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Dear Chris,

Chris Temple
Editor/Publisher

As of the lows of yesterday when the S&P 500 "tagged" its key 200-day moving average, stocks had fallen by nearly 12% from their late January high. Coming after the record-breaking and uninterrupted rise of the prior 15 months or so, it should have come as no surprise.

But it was the suddenness and ferocity of this plunge that caught *most* unawares. And especially considering how spoiled traders had become--and how over-the-top the media and certain pundits can be--you'd have thought an asteroid had just hit the Earth!

Immediately--before we had even dropped by the double digits characteristic of a bona fide recession--**there were calls at the beginning of the week for the Fed to come to the "rescue."** That won't be happening any time soon, as I'll be explaining further in a new issue of *The National Investor* coming out this next week (**NOTE:** If you do not have a current Membership, you *won't* be receiving the next issue, together with a recap of my various recommendations and additional NEW ones coming out imminently! **VISIT ME HERE** to fix that dilemma!!)

There are also renewing calls for more regulation--if not the abolition--of **some of the most toxic types of trading instruments** which exacerbated this week's correction. That you *will* see.

And as I am sure is already very much the case, you're *guaranteed* to see and hear from a variety of perma-bears, "sky is falling" promoters and the rest that "I told you so!" Yes, stopped watches are even right twice a day; and some day these carnival barker-types WILL be right. We WILL see another larger bear market/deflation scare which, when it shows up, will make the last two weeks seem like a walk in the park.

But you know me. I leave the hype to the others. I call things as I see them.

And my current view is that the necessary ingredients simply do NOT exist for that more 2008-like outcome. Not yet. Sure; as I regularly point out, *the nature of our system* carries with it every day the *possibility* of such a thing happening.

But if we look dispassionately at the current environment--not as a perma-bull or a perma-bear with *preconceived* notions/beliefs--I think there is **a scenario unfolding we will have with us for a while that falls between these two extremes.**

1. The story IS of *a two-way market's* return.

I suggested to my Members yesterday morning in an early e-mail alert before I went back to the floor of **this year's Orlando edition of [The Money Show](#)** that I expected the S&P 500 to get down to its key 200-day moving average *but then bounce*. It did so. And we sold the last half of our inverse ETF's that *short* the stock market at the lows (the other half we sold at the open on Tuesday.)

So happily--on top of a successful short bet against the recent plunge in the natural gas price (though we got stopped out just before yesterday's added drop; you can't win them all!)--the last week or so

was not all bad for our Members. **All told, those trades *added* about 3% on average to our *overall* portfolio's performance.**

Now, we have a higher cash position than we have had in a while; that will continue to serve us well as we look for other glaring opportunities to *trade* as well as, one-by-one, pick off *individual companies* too compelling to pass up.

The bottom line on the market generally is this: **It is a *two-way* market once again**. For now, put aside the "crash versus bull market resumption" talk and understand THAT more important fact of life.

Frankly, I *can* see a scenario where the secular bull does right itself and we eventually exceed the late January all-time highs before the "big one" comes again. But for the foreseeable future, get used to the kind of heightened volatility we have seen these last two weeks. . .*and learn how to use it to your advantage.*

2. One key: interest rates' behavior --

There is little question as to **the two core causes** of the *suddenness* of this correction especially. The first was the acceleration in the rise of long-term interest rates; as with stocks' correction, itself long overdue.

