The Mad Hedge Fund Trader

2018 Annual Asset Class Review

A Global Vision

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Global Market Comments
January 3, 2018
Fiat Lux

Featured Trades:
(SPX), (QQQQ), (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), (USO), (OXY), (GLD), (GDX), (SLV), (ITB), (LEN), (KBH), (PHM)

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 two bunk beds, a single and a double. There is a shower, but only Houdini could get navigate it.

I am not Houdini, so I go downstairs to use the larger public 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 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. Microsoft's Spellchecker can catch most of the mistakes, but not all of them.

Of course, everyone has in mind Amtrak's two fatal crashes this year, both caused by excessive speeding.

Thank goodness for small algorithms.

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 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 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 and a soon to be replaced iPhone 7.

After making the rounds with strategists, portfolio managers, and hedge fund traders in the run up to this trip, I can confirm that 2017 was one of the easiest to trade for careers lasting 30, 40, or 50 years.

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.

It was one of those years when the passive index funds beat most active managers. That's why I advised so many to take cruises, the longer the better, and ignore the volatility, what little there was. We are breaking all records for complacency.

Most hedge funds lagged the index by miles.

My **Trade Alert Service**, hauled in an astounding 57.91% profit, and at the high, becoming the talk of the hedge fund industry. That boosts my ten-year average annualized return to 34.20%

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 Nine Key Variables for 2018

1) How much of the new tax bill is already priced into the market?
2) Will the Fed stick to its three scheduled rate rises in 2018?
3) Did the tax bill defer a ton of selling into January?
4) Will endless saber rattling by the administration actually deliver a real war?
5) Will the advantages or the disadvantages of the new tax code hit markets

first, and will it also determine stock sector leadership?
6) Will gold and other commodities finally make a long awaited comeback?
7) Will rising interest rates (positive) or deficits (negative) drive the US dollar this year?
8) How high will a stronger global economy drive oil prices?
9) Will bitcoin cause the next crash?

Here are your answers to the above: Most, Yes, Yes, No, No, Advantages, yes, interest rates, $65 a barrel, yes if it goes high enough

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 2018

1) Stocks will finish higher in 2018, almost certainly less than the previous year, somewhere in the 10% range, and 12% with dividends. Cheap energy, a recovering global economy, deregulation, and 3% GDP growth, will be the drivers. However, this will be the ninth year of an economic recovery and a bull market, so expect half the gains with double the volatility.

2) Expect stocks to take a 10% dive sometime in 2018. I could be due to trade tensions with China, or an unforeseen geopolitical event, or just sheer exhaustion of the buyers.

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 will have to pedal twice as hard to earn your crust of bread in 2018.

3) The Treasury bond market will finally get the next leg down in its new 20-year bear market, but don't expect Armageddon. The ten year Treasury yield should hit 3.00%

4) The Japanese yen will lose another 10% against the dollar, taking us to ¥125.

5) Now that Europe is growing faster than the US the Euro could gain 10% against the greenback, taking it to $1.30.

6) Oil stays in a $55-$65 range, cheap enough to keep us in our SUV's but high enough to keep oil companies humming.

7) Gold continues it slow motion bull market, gaining another 10%.

8) Commodities continue to rise, thanks to a reviving global economy and the slow 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 tailwinds and a structural shortage of supply.

10) Winners of the new tax bill will outperform, while losers lag.

The Thumbnail Portfolio

Equities **- Go Long**. The ninth year of the bull market takes the S&P 500 up from $2,660 to $2,950. Financials, energy, homebuilders, and technology will lead. Pharmaceuticals and biotech should find its bottom and bounce hard. Buy low, sell high.

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. Gradually rising US interest rates tell the whole story.

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

Precious Metals **- Buy**. Emerging market central bank demand and a new wealth effect will keep the barbarous relic slowly rising.

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***

A major $1.5 trillion fiscal stimulus is moronic in the ninth year of an economic recovery, with employment at a decade high. Nevertheless, that's what we have.

The big question going forward is whether the gains provided by lower taxes will be entirely offset by higher interest rates, higher labor costs, and rising commodity and oil prices. They probably will, but it will take a year to find out for sure.

And every corporate management views these cuts as temporary, so don't expect any major capital investment or hiring binges.

What was new in 2017 and in 2018 is that Japan, China, and Europe are now contributing to US economic growth, instead of acting as a drag.

As a result, I expect real US economic growth will jump from the 2.5% level of recent years to the 3.0% range, with thanks to our foreign friends.

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.

US corporate profits will keep pushing to new all-time highs, with tax cuts taking earnings to as high as $150 a share for the S&P 500, a gain of 10% 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 in company's own shares.

Of course, all of this will come at the price of higher inflation, which will continue to rise at a barely noticeable rate.

Here is the one big impact of the tax bill that everyone is missing. The 57% of the home owning population that will see an increase in taxes also happen to be the country's biggest spenders. Those receiving actual tax cuts earn lower incomes, are lesser spenders, and are more prone to save.

Take money out of the pockets of the spenders and give it to the savers and you can't have anything but a drag on the economy.

All in all, it will be one of the better years of the decade for the economy, which much of this improvement already priced into the stock market.

A Rocky Mountain Moose Family

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

Year nine of the bull market is going to turn into year ten.

Corporate earnings are at record levels and are climbing at 10% a year. Cash on the balance sheet it at an all-time high, as are profit margins. Interest rates are still at historic lows. Yet, there is not a whiff of inflation anywhere, except in home costs and paper asset prices. Almost all other asset classes offer pitiful alternatives.

It all adds up to a goldilocks scenario for stocks. Now she is about to get a steroid shot.

I expect that ***ALL*** of the $1.5 trillion freed up will end up in the stock market. Furthermore, another $2.5 trillion will be repatriated back to the US to buy the shares of technology, oil company, and pharmaceutical shares. It doesn't get any better than this. Not a penny will get spent on new US investment, hiring, or higher wages.

This is the most widely telegraphed tax package in history. Whether it is already 10% or 90% discounted by the market will determine the results your 2018 stock trading. Nobody knows for sure.

I expect that earnings multiples will remain at 20 times and earnings will grow to $149.50 per S&P 500 share, taking the index up to $2,950 by the end of 2018. If you throw in a 2% dividend