The Mad Hedge Fund Trader

Global Market Comments
January 5, 2017
Fiat Lux

2017 Annual Asset Class Review
A Global Vision
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Featured Trade:
(SPX), (QQQ), (XLF), (XLE), (XLI), (XLY),
(TLT), (TBT), (JNK), (PHB), (HYG), (PCY), (MUB), (HCP)
(FXE), (EUO), (FXC), (FXA), (YCS), (FXY), (CYB)
(FCX), (VALE), (MOO), (DBA), (MOS), (MON), (AGU), (POT), (PHO), (FIW),
(CORN), (WEAT), (SOYB), (JJG)
(DIG), (RIG), (USO), (UNG), (OXY),
(GLD), (GDX), (SLV),
(ITB), (LEN), (DHI)

S&P 500 (^SPX) | PowerShares QQQ ETF (QQQ) | Financial Select Sector SPDR ETF (XLF) | Energy Select Sector SPDR ETF (XLE) | Industrial Select Sector SPDR ETF (XLI) | Consumer Discret Sel Sect SPDR ETF (XLY) | iShares 20+ Year Treasury Bond (TLT) | ProShares UltraShort 20+ Year Treasury (TBT) | SPDR Blmbg Barclays High Yield Bd ETF (JNK) | PowerShares Fundamental HiYld CorpBd ETF (PHB) | iShares iBoxx $ High Yield Corporate Bd (HYG) | PowerShares Emerging Markets Sov Dbt ETF (PCY) | iShares National Muni Bond (MUB) | HCP, Inc. (HCP) | CurrencyShares Euro ETF (FXE) | ProShares UltraShort Euro (EUO) | CurrencyShares Canadian Dollar ETF (FXC) | CurrencyShares Australian Dollar ETF (FXA) | ProShares UltraShort Yen (YCS) | CurrencyShares Japanese Yen ETF (FXY) | WisdomTree Chinese Yuan Strategy ETF (CYB) | Freeport-McMoRan Inc. (FCX) | Vale S.A. (VALE) | VanEck Vectors Agribusiness ETF (MOO) | PowerShares DB

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

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

I am not Houdini, so I go downstairs to use the larger public showers.

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 accomplishment.

I am headed for Emeryville, California, just across the bay from San Francisco. 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. Word's spellchecker can catch most of the mistakes, but not all of them.
Thank goodness for small algorithms and my terrific editor.

As both broadband and cell phone 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 chase down data points and download 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 a lot 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 with an iPhone 6 camera.

After making the rounds with strategists, portfolio managers, and hedge fund traders in the run up to this trip, I can confirm that 2016 was one of the toughest years to trade for careers lasting 30, 40, and even 50 years.

The stay-at-home index players had their heads handed to them until the election. After that, it was nirvana, up from -2% on the year during the November 8th overnight low to a New Year's close of +10%.

For most portfolio managers, this was a year of endless frustration. Volatility fell to the floor, staying at a monotonous 12 handle for six boring consecutive months while also spiking repeatedly many times to as high as 32.

Polls were your worst enemy in 2016, failing to accurately predict both Brexit and the outcome of the presidential election. And who would ever have guessed that the Chicago Cubs would win the World Series after a 108-year drought?

There were three major attempts to flush you out at the bottom in 2016. If you read my newsletter and followed its advice, you stayed the course and ignored the meltdowns.

If you didn't, you're probably looking for a new job on Craig's List.

Most hedge funds lagged the indexes by miles.

My **Trade Alert Service** hauled in an astounding 26.88% profit and, at its high, was up 32%, becoming the talk of the hedge fund industry.

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 facing in the coming year:

The Seven Key Variables for 2017

1) We know what Donald Trump said. What will he do?
2) How much of Trump's plans can he get through congress?
3) How much will the government have to borrow to accomplish them?
4) Will there be a trade war with China?
5) How many times will the Fed raise interest rates?
6) How high will the dollar climb?
7) How much will an accelerating US economy cause oil to rise?

Here are your answers to the above: Even Donald Trump doesn't know; some; tons; no, but it will feel like it; three; a lot; and some.

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 your beauty rest.

The Ten Highlights of 2017

1) Stocks will finish higher in 2017, almost certainly more than in the previous year, somewhere in the 10% range, and 12% with dividends. Cheap energy, a recovering global economy, deregulation, and 3%-3.5% GDP growth will be the drivers. However, this year we have a headwind of rising interest rates and rising multiples.

