



## Treasure Island

*"Fifteen men on the Dead Man's Chest - Yo-ho-ho, and a bottle of rum..."*

That's a quote from Robert Louis Stevenson's first masterpiece *Treasure Island*, in case you were wondering about its *actual* genesis. It fits today's market narrative because it's a story about crazy pirates and buried gold. Right now we've got crazy pirates ravaging the S&P while gold, Goldman Sachs, GE, Apple and High Yield get buried. Those are *NOT* signs of a healthy market.

*Scared Straight* on November 8<sup>th</sup> made a few specific recommendations. First, reducing equity portfolio on the rally to S&P 2820 and second, 'harvesting' VIX on the dip while actual volatility was outperforming implied. This is why. You can hear the sound of capital first getting burned, and then exiting traditional hedge funds. That number is up to \$11B so far this year. That's only 1% of HF assets so there's no reason it can't snowball. Money is going to flow to where its treated best and this whipsaw volatility will shake even more investors out before it's over. Yesterday's tape was an abomination behind the most popular stock in the most popular sector.

While the S&P is behaving so well technically with the VIX in my wheelhouse at 20 - on a close below the October 11<sup>th</sup>, 2712 low, I will be on red alert and it's only a ~~breath~~ 30 points away. That will mean a retest of the recent 2603 low and possibly the 2550 lows from post Volmageddon, but let's fall down one step at a time.

Apple suppliers (Lumentum Holdings, Corvo, Cirrus Logic) guided lower and the stock cratered to 200dma support in a rare 5% slide. The chart below right illustrates how AAPL just put in a big "Gambrel Roof" peak as it descends to the old breakout level where the *ONLY* great trade on the board was to buy APPL with Warren Buffett after they whooped earnings and took off. With the speed of the descent, there is now a lot of trapped capital up at \$220. At this price they'll hold on, and then by the time their statement is marked to market for mailing at the end of the month, AAPL will be at 180, and they'll all say, "**SELL THIS POS.**" And then it will be a buy, but I'm getting ahead of myself. I'm doing that for a reason. The macro market is churning in the same way it was when the S&P was under heavy pressure.

On the macro landscape – King Dollar came into the week like a wrecking ball. There's been a slight pause this morning as U.S. banks come back to work but the tone has been set. The euro has fallen below the August €1.1300 low to levels not seen since June 2017 as it awaits Italy's Excessive Deficit Procedure and new fiscal plan. The yen is slowly burning toward ¥114.00 because the BOJ's balance sheet reached the size of its economy. Cable put in a third peak at £1.3175 and failed as May's Brexit proposal swims upstream. Even if a deal is reached it will need parliamentary support so we're a long way from "BUY THE POUND" resolution headlines. Strong dollar kills everything in its path, remember?

EMFX is featuring another charge toward 7.00 for China's yuan which will invoke a firm response from the PBOC. The China Morning Post reported that Vice Premier Lu He will visit the U.S.





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for talks aimed at easing trade tensions, and the yuan is *still* weakening toward the lows. My guess is Premier He is coming to say Uncle. The election party in Brazil seems to have petered out. USDBRL tested 200dma support at 3.6500 and the real has begun weakening again because one election does not avert economic disaster. We're about to get a flood of U.S. data this week which the Citi Economic Surprises Index (chart right) tells us has been on the uptick summer. What does it all mean? With JP Morgan's EM FX Index (wnd chart) failing major resistance, I'm leaning toward this entire move SNOWBALLING lower into the end of the week. Remember what else was getting caned alongside the yuan? Correct, gold and it is making lows below \$1200 right on schedule.

On the home front I can't help but notice the High Yield etf HYG dangling at the bottom of my screen. That 60 basis point loss yesterday is really a 2-sigma move in High Yield. A 'low and last' close on Monday has to shake up your risk profile.

I'm willing to listen to Paul Tudor Jones. TAKE PAIN! TAKE PAIN! Is ringing in my ear as I check my Conoco Phillips and Unleaded gas entry levels. The energy complex response to the potential Saudi output cuts yesterday was decidedly BAD. No new levels have been broken, but the slide in crude hasn't officially ended, let alone reversed. With the size and historic nature of this washout, I'm watching the February low at \$58.00 in WTI and this 50% pullback level of 159.15 in gasoline (bottom chart) as my lines in the sand.

The way the media is getting hysterical over this oil washout, I don't think I'm going to cross them.

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My stop is over here. Come and get me.





**IAI DON'T LIKE BROKER DEALERS** - Malaysia wants a refund! I laughed hard at that statement by Malaysia's finance minister, only because we're short U.S. broker dealers via IAI on the View Matrix and this guy was just caught on tape sleeping in Parliament. Now he's having a "Come to Jesus" moment during a global corruption probe of Malaysia's sovereign wealth fund. The DOJ implicated 3 senior bankers for bribing officials and laundering money. Those bankers include Goldman Sachs Managing Director Tim Leissner who pleaded guilty to conspiring to launder money and to violating the Foreign Corrupt Practices Act anti-bribery provision. Talk about bad decisions.

