchanged in 2020 and the worst case is that they take bonds down -10%. That would take the yield on the Treasury bond from 2.90% to 3.4%. Remove any of that record liquidity, and the bond market crashes, causing interest rates to soar.

What is different this year is that the US dollar is peaking out. That will dampen foreign demand for US debt, about half of the total.

Bond investors today get an unbelievably bad deal. If they hang on to the longer maturities, they will get back only 90 cents worth of purchasing power at maturity for every dollar they invest a decade down the road, at best.


TLT iShares 20+ Year Treasury Bond ETF Nasdaq GM + BATS
©StockCharts.com
31-Dec-2019 1:49pm
Open 136.21 High 136.46 Low 135.55 Last 135.66 Volume 6.2M Chg -1.16 (-0.85%)
RSI(14) 39.85
TLT (Daily) 135.66
MA(50) 137.90
MA(200) 133.42
Volume 6,170,218
MACD(12,26,9) -0.591, -0.454, -0.136
2019 Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec

TBT ProShares UltraShort 20+ Year Treasury NYSE + BATS
© StockCharts.com
31-Dec-2019 1:49pm
Open 26.27 High 26.51 Low 26.17 Last 26.48 Volume 1.5M Chg +0.44 (+1.69%)
RSI(14) 59.86
TBT (Daily) 26.48
MA(50) 25.69
MA(200) 27.81
Volume 1,548,378
MACD(12,26,9) 0.203, 0.150, 0.054
2019 Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec


$TNX CBOE 10-Year US Treasury Yield INDX
© StockCharts.com
31-Dec-2019 1:49pm
Open 18.98 High 19.30 Low 18.95 Last 19.21 Chg +0.26 (+1.37%)
RSI(14) 57.16
$TNX (Daily) 19.21
MA(50) 18.30
MA(200) 19.94
Volume undef
MACD(12,26,9) 0.293, 0.281, 0.012
2019 Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec

A Visit to the 19th Century

4) Foreign Currencies (FXE), (EUO), (FXC), (FXA), (YCS), (FXY), (CYB)

Throughout human history, whenever a country's borrowing exceeded its GDP, their currency collapsed. It happened to the Roman Empire, Royal France, Weimer Germany, a shrinking Great Britain, and now the US. Quite simply, whenever you print more of a currency, it becomes less valuable.

The national debt just passed $23 trillion, 107% of US GDP, and could hit $25 trillion in a year. How many people noticed?

Check out your charts and you'll see that last summer the US dollar started to depreciate while the Japanese yen and Euro started to gain, almost exactly when we topped the 100% mark.

There is even more trouble.

I have pounded away at you for years that interest rate differentials are far and away the biggest decider of the direction in currencies.

This year will prove that concept once again.

With American overnight rates now at 2.00% and ten-year Treasury bonds at 2.92%, the US has the highest interest rates of any major industrialized economy.

However, pause the Fed's interest rate rises a year, and the dollar loses its mojo very quickly. In the meantime, foreign interest rates have been rising. German Bund yields have recovered from -90 basis points to -13, while Japanese government bond yields have jumped from -30 basis point to -.03.

Compounding the problem is that a weak dollar begets selling from foreign investors. The Chinese government, the world's largest buyer of government bonds, have been boycotting US Treasuries for two years now. They are in a mood to do so anyway, as they see rising political instability in the US as a burgeoning threat to the value of the greenback.

So, the dollar will turn weak against all major currencies, especially the Japanese yen (FXY), the Australian (FXA), and Canadian (FXC) dollars.

This points the way to all weak dollar plays that we haven't seen for five years, including emerging markets (EEM), commodities (FCX), and precious metals (GLD).

You can take that to the bank!