2) Expect stocks to take a 10% dive sometime in 2017. It could be due to a congressional failure to deliver Trump's tax cuts and spending promises, trade tensions with China, or an unforeseen geopolitical event.

That gives us a -10% to +10% trading range for the year. Volatility will remain low most of the time, with the occasional out-of-the-blue shocker triggering several large spikes up. That means you won't have to pedal as hard to earn your crust of bread in 2017.

3) The Treasury bond market will continue to get slaughtered, thanks to Trump's coming borrowing binge. The ten-year Treasury yield should hit 3.50%

4) The Japanese yen will lose another 10% against the dollar, taking us to ¥130.

5) The Euro will fall another 5%, finally smashing parity with the greenback for the first time in 17 years, with the assistance of beleaguered continental governments.

6) Oil stays in a $45-$65 range, showering the economy with hundreds of billions of dollars worth of ***de facto*** tax cuts when compared to the 2014 $107 high.

7) Gold finally breaks $1,000, after one more panicky flush, as investors flee to positive yielding instruments.

8) Commodities continue to rise, thanks to a reviving global economy and the return of inflation.

9) Residential real estate has made its big recovery, and will grind up slowly from here for years, driven by a gale force demographic tailwind.

10) With the presidential election out of the way, optimism returns to the US economy.

The Thumbnail Portfolio

Equities - Go Long. The eighth year of the bull market takes the S&P 500 up from 2,260 to 2,500. Financials, energy, and technology will lead. Pharmaceuticals and biotech should find their bottoms and bounce hard.

Bonds - **Sell Short**. Down for the entire year big time. Sell short every five-point rally in the ten-year Treasury bond.

Foreign Currencies - **Sell Short**. The US dollar maintains its bull trend, especially against the Yen and the Euro. Sharply rising US interest rates tell the whole story.

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

Precious Metals - **Sell**. Rising US rates are a death knell for the barbarous relic, and we should break $1,000 to the downside soon.
Agriculture - **Avoid**. Structural over supply and the albatross of a strong dollar make them better to consume than own.

Real Estate - **Go Long**. A multi-decade demographic tailwind is just starting, and interest rates will stay low enough not to hinder home prices for a few years.

1) *The Economy-Accelerating*
Promised fresh government stimulus should take this economic recovery into its eighth year and beyond. The Fed will hand the baton to congress which is expected to pass a major infrastructure budget.

Substantial individual and corporate tax cuts should add fuel to the fire.

As a result, I expect real US economic growth will jump from the 2% level of recent years to the 3.0%-3.50% range.

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

US corporate profits will keep pushing to new all time highs, with tax cuts taking earnings to as high as $145 a share for the S&P 500, a gain of 15% over the previous year.

Whatever portion of the $2.5 trillion in offshore funds held by American companies expected to be repatriated back to the US will largely end up repurchasing the company's own shares.

Bid a fond farewell to the free lunch of zero interest rates. But the cost of money will rise slowly enough to keep profits growing.

Of course, all of this will come at the price of sharply higher inflation.

That will be the natural outcome of launching a major jobs program on top of a headline unemployment rate at a decade low of 4.9%, coupled with jobless claims at four decade lows.

A Rocky Mountain Moose Family

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

Now that we are in a brave new world, you can expect stock earnings multiples to rise.

The reason is very simple. Trump proposals have corporate tax rates falling to as low as 15%. Any earnings stream subject to lower tax rates is worth more money and justifies higher multiples.

If multiples leap by 5%, from the current 20X to 21X, profits increase by 10%, and if you throw in a 2% dividend, you should net out a 17% return by the end of the year.

This is not an outrageous expectation, given the 10-22 earnings multiple range that we have enjoyed during the last 30 years.

That may not actually happen because some Trump plans will take months, if not years, to implement.

One thing I learned during my time in the White House is that it is almost impossible to get anything done in the swamp that is Washington, even when everyone agrees. The president elect has not counted on the presence of 10,000 lobbyists.

So, I stick with my prediction of a 10% market gain.

The market currently trades around fair value, and no market in history ever peaked out there. An overshoot to the upside, often a big one, is mandatory. That is years off.

So what to buy?

The one liner here is that the new trends that started after the election will continue well into the New Year.