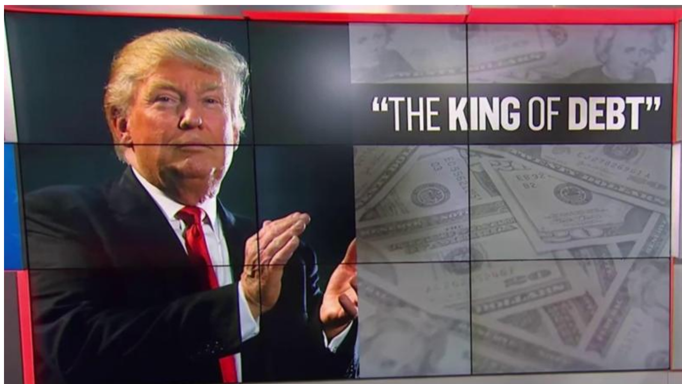
Here again, I'll have a lot more to say about this in the next issue. But for present purposes, even if things settle down for a bit, **expect the increase in yields to continue.** The only question will be whether it goes back to a slower pace as we had through early January, or we see another spurt higher that is sharper.

The former will help insure that--though volatile--stocks don't add markedly to their losses, if at all; but instead stay in an erratic but tighter range. The latter would be more likely to lead to a further, significant leg down for stocks.

"I'll start selling bonds if you do not take steps to reel in inflation."

Besides the return of a two-way market for stocks, **we also will have to increasingly reckon with the return of the bond market vigilante of old**. When I first got into this industry all the way back in 1979 (DANG, *almost 40 years* now? I'm getting old!) the bond vigilante was in his hey day. The Treasury market was beaten bloody as bonds were sold to punish Washington for the debauching of the dollar, rising inflation and deficits.

In recent years--though "gold bugs" like to tell you that *their* favorite asset's price is "suppressed" by some grand conspiracy or cartel--it's been **sovereign debt whose "prices" (interest rates) have been suppressed by the market intervention for the ages on the part of central banks.** The bond vigilantes that didn't die of old age were effectively *murdered* along the way by the Fed, E.C.B., B.O.J. et al.



But some are returning; and they smell blood in the water. A key question in the months ahead will be just how much they decide to really beat up on Treasuries again, with inflation moderating and with President Donald "I Love Debt" Trump leading a drunken, budget-busting orgy that is about to return us to a $1 trillion annual deficit in GOOD times!

Bottom line: the best we can hope for is a "sideways" stock market for an extended period of time; and that's *if* the rise in rates slows down some.

3. The VIX "shorts" were the second culprit.

Those of you who get *The National Investor* or otherwise follow some of my public commentaries/podcasts know that I warned of EXACTLY this kind of thing in recent months that *everyone else* was forced to talk about this week.

In short (pun unavoidable!) glib traders believing that stocks only go up now decided to augment their gains **by shorting volatility**. What this means is that they bet against the price of options represented by the S&P's Volatility Index, or "VIX." They placed bets that volatility would stay low or go lower; something their "shorting" helped cause. And they did so in large part through a couple of VERY risky ETN's "Exchange-Traded Notes."

Adding another layer to all this, they then went long stocks. And for quite a while in this relentless melt-up made so by these kind of bets, one side of this trade reinforced the other.