FXE Invesco CurrencyShares Euro Trust NYSE
©StockCharts.com
31-Dec-2019 1:35pm
Open 106.47 High 106.47 Low 106.33 Last 106.38 Volume 21.2K Chg +0.22 (+0.21%)
RSI(14) 67.31
FXE (Daily) 106.38
MA(50) 105.22
MA(200) 106.03
Volume 21,151
MACD(12,26,9) 0.235, 0.140, 0.096
2018 Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec 2019 Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec


FXY Invesco CurrencyShares Japanese Yen Trust NYSE
© StockCharts.com
31-Dec-2019 1:36pm
Open 87.53 High 87.60 Low 87.34 Last 87.47 Volume 25.1K Chg +0.16 (+0.18%)
RSI(14) 57.50
FXY (Daily) 87.47
MA(50) 87.25
MA(200) 87.55
Volume 25,069
MACD(12,26,9) -0.070, -0.130, 0.060
2018 Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec 2019 Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec


FXA Invesco CurrencyShares Australian Dollar Trust NYSE
©StockCharts.com
31-Dec-2019 1:37pm
Open 70.22 High 70.33 Low 70.21 Last 70.24 Volume 5,998 Chg +0.28 (+0.40%)
RSI(14) 72.73
FXA (Daily) 70.24
MA(50) 68.59
MA(200) 69.01
Volume 5,998
MACD(12,26,9) 0.418, 0.266, 0.152
18 F M A M J J A S O N D 19 F M A M J J A S O N D

5) **Commodities (FCX), (VALE), (DBA)**

A global synchronized economic recovery, even a small one, can mean only one thing, and that is sustainably higher commodity prices.

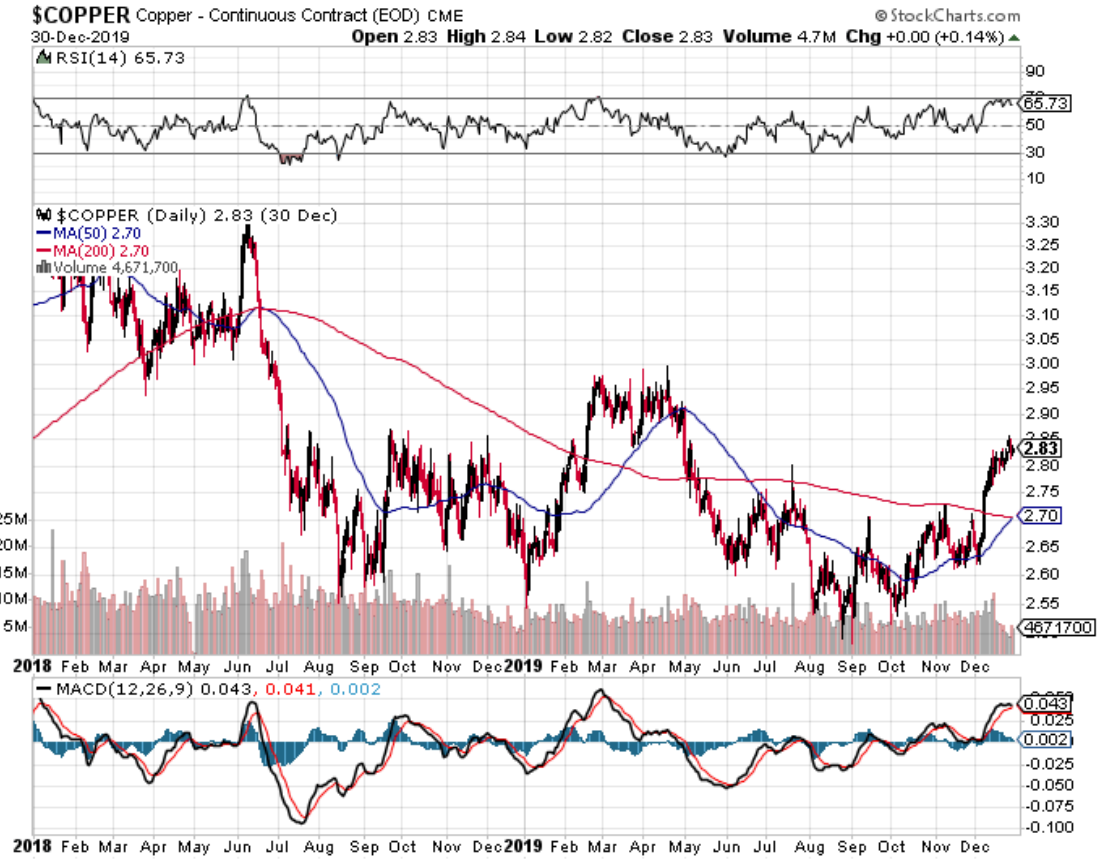
Industrial commodities, like copper and iron ore, are literally crawling off of seven-year bottoms, dope-slapped by the twin evils of a strong dollar and the China trade war. Reverse those, and the sector starts to look pretty interesting.