Financials will absolutely be the best place to be for the next several years as they enjoy an investment perfect storm.

Rising interest rates, deregulation, rising share trading volumes, and increased loans should boost earnings by 45% in 2017 alone.

Expanding multiples could add another 10%-20%. This is why financials have been the best performing sector, up 20% since November 8th.

Materials and energy stocks will continue to prosper on the back of rising commodity prices and accelerating global economic growth. These sectors will also be your inflation plays.

Consumers with more money in their pockets to spend mean that consumer discretionary shares will be bought.

While technology may be out of fashion at the moment, you can expect it to make a comeback as well.

It turns out that the most profitable companies in history benefit quite a lot from tax cuts. They also own the lion's share of offshore funds to repatriate.

If Trump backs off from his globalization threats, as I expect, this sector will rocket.

Not to back off would bring another Great depression. Trump is certainly not going to want to be known as the second Herbert Hoover.

In the meantime, use the post Christmas sales to take advantage of some great prices. Hey, you wanted a dip to buy into? This is the dip.

Foreign stocks have been hammered by threats of a global trade war. But a strong dollar will provide an extra stimulus missing here in the US. Watch the Japanese (DXJ) and European (HEDJ) hedged stock market ETFs very carefully.

Rising interest rates will eventually have a worrying impact on stock prices. They will pare back mergers and acquisitions and corporate stock buy backs in 2017. But they won't rise enough to really hurt profits for a couple of years.

Yes, we are in a sweet spot for equity investment.

After spending years in the penalty box, look for small cap stocks to outperform. These are the biggest beneficiaries of cheap energy and deregulation.

Share prices will deliver anything but a straight-line move. Expect a couple more 10% plus corrections in 2017, and for the Volatility Index (VIX) to revisit 30 multiple times. The higher prices rise, the more common these occurrences will become.


SPY SPDR S&P 500 ETF NYSE
©StockCharts.com
30-Dec-2016 2:30pm Open 226.02 High 226.73 Low 223.11 Last 223.13 Volume 196.1M Chg -2.58 (-1.14%)
RSI(14) 62.69
SPY (Weekly) 223.13
MA(50) 207.75
MA(200) 187.82
Volume 196,119,088
MACD(12,26,9) 4.192, 3.441, 0.751


QQQ PowerShares QQQ Nasdaq GM
©StockCharts.com
30-Dec-2016 2:31pm Open 120.44 High 121.52 Low 118.19 Last 118.21 Volume 76.1M Chg -1.99 (-1.66%)
RSI(14) 56.14
QQQ (Weekly) 118.21
MA(50) 110.95
MA(200) 96.44
Volume 76,052,792
MACD(12,26,9) 1.986, 2.067, -0.081


IWM iShares Russell 2000 ETF NYSE
©StockCharts.com
30-Dec-2016 2:31pm Open 136.23 High 137.30 Low 134.53 Last 134.67 Volume 72.2M Chg -1.37 (-1.01%)
RSI(14) 64.33
IWM (Weekly) 134.67
MA(50) 116.30
MA(200) 110.65
Volume 72,217,328
MACD(12,26,9) 5.124, 4.121, 1.004


DXJ WisdomTree Japan Hedged Equity Fund NYSE
©StockCharts.com
30-Dec-2016 3:18pm Open 50.46 High 50.69 Low 49.23 Last 49.57 Volume 14.5M Chg -1.19 (-2.34%)
RSI(14) 65.69
DXJ (Weekly) 49.57
MA(50) 42.92
MA(200) 43.49
Volume 14,463,934
MACD(12,26,9) 2.156, 1.425, 0.731

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 desperate to get out of Omaha could only afford seats as far as Salt Lake City, sitting 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 were returning home by train because their religion forbade airplane travel.

A bet that bonds will fall is one of the surest things out there.

Trump’s ambitious military, infrastructure, and tax cutting plans are going to require the biggest government borrowing binge in history.

Not only that, but Trump is threatening to declare economic war on the world's largest owner and buyer of US Treasury bonds, China.

It all adds up to a massive crowding out of individual and corporate borrowers by the federal government which will be forced to bid up the price for funds. This will be a global problem.

The Federal Reserve has also taken note of Trump's plans to stimulate an economy already in the seventh year of a recovery. So you can also count on two to three more 25 basis point hikes in overnight interest rates.