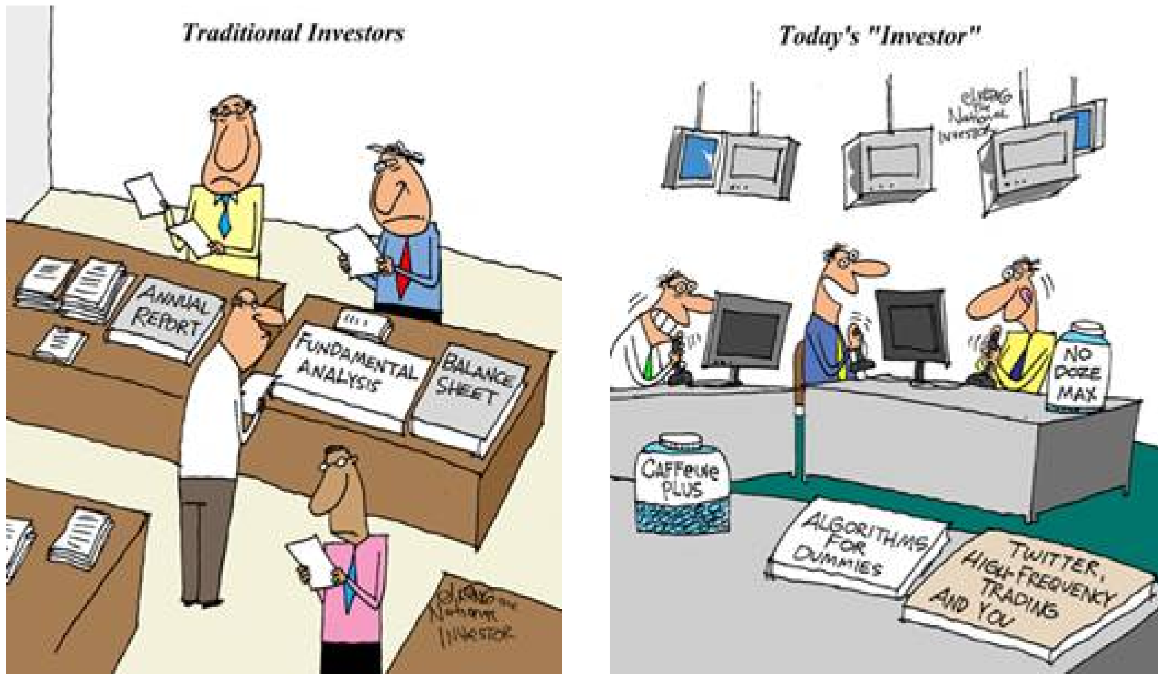
But then it reversed in scarcely more than the blink of an eye, starting earlier this past week, as I chronicled at the time. As the long-dormant VIX spiked, traders short that measure had to cover. They had to sell their leveraged bets, imploding the "value" of their ETN's, and/or buy back options they had specifically sold/shorted.

And then, as a consequence, they had to *sell* the stocks they'd bought.

The appearance is that the worst of this stress is behind us; at least for *this* episode. If so, we should see the reversal that took stocks higher yesterday continue, albeit erratically, for a little while.

For all I know, that may well lead to yet another opportunity to short the stock market a little later. I'll make that call for Members if/when the time comes.

4. Behaving like *investors* again.



Once again, irresponsibility *and idiocy* on the part of Wall Street with its never-ending array of casino-like products has brought misery to the investing public, **together with yet another black eye**. This weekend, individual investors will be looking at their suddenly-thinner 401(k) balances that their president crowed about during his State of the Union message. . .learn of the press reports of how yet again the "casino" attitude of today's traders has screwed *them*. . .etc.

There are no guarantees as to anything. And as I opined above, I DO expect down the road that we will get the next, broader/secular bear market in stocks.

For now, the odds that THIS storm is largely past might be increased by SWIFT news from regulators that they are clamping down on the dopiest of these funds. As they do they should adopt the tone that Fed officials thankfully did this week: that they do not exist to cover losses for careless *morons*.

With that I personally embrace the return of a two-way market *for as long as it lasts*. Inevitably, the day will come again when the Fed IS forced to reverse course; lowering interest rates and even adding another zero to its Q.E. budget next go-round.

But between now and then I see an interlude, now unfolding, where those who behave as traditional investors are again rewarded.

If you want to get THE best take I personally heard about **how sober, sensible investors should behave right now**, go back and watch an hour's worth of wisdom from Omega Advisors CEO Leon Cooperman, from this past Wednesday on *CNBC*. (This hyper link should take you to numerous video segments which started at about Noon Eastern time.)

Far from believing the overall market is "cheap" even after this correction he none the less offers both calm and sage advice as to how to navigate this renewed two-way market.

Aside from all that, I'll be adding to those principles--and MORE--in this next issue and afterward as we wave "farewell" to the goosed "Trump Rally" and get back to more *reality*.

DON'T FORGET -- If you are not a current Member, VISIT ME HERE to make sure you get all this--*and updates on numerous more of my recommendations*--as soon as the new issue is released.

All the best,

Chris Temple -- Editor/Publisher
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