We aren't returning to the heady days of the 2011 commodity bubble top anytime soon. That is a mid-2020's game. Investors are already front-running that move.

However, now that this sector is getting the whiff of a weak dollar and higher inflation, it will take off like a scalded chimp.

China will still demand prodigious amounts of imported commodities, but not as much as in the past. Much of the country has seen its infrastructure build-out, and it is turning from a heavy industrial to a service-based economy, like the US.

The derivative equity plays here, Freeport McMoRan (FCX) and Companhia Vale do Rio Doce (VALE), have all been some of the best-performing assets of 2019.



$COPPER Copper - Continuous Contract (EOD) CME
© StockCharts.com
30-Dec-2019
Open 2.83 High 2.84 Low 2.82 Close 2.83 Volume 4.7M Chg +0.00 (+0.14%)
RSI(14) 65.73
$COPPER (Daily) 2.83 (30 Dec)
MA(50) 2.70
MA(200) 2.70
Volume 4,671,700
MACD(12,26,9) 0.043, 0.041, 0.002


FCX Freeport-McMoRan, Inc. NYSE + BATS
©StockCharts.com
31-Dec-2019 1:43pm
Open 12.98 High 13.11 Low 12.92 Last 13.09 Volume 6.2M Chg +0.08 (+0.61%)
RSI(14) 66.72
FCX (Daily) 13.09
MA(50) 11.50
MA(200) 10.97
Volume 6,163,519
MACD(12,26,9) 0.486, 0.517, -0.031
2018 Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec 2019 Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec

Snow Angel on the Continental Divide

6) **Energy (DIG), (RIG), (USO), (DUG), (UNG), (USO), (XLE), (AMLP)**

One of my best predictions of 2019 was that energy would be a complete disaster, and so it was.

The industry invested trillions in infrastructure in a grand plan to export natural gas to China. Just as it was coming onstream, the president declared a trade war against China, its principal customer.

So, where does that leave us for 2020?

A lot of people have been piling into energy on the hope that happy days are here again.

They aren't. Slowing global economies are just what the energy investor doesn't want to hear.

I believe what we are seeing is a lot of buying on technicals, on cheap prices, and of dogs of the Dow. No one is talking about an embedded structural oversupply of oil that may never be unwound.

Saudi Arabia said as much with the flotation of Saudi Aramco, which has a monopoly on oil production in the kingdom. After a three-year effort, they were only able to shift 1.5% of the company in a local stock exchange listing. It was one of the greatest accounting frauds in history. Only global index funds that ***HAD*** to buy shares picked it up. When Saudi Arabia wants to get out of the oil business, so should you.

OPEC Plus engineered a modest 500,000 production cut at their December Vienna meeting, and that has helped prices rise 10%. It is no more than a band-aid on a great gaping wound. Economic growth prospects for 2020 are modest at best, and that does not auger well for the price of Texas Tea.

OPEC production versus American frackers will create the constant tension in the marketplace for all of 2019.

However, my argument in favor of commodities and emerging markets applies to oil as well. A weaker US dollar, trade war end, interest rate halt are all positives for any oil investment. The cure for low oil prices is always low prices.

That makes energy Master Limited Partnerships, now yielding 6-10%, especially interesting in this ultra-low yield world. Since no one in the industry knows which issuers are going bankrupt, you have to take a basket approach and buy all of them.

The Alerian MLP ETF (AMLP) does this for you in an ETF format and offers a current massive 9.9% yield.

Our train has moved over to a siding to permit a freight train to pass, as it has priority on the Amtrak system.

Three Burlington Northern engines are heaving to pull over 100 black, spanking brand-new tank cars, each carrying 30,000 gallons of oil from the fracking fields in North Dakota.