You see that 2.43% yield for the ten-year Treasury bond you see on your screen today. You will laugh at that figure in a year.

Current bond investors 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 a decade down the road for every dollar they have invested today.

It all means that we are now only five months into a bear market that could last for ten or twenty years.

The iShares 20+ Year Treasury Bond ETF (TLT), trading today at $119, could drop to $60. The 2X ProShares UltraShort 20+ Treasury Bond Fund (TBT), now at $41, is headed for $100 or more.

Reaching for yield suddenly went out of fashion for many investors in July which is typical at market tops.

As a result, REITS (HCP), and master limited partnerships (AMLP) are showing their first value in six years.

Municipal bonds (MUB) will continue to get destroyed. Tax exemption is worth much less in a falling tax rate world. At least the market thinks so.

Junk Bonds (HYG) will be the only fixed income market you will want to know in 2017, dragged up kicking and screaming all the way by the rising stocks.


TLT iShares 20+ Year Treasury Bond ETF Nasdaq GM
© StockCharts.com
30-Dec-2016 3:02pm
Open 117.42 High 119.65 Low 117.23 Last 119.12 Volume 29.7M Chg +1.07 (+0.91%)
RSI(14) 34.64
TLT (Weekly) 119.12
MA(50) 129.60
MA(200) 114.59
Volume 29,682,060
MACD(12,26,9) -3.945, -2.446, -1.499


TBT ProShares UltraShort 20+ Year Treasury NYSE
© StockCharts.com
30-Dec-2016 3:02pm
Open 42.03 High 42.15 Low 40.48 Last 40.82 Volume 8.5M Chg -0.80 (-1.92%)
RSI(14) 63.97
TBT (Weekly) 40.82
MA(50) 35.63
MA(200) 52.59
Volume 8,458,721
MACD(12,26,9) 2.010, 1.122, 0.889


HYG iShares iBoxx $ High Yield Corporate Bond ETF NYSE
©StockCharts.com
30-Dec-2016 3:10pm
Open 86.49 High 86.70 Low 86.36 Last 86.46 Volume 22.6M Chg -0.14 (-0.16%)
RSI(14) 62.14
HYG (Weekly) 86.46
MA(50) 81.78
MA(200) 80.13
Volume 22,593,382
MACD(12,26,9) 1.030, 1.079, -0.049


MUB iShares National Muni Bond ETF NYSE
©StockCharts.com
30-Dec-2016 3:09pm
Open 107.78 High 108.37 Low 107.70 Last 108.32 Volume 8.0M Chg +0.49 (+0.46%)
RSI(14) 39.94
MUB (Weekly) 108.32
MA(50) 110.47
MA(200) 104.11
Volume 7,995,251
MACD(12,26,9) -0.957, -0.605, -0.352

A Visit to the 19th Century

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

Here is the other no brainer trade for 2017.

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

This year will prove that concept once again, but with a turbocharger.

The US has far and away the strongest major economy in the world, and it is now pulling away even faster. Interest rates are rising at an ever faster rate, while the rest of the world remains flat.

So the dollar will remain strong against all major currencies, especially the Japanese yen (FXY), the Euro (FXE), as well as the Australian (FXA) and Canadian (FXC) dollars.

If you can only sell short one currency, make it the Japanese yen.

The problems in the Land of the Rising Sun are almost too numerous to count.

It has the world's highest debt to GDP ratio, a horrific demographic problem, flagging export competitiveness against neighboring China and South Korea, and the world's lowest developed country economic growth rate.

The dramatic sell off we saw in the Japanese currency since July is the beginning of what I believe will be a multi decade move down. Look for ¥130 to the dollar sometime in 2017 and ¥150 further down the road.

I have many friends in Japan looking for an overshoot to ¥200, but they tend to wear tin hats. Take every 3% pullback in the greenback as a gift to sell again.

For a sleeper, use the next plunge in emerging markets to sell short the Chinese Yuan ETF (CYB) for your back book. Losers of trade wars always have weak currencies.

But don't expect the Yuan to drop by much. The Middle Kingdom will move heaven and earth in order to keep its appreciation modest to maintain their crucial export competitiveness in Europe and emerging markets, even if they can no longer export as much to the US.