GS raised \$6.5B for 1MDB. If you add legal fees to the \$600M in fees Malaysia is looking to recoup, this is a potential \$1B situation for Goldman Sachs. Malaysian fund 1MDB is at the heart of a big global investigation which puts a tremendous amount of GS reputational capital on the line.

In aggregate, the Goldman Sachs faces suits and/or investigations tied to swaps and stock lending platforms, platinum and palladium trading, U.S. Treasury dealing, the Foreign Corrupt Practices Act violation, and the bank's dark pool, which could cost another \$1 billion dollars.

They definitely have the money, but as you can see the headlines are having a supremely NEGATIVE effect on the price of the stock which has relinquished 10% in two sessions. It has violated all lows of the recent neckline – ON A CLOSING BASIS. At this point I think every major holder will be in line to sell rallies toward \$220.

The move in GS caused a violent pullback in IAI with other members – Evercore, Stifel, Lazard, and Morgan Stanley following GS's lead down. The IAI chart illustrates that it failed exactly where it should have – at moving average and range bottom resistance so it might be time to press our best.

I knew GS was in trouble when the BRIEFING newsletter landed in my mailbox yesterday morning. It's not good is it Lloyd? **"It's not good."** – Lloyd Blankfein yesterday.



## Catch-Up With David: David Solomon Talks with Entrepreneurs at Builders + Innovators Summit



*"Then he shows me a bar tab for a billion ringgits from the Kitty Kat Lounge, in Kuala Lumpur and I'm like, 'Dude!'"*





## STUDY BREAK

**"Don't judge each day by the harvest you reap but by the seeds that you plant."** – Robert Louis Stevenson, born November 13, 1850, Edinburgh, United Kingdom reciting the *Mantra of the Entrepreneur*

**"We have the holy grail of audiences – young, rich, smart and super engaged."**  
– Raoul Pal, Real Vision founder



### dis·rupt / dis'rəpt / verb

1. interrupt by causing a disturbance or problem for existing financial television platforms.
2. drastically alter or destroy the structure of something not doing a good enough job.

**"I used to be embarrassed because I was just a comic-book writer while other people were building bridges or going on to medical careers. And then I began to realize: entertainment is one of the most important things in people's lives. Without it they might go off the deep end. I feel that if you're able to entertain people, you're doing a good thing."** – RIP Stan Lee, *The Washington Post*

**"Iron Man. That's kind of catchy. It's got a nice ring to it. I mean it's not technically accurate. The suit's a gold titanium alloy, but it's kind of provocative, the imagery anyway."** – Tony Stark, Iron Man

**"We'll be in millions of houses and offices by the end of the year."**  
– Raoul Pal [Real Vision Is About To Look to Conquer Financial Media World](#)



**"Wine is bottled poetry."** – Robert Louis Stevenson, amen

**"We do it differently because, if you're going to pay for subscription, you want quality content. And we have the best in the world."** – Raoul Pal, \*high five\*

**"My Mother was the greatest mother in the world. She thought I was the greatest thing on two feet. I'd come home with a little composition I had written at school, and she'd look at it and say, 'It's wonderful! You're another Shakespeare!'"** – Stan Lee, and me

**"That man is a success who has lived well, laughed often and loved much."** – Robert Louis Stevenson



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VIEW MATRIX				
BULLISH	TICKER	Added	REASON	ALL BETS ARE OFF
LONG RISK \$64	XLE (RV)	Day 1	undervalued/Oil fundamentals	< \$62
ON WATCH	COP	9-Nov-18	oil and COP into technical support	<\$65
	UGA	9-Nov-18	gasoline oversold	<\$27.80
	CGC	15-Oct-17	global growth/position	< \$19
	MPC (RV)	21-Mar-18	uniquely positioned refiners	< \$65
ON WATCH	COPPER	12-Nov-18	global growth	copper < \$5,800
	OIL	8-Nov-16	global growth/physical setup	WTI < \$58
	DXY	30-Aug-18	KING DOLLAR	DXY < 92.50
BEARISH	TICKER	Added	REASON	ALL BETS ARE OFF
SELL THE RALLY SURF SUB \$26	SX7E	3-Jun-17	technicals/Turkey link	> \$135
	EEM (RV)	10-May-18	technicals/US strength	> \$42
	SOCL	12-Sep-18	CREDIBILITY/TECHNICALS	> \$34.25
	IAI	1-Oct-18	techincal breakdown/\$45 Target	> \$66
SELL THE RALLY	IWM	11-Oct-18	techincal breakdown/\$28 Target	> 165
	GOLD	Day 1	mkt position	> \$1275
	GBP	19-Oct-18	2X TOP	> £1.3300



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