There is another tank car train right behind it. No wonder Warren Buffett tap dances to work every day, as he owns the railroad.

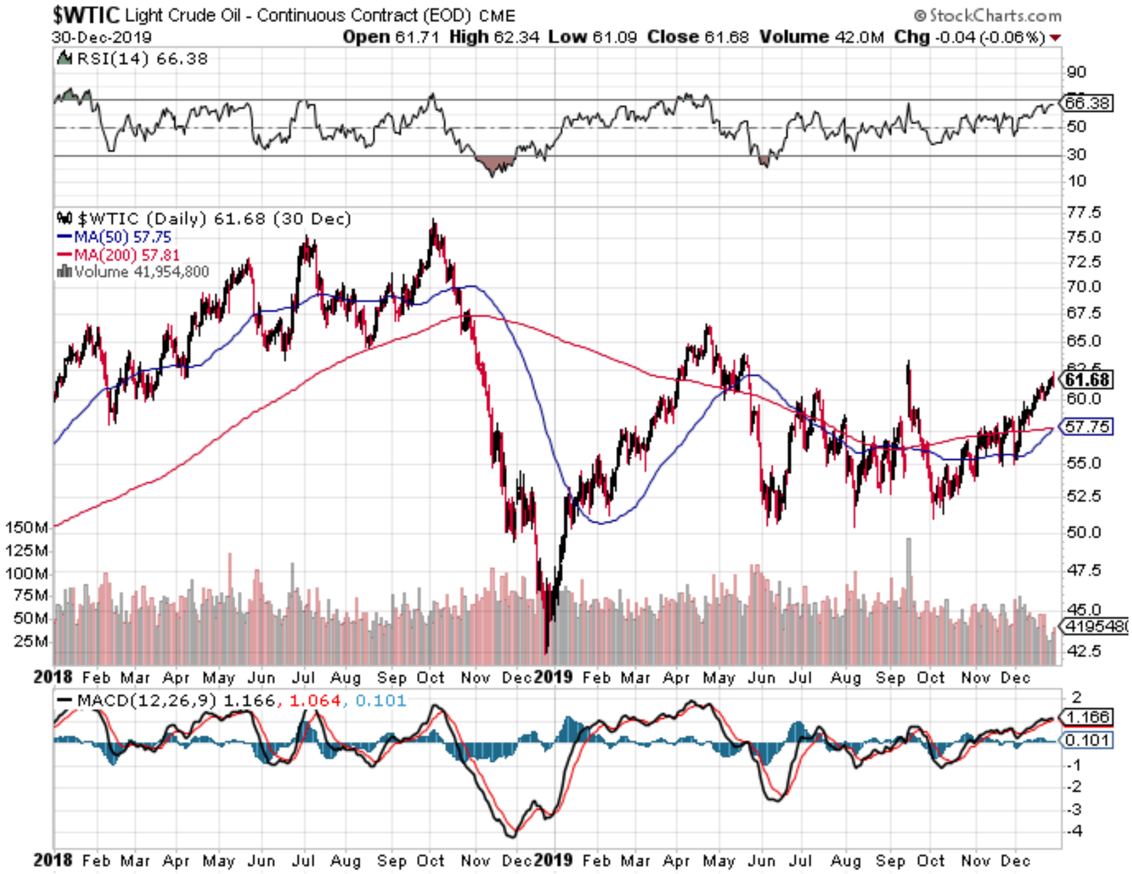
We are also seeing relentless improvements on the energy conservation front with more electric vehicles, high mileage conventional cars, and newly efficient building. Electric cars are now 4% of US car sales and that could rise to 25% by 2025. Conventional Energy doesn't fit anywhere in this industry.

In addition, the next election could bring an administration that is distinctly pro-environment and anti-energy and could deep-six a 100-year accumulation of oil and gas subsidies. The energy industry now carries far more political risk than the drug industry.

Any one of these inputs is miniscule on its own. But, add them all together and you have a game-changer, a new paradigm.

We may never see $100/barrel crude again. In fact, the past peak in oil prices may be the last one we ever see. The word is that leasing companies will stop offering five-year agreements in five years because cars with internal combustion engines will become worthless in ten.