FXE CurrencyShares Euro Trust NYSE
©StockCharts.com
30-Dec-2016 Open 101.53 High 102.73 Low 100.78 Close 102.26 Volume 2.2M Chg +0.74 (+0.73%)
RSI(14) 36.29
FXE (Weekly) 102.26
MA(50) 107.93
MA(200) 119.26
Volume 2,231,296
MACD(12,26,9) -1.832, -1.310, -0.522

FXY CurrencyShares Japanese Yen Trust NYSE
©StockCharts.com
30-Dec-2016 Open 82.18 High 82.97 Low 81.92 Close 82.52 Volume 424.4K Chg +0.30 (+0.36%)
RSI(14) 31.73
FXY (Weekly) 82.52
MA(50) 89.49
MA(200) 89.70
Volume 424,363
MACD(12,26,9) -2.270, -0.880, -1.390


FXA CurrencyShares Australian Dollar Trust NYSE
©StockCharts.com
30-Dec-2016 Open 71.88 High 72.48 Low 71.70 Close 72.18 Volume 115.2K Chg +0.39 (+0.54%)
RSI(14) 38.20
FXA (Weekly) 72.18
MA(50) 74.29
MA(200) 81.09
Volume 115,158
MACD(12,26,9) -0.484, 0.002, -0.486


CYB WisdomTree Chinese Yuan Strategy Fund NYSE
©StockCharts.com
30-Dec-2016 Open 23.49 High 23.60 Low 22.89 Close 23.26 Volume 91.2K Chg -0.08 (-0.34%)
RSI(14) 23.29
CYB (Weekly) 23.26
MA(50) 24.42
MA(200) 24.94
Volume 91,164
MACD(12,26,9) -0.312, -0.235, -0.078

5) Commodities (FCX), (VALE), (MOO), (DBA), (MOS), (MON), (AGU), (POT), (PHO), (FIW), (CORN), (WEAT), (SOYB), (JJG)

As I have been predicting, industrial commodities, like copper, iron ore, and coal, have been on a tear all year, discounting the recovery of both China and the global economy.

You can expect these trends to continue for the next couple of years. However, gains will be more muted than in the past.

Now that their infrastructure is largely built out, the Middle Kingdom will change drivers of its economy.

The shift will be from foreign exports to domestic consumption.

This will be a multi-decade process, and they have $3.1 trillion in reserves to finance it. It will still demand prodigious amounts of imported commodities, but not as much as in the past.

This trend ran head on into a decade long expansion of capacity by the commodity industry, delivering the five-year bear market that we are only now just crawling out of.

The derivative equity plays here, Freeport-McMoRan (FCX) and Companhia Vale do Rio Doce (VALE), have been a couple of the best performing assets of 2016.

The food commodities were certainly the asset class to forget about in 2016, as perfect weather conditions and over planting produced record crops for the second year in a row which demolished prices.

The associated equity plays took the swan dive with them. Not even the arrival of a ***La Nina*** weather pattern could bail them out.

However, the ags are still a tremendous long-term Malthusian play. The harsh reality here is that the world is making people faster than the food to feed them, with the global population jumping from 7 billion to 9 billion by 2050.

Half of that increase comes in countries unable to feed themselves ***today***, largely in the Middle East.

The idea here is to use any substantial weakness, as we are seeing now, to build long positions that will double again if global warming returns in the summer or if the Chinese get hungry.

The easy entry points here are with the corn (CORN), wheat (WEAT), and soybean (SOYB) ETFs. You can also play through VanEck Vectors Agribusiness ETF (MOO) and PowerShares DB Agriculture Fund (DBA), and the individual stocks Mosaic (MOS), Monsanto (MON), Potash (POT), and Agrium (AGU).

The grain ETF (JJG) is another handy fund. Though an unconventional commodity play, the impending shortage of water will make the energy crisis look like a cakewalk.

You can participate in this most liquid of assets with the ETFs, PowerShares Water Resources Portfolio (PHO) and First Trust ISE Water Index Fund (FIW). These are all great infrastructure plays which should benefit from increased government spending.


FCX Freeport-McMoRan, Inc. NYSE
©StockCharts.com
30-Dec-2016
Open 13.95 High 14.12 Low 13.13 Close 13.19 Volume 66.5M Chg -0.62 (-4.49%)
RSI(14) 53.93
FCX (Weekly) 13.19
MA(50) 10.91
MA(200) 21.35
Volume 66,478,080
MACD(12,26,9) 0.929, 0.756, 0.173


CORN Teucrium Corn Fund NYSE
©StockCharts.com
30-Dec-2016
Open 18.71 High 19.02 Low 18.60 Close 18.71 Volume 228.1K Chg +0.14 (+0.75%)
RSI(14) 42.95
CORN (Weekly) 18.71
MA(50) 20.18
MA(200) 27.06
Volume 228,150
MACD(12,26,9) -0.374, -0.441, 0.066


DBA PowerShares DB Agriculture Fund NYSE
©StockCharts.com
30-Dec-2016
Open 19.98 High 20.10 Low 19.95 Close 19.97 Volume 426.2K Chg +0.02 (+0.10%)
RSI(14) 48.07
DBA (Daily) 19.97
MA(50) 20.16
MA(200) 20.75
Volume 426,231
MACD(12,26,9) -0.048, -0.054, 0.005
11 18 25 Aug 8 15 22 29Sep 12 19 26 Oct 10 17 24 Nov 7 14 21 28Dec 12 19 27


PHO PowerShares Water Resources Portfolio Nasdaq GM
©StockCharts.com
30-Dec-2016
Open 24.86 High 25.06 Low 24.51 Close 24.59 Volume 103.9K Chg -0.29 (-1.17%)
RSI(14) 55.06
PHO (Weekly) 24.59
MA(50) 23.08
MA(200) 23.77
Volume 103,863
MACD(12,26,9) 0.420, 0.398, 0.022
O N D 15 F M A M J J A S O N D 16 F M A M J J A S O N D

Snow Angel on the Continental Divide

6) Energy (DIG), (RIG), (USO), (DUG), (UNG), (OXY), (XLE), (X)

I wrote endlessly at the end of 2015 and the beginning of 2016 that energy would be the top performing asset class of the year, and that is exactly what happened.

With Texas tea bottoming out at $25.50 in January and then soaring to $54 by year end, how else could it be?

I expect oil to do well this year, but by a much smaller margin. Look for a range of $45-$65.

All eyes will be focused on OPEC production, looking for new evidence of quota cheating.

The nuclear deal is permitting Iran to ramp up production to 4 million barrels a day, levels not seen since the 1970s.

And every dollar uptick in oil prices brings on more American fracking production. Notice that US rig counts have been rising since March.

OPEC production versus American frackers will create constant tension in the marketplace for all of 2017.

With nearly a quarter of Trump's cabinet appointments going to executives in the oil industry, deregulation here is a sure thing. But it was never the drag on profits that it was for the financial industry so the impact on share prices will be minimal. Most energy regulation is that the local level.

That makes energy Master Limited Partnerships, now yielding 6-10%, especially interesting in this low yield world. Since no one in the industry knows which issuers are going to go 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.

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 more than 100 black, 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.

Anyone of these inputs is miniscule on its own. But add them all together and you have a game changer.

As is always the case, the cure for low prices is low prices. We may never see $100/barrel crude again.

Add to your long term portfolio ProShares Ultra Oil and Gas (DIG), ExxonMobil (XOM), Cheniere Energy (LNG), the energy sector ETF (XLE), Conoco Phillips (COP), and Occidental Petroleum (OXY).

Skip natural gas (UNG) price plays and only go after volume plays, because the discovery of a new 100-year supply from “fracking” and horizontal drilling in shale formations is going to overhang this subsector for a very long time.

It is a basic law of economics that cheaper prices bring greater demand and growing volumes which have to be transported. However, major reforms are required in Washington before use of this molecule goes mainstream.

These were your big trades of 2016 and could be so for 2017 as well. But expect to not get much sleep at night along the way.


$NATGAS Natural Gas - Continuous Contract (EOD) CME
© StockCharts.com
30-Dec-2016
Open 3.76 High 3.90 Low 3.67 Close 3.72 Volume 479.0K Chg +0.05 (+1.25%)
RSI(14) 63.91
$NATGAS (Weekly) 3.72
MA(50) 2.60
MA(200) 3.30
Volume 478,961
MACD(12,26,9) 0.264, 0.206, 0.059
O N D 15 F M A M J J A S O N D 16 F M A M J J A S O N D


OXY Occidental Petroleum Corp. NYSE
© StockCharts.com
30-Dec-2016
Open 72.10 High 72.54 Low 71.02 Close 71.23 Volume 9.2M Chg -0.88 (-1.22%)
RSI(14) 50.19
OXY (Weekly) 71.23
MA(50) 70.89
MA(200) 74.64
Volume 9,155,219
MACD(12,26,9) -0.252, -0.368, 0.116
S O N D 15 F M A M J J A S O N D 16 F M A M J J A S O N D

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

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

On a steep curve, we pass 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 busts. So, it is timely here to write about precious metals.