As a result, I think I will stand aside from the energy industry in 2020, and maybe, forever. You should too.



$WTIC Light Crude Oil - Continuous Contract (EOD) CME
@StockCharts.com
30-Dec-2019
Open 61.71 High 62.34 Low 61.09 Close 61.68 Volume 42.0M Chg -0.04 (-0.06%)
RSI(14) 66.38
$WTIC (Daily) 61.68 (30 Dec)
MA(50) 57.75
MA(200) 57.81
Volume 41,954,800
MACD(12,26,9) 1.166, 1.064, 0.101
2018 Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec 2019 Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec


$NATGAS Natural Gas - Continuous Contract (EOD) CME
© StockCharts.com
30-Dec-2019
Open 2.25 High 2.26 Low 2.18 Close 2.19 Volume 12.4M Chg -0.04 (-2.02%)
RSI(14) 39.79
$NATGAS (Daily) 2.19 (30 Dec)
MA(50) 2.47
MA(200) 2.44
Volume 12,424,300
MACD(12,26,9) -0.070, -0.067, -0.003
2018 Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec 2019 Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec


AMLP Alerian MLP ETF NYSE
© StockCharts.com
31-Dec-2019
Open 8.40 High 8.52 Low 8.40 Close 8.50 Volume 24.1M Chg +0.06 (+0.71%)
RSI(14) 58.04
AMLP (Daily) 8.50
MA(50) 8.19
MA(200) 8.96
Volume 24,107,368
MACD(12,26,9) 0.135, 0.107, 0.027

7) **Precious Metals (GLD), (DGP), (SLV), (PPTL), (PALL)**

The train has added extra engines at Denver, so now we may begin the long laboring climb up the Eastern slope of the Rocky Mountains.

On a steep curve, we pass along an antiquated freight train of hopper cars filled with large boulders.

The porter tells me this train is welded to the tracks to create a windbreak. Once, a gust howled out of the pass so swiftly that it blew a train over on to its side.

In the snow-filled canyons, we sight a family of three moose, a huge herd of elk, and another group of wild mustangs. The engineer informs us that a rare bald eagle is flying along the left side of the train. It’s a good omen for the coming year.

We also see countless abandoned 19th century gold mines and the broken-down wooden trestles leading to them, relics of previous precious metals booms. So, it is timely here to speak about the future of precious metals.

Gold (GLD) brought in a respectable 18% return in 2019, not as much as stocks, but better than a poke in the eye with a sharp stick.

In 2020, gold will finally come out of a long dark age. As long as the world was clamoring for paper assets like stocks, gold was just another shiny rock. After all, who needs an insurance policy if you are going to live forever?

But the long-term bull case is still there. Gold is not dead; it is just resting.

If you forgot to buy gold at $35, $300, or $800, there is another entry point up here for those who, so far, have missed the gravy train.

To a certain extent, the belief that high-interest rates are bad for gold is a myth. Wealth creation is a far bigger driver, and we have had plenty of that lately. To see what I mean, take a look at a gold chart for the 1970s when interest rates were going through the roof.

Remember, this is the asset class that takes the escalator up and the elevator down, and sometimes the window.

If the institutional world devotes just 5% of their assets to a weighting in gold and an emerging market central bank bidding war for gold reserves continues, it has to fly to at least $2,300, the inflation-adjusted all-time high, or more.