Precious metals saw their first positive year in four years in 2016. But it certainly doesn't feel like it, with the barbarous relic suffering a gut churning 18.47% plunge since June.

The reasons behind the decline are screamingly obvious.

Non-interest yielding assets, like precious metals, do terribly during times of sharply rising interest rates.

As long as the world is clamoring for paper assets like stocks, gold is just another shiny rock. After all, who needs an insurance policy if you are going to live forever?

We have already broken $1,140 once, and a test of $1,000 seems in the cards before a turnaround ensues. There are more hedge fund redemptions and stop losses to execute. The bear case has the barbarous relic plunging all the way down to $700.

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, another entry point is setting up for those who, so far, have missed the gravy train.

Remember, this is the asset class that takes the escalator up and the elevator down. It has even sometimes been known to take the window.

If the institutional world devotes just 5% of its 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, if not 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 quarter of 2016.

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

For me, that pegs the range for 2017 at $900-$1,250. 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 $16 and hit $50 once more, and eventually $100.


GDX VanEck Vectors Gold Miners ETF NYSE
©StockCharts.com
30-Dec-2016
Open 19.67 High 22.24 Low 19.52 Close 20.92 Volume 404.1M Chg +1.58 (+8.17%)
RSI(14) 42.89
GDX (Weekly) 20.92
MA(50) 23.46
MA(200) 22.17
Volume 404,114,176
MACD(12,26,9) -1.345, -0.741, -0.603


$SILVER Silver - Continuous Contract (EOD) CME
©StockCharts.com
30-Dec-2016
Open 15.81 High 16.34 Low 15.76 Close 15.99 Volume 149.3K Chg +0.23 (+1.46%)
RSI(14) 38.98
$SILVER (Weekly) 15.99
MA(50) 17.30
MA(200) 18.41
Volume 149,349
MACD(12,26,9) -0.485, -0.172, -0.313

Would You Believe This is a Purple 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 bands of Indians, itinerant fur traders, the Pony Express, my own immigrant forebears in wagon trains, the transcontinental railroad, the Lincoln Highway, and finally US Interstate 80.

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 underway. We are probably five years into a 17-year run at the next peak in 2028.

Big money has been made, with some red hot markets, like San Francisco, soaring. If you live within commuting distance of an Apple (AAPL), Google (GOOG), or Facebook (FB) headquarters in California, you are looking at multiple offers, bidding wars, and prices at all time highs.

While the sales figures have recently been weak, it is a shortage of supply that is the cause. You can't sell what you don't have, at least in the real estate business.

From here on, I expect decent price appreciation well into the 2020s. Thanks to the government's massive spending plans, inflation is about to make a big comeback, and there is no better place to hide than in real estate.

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 income mean that they only earn a fraction of what their parents made.

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 age 21-37, are already starting to kick in as the dominant buyers in the market. They are just starting to transition from 30% to 70% of all new buyers in this market.

The Great Millennial Migration to the suburbs has just begun.

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 influences 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 which is discounted even further when multiple deductions and tax subsidies are taken into account.

Remember too that, by then, the US will not have built any new houses in large numbers in 10 years.

We are still operating at only a quarter 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, not to speculate on.

You will boast to your grandchildren how little you paid for your house, as my grandparents once did to me ($18,000 for a four bedroom brownstone in Brooklyn in 1922).

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 3% 5/1 ARM rate, and the long-term inflation rate is 3%, then over time you will get your house for free.

How hard is that to figure out?