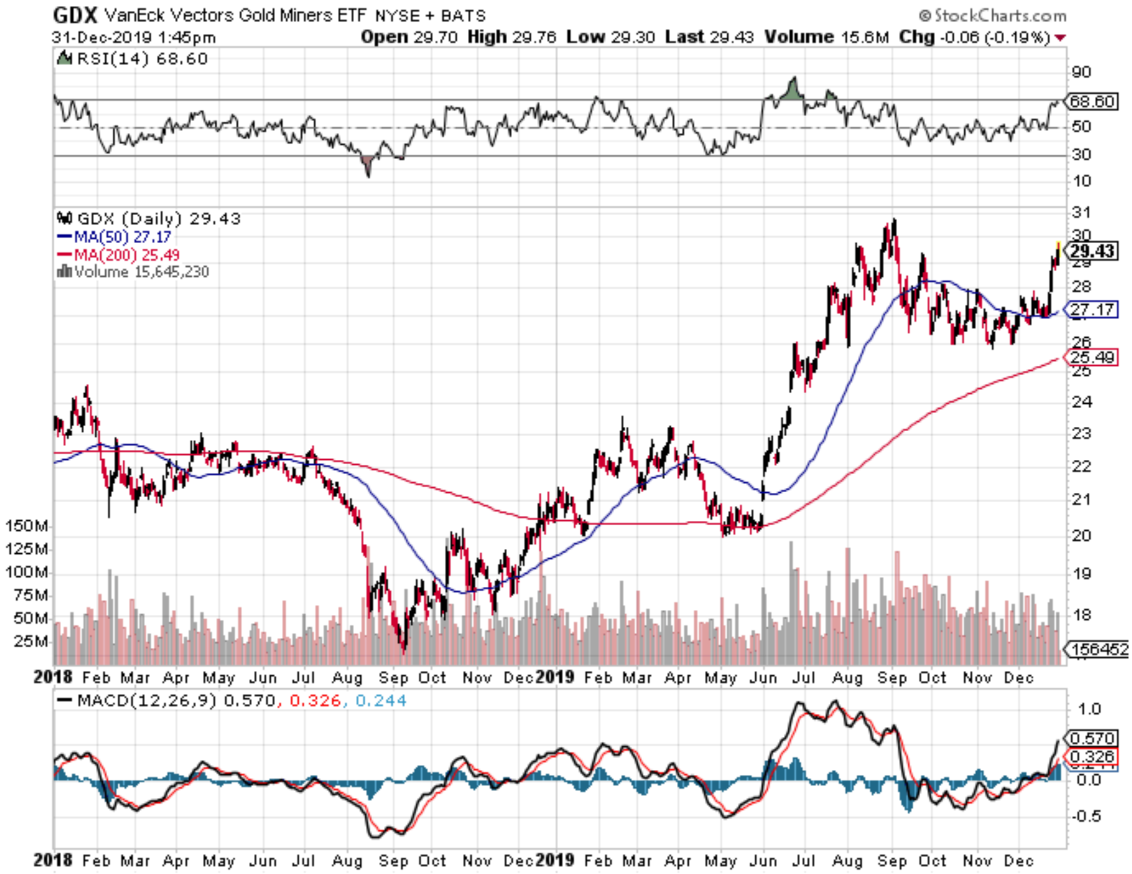
This is why emerging market central banks step in as large buyers every time we probe lower prices. China and India emerged as major buyers of gold in the final quarters of 2019.

They were joined by Russia, which was looking for non-dollar investments to dodge US economic and banking sanctions.

That means it’s just a matter of time before gold breaks out to a new multiyear high, above $1,550 an ounce. ETF players can look at the 1X (GLD) or the 2X leveraged gold (DGP).

I would also be using the next bout of weakness to pick up the high beta, more volatile precious metal, silver (SLV), which I think could rise from the present $18 and hit $50 once more, and eventually $100.

The turbocharger for gold will hit sometime in 2020 with the return of inflation. Hello stagflation, it's been a long time.


GDX VanEck Vectors Gold Miners ETF NYSE + BATS
©StockCharts.com
31-Dec-2019 1:45pm
Open 29.70 High 29.76 Low 29.30 Last 29.43 Volume 15.6M Chg -0.06 (-0.19%)
RSI(14) 68.60
GDX (Daily) 29.43
MA(50) 27.17
MA(200) 25.49
Volume 15,645,230
MACD(12,26,9) 0.570, 0.326, 0.244
2018 Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec 2019 Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec

Would You Believe This is a Blue State?

8) **Real Estate (ITB), (LEN),**

The majestic snow-covered Rocky Mountains are behind me. There is now a paucity of scenery with the endless ocean of sagebrush and salt flats of Northern Nevada outside my window so there is nothing else to do but write.

My apologies in advance to readers in Wells, Elko, Battle Mountain, and Winnemucca, Nevada.

It is a route long traversed by roving banks of Indians, itinerant fur traders, the Pony Express, my own immigrant forebearers in wagon trains, the transcontinental railroad, the Lincoln Highway, and finally US Interstate 80, which was built for the 1960 Winter Olympics at Squaw Valley.

Passing by shantytowns and the forlorn communities of the high desert, I am prompted to comment on the state of the US real estate market.

There is no doubt a long-term bull market in real estate is underway.

The good news is that we will not see a 2008 repeat when home values cratered by 50%-70%. There is just not enough leverage in the system to do any real damage. That has gone elsewhere, like in exchange-traded funds. You can thank Dodd/Frank for that, which imposed capital rules so strict, that it is now almost impossible for banks to commit suicide.

You are not going to see serious damage in a market where there is a generational structural shortage of supply.

We are probably ten years into an 18-year run at the next peak in 2028.

There are only three numbers you need to know in the housing market for the next 20 years: there are 80 million baby boomers, 65 million Generation Xers who follow them, and 86 million in the generation after that, the Millennials.

The boomers have been unloading dwellings to the Gen Xers since prices peaked in 2007. But there are not enough of the latter, and three decades of falling real incomes mean that they only earn a fraction of what their parents made. That's what caused the financial crisis.

If they have prospered, banks won't lend to them. Brokers used to say that their market was all about "location, location, location." Now it is "financing, financing, financing." Imminent deregulation is about to deep six that problem.

There is a happy ending to this story.

Millennials now aged 24-39 are already starting to kick in as the dominant buyers in the market. They are transitioning from 30% to 70% of all new buyers of homes.

The Great Millennial Migration to the suburbs has just begun. So has the migration from the coast to the American heartland. Personally, I like Reno, Nevada.

As a result, the price of single family homes should rocket tenfold during the 2020s as they did during the 1970s and the 1990s when similar demographic forces were at play.

This will happen in the context of a coming labor shortfall, soaring wages, and rising standards of living.

Rising rents are accelerating this trend. Renters now pay 35% of their gross income, compared to only 18% for owners, and less when multiple deductions and tax subsidies are taken into account.

Remember, too, that the US will not have built any new houses in large numbers in 12 years. The 50% of small homebuilders that went under during the crash aren't building new homes today.

We are still operating at only a half of the peak rate. Thanks to the Great Recession, the construction of five million new homes has gone missing in action.

That makes a home purchase now particularly attractive for the long term, to live in and not to speculate with.

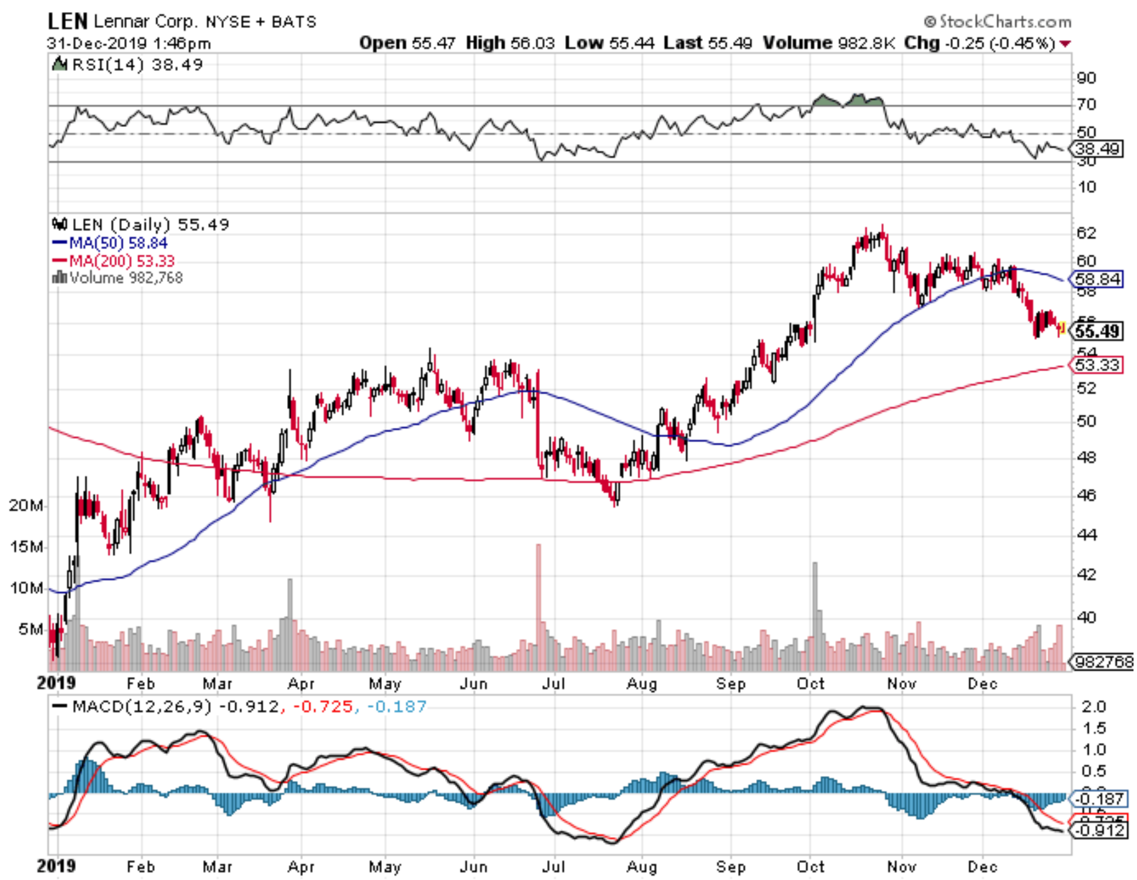
You will boast to your grandchildren how little you paid for your house, as my grandparents once did to me ($3,000 for a four-bedroom brownstone in Brooklyn in 1922), or I do to my kids ($180,000 for an Upper East Side Manhattan high-rise in 1983).