S&P/Case-Shiller Home Price Indices
20-City Composite
10-City Composite
U.S. National
Percent change, year ago
Source: S&P Dow Jones Indices & CoreLogic

ITB iShares U.S. Home Construction ETF NYSE
© StockCharts.com
30-Dec-2016
Open 27.85 High 28.17 Low 27.40 Close 27.48 Volume 8.3M Chg -0.33 (-1.19%)
RSI(14) 50.37
ITB (Weekly) 27.48
MA(50) 26.94
MA(200) 25.26
Volume 8,314,343
MACD(12,26,9) 0.076, 0.013, 0.063

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 have made the 20-mile trek 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 which has been resting in a nearby snowbank. I am thankfully spared from eating my last meal on 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 an 8,200 foot descent from Donner Pass has crushed my water bottle.

The Golden Gate Bridge and the soaring spire of the Transamerica Building 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 6, pick up my various adapters, and pack up.

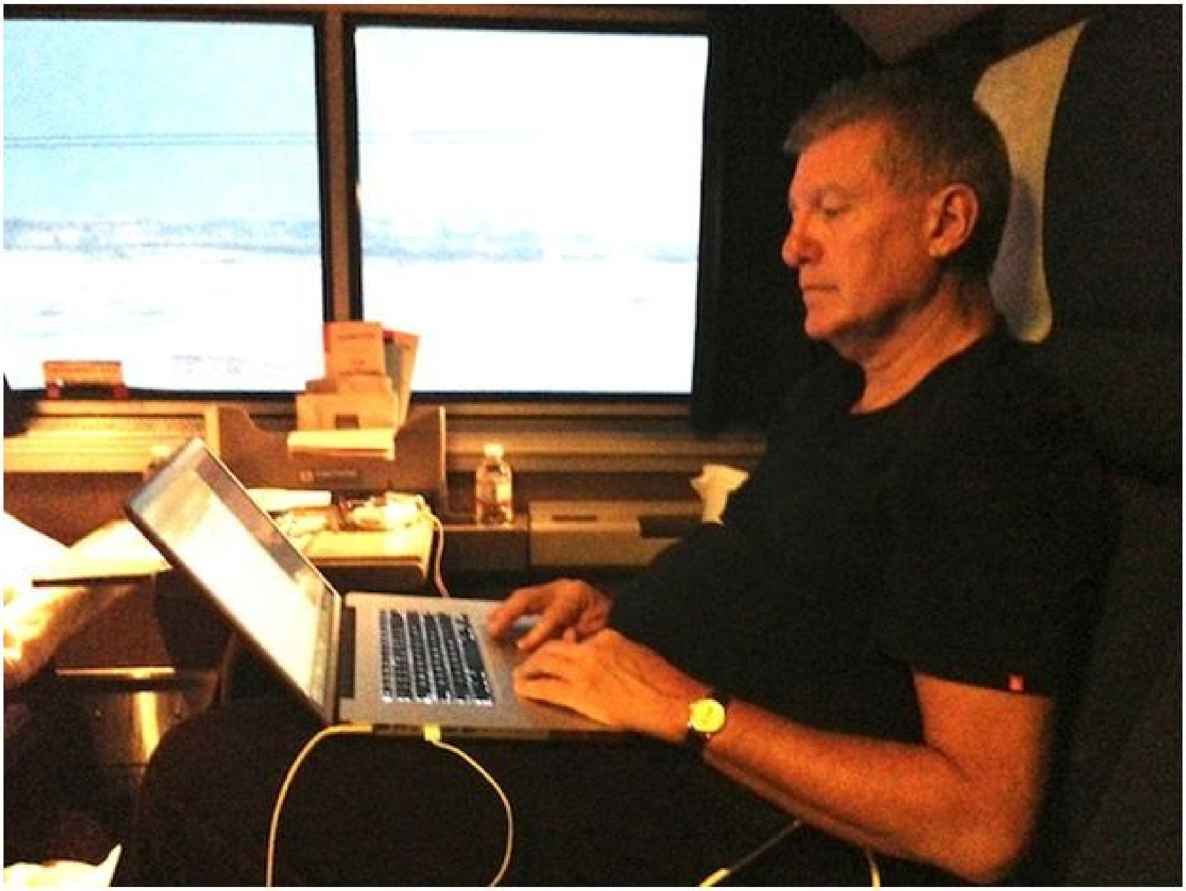
We arrive in Emeryville 45 minutes early. With any luck, I can squeeze in a ten-mile night hike up Grizzly Peak before calling it a day.

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 on any of the trades above.

Good Trading in 2017!

John Thomas
The Mad Hedge Fund Trader



The Omens Are Good for 2017!