That means the major homebuilders like Lenar (LEN), Pulte Homes (PHM), and KB Homes (KBH) are a buy on the dip.

Quite honestly, of all the asset classes mentioned in this report, purchasing your abode is probably the single best investment you can make now.

If you borrow at a 4% 30-year fixed rate, and the long-term inflation rate is 3%, then, over time, you will get your house nearly for free.

How hard is that to figure out?




KBH KB Home NYSE + BATS
©StockCharts.com
31-Dec-2019 1:46pm
Open 33.89 High 34.40 Low 33.89 Last 34.24 Volume 362.9K Chg +0.26 (+0.77%)
RSI(14) 50.43
KBH (Daily) 34.24
MA(50) 34.58
MA(200) 29.10
Volume 362,862
MACD(12,26,9) -0.152, -0.136, -0.017
2019
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec

Crossing the Bridge to Home Sweet Home

9) Postscript

We have pulled into the station at Truckee in the midst of a howling blizzard.

My loyal staff has made the ten-mile treck from my beachfront estate at Incline Village to welcome me to California with a couple of hot breakfast burritos and a chilled bottle of Dom Perignon Champagne, which has been resting in a nearby snowbank. I am thankfully spared from taking my last meal with Amtrak.

After that, it was over legendary Donner Pass, and then all downhill from the Sierras, across the Central Valley, and into the Sacramento River Delta.

Well, that's all for now. We've just passed the Pacific mothball fleet moored near the Benicia Bridge. The pressure increase caused by a 7,200-foot descent from Donner Pass has crushed my water bottle.

The Golden Gate Bridge and the soaring spire of Salesforce Tower are just around the next bend across San Francisco Bay.

A storm has blown through, leaving the air crystal clear and the bay as flat as glass. It is time for me to unplug my Macbook Pro and iPhone X, pick up my various adapters, and pack up.

We arrive in Emeryville 45 minutes early. With any luck, I can squeeze in a ten-mile night hike up Grizzly Peak and still get home in time to watch the ball drop in New York's Times Square.

I reach the ridge just in time to catch a spectacular pastel sunset over the Pacific Ocean. The omens are there. It is going to be another good year.

I'll shoot you a ***Trade Alert*** whenever I see a window open at a sweet spot on any of the dozens of trades described above.

Good luck and good trading in 2020!

John Thomas
The Mad Hedge Fund Trader

The Omens Are Good for 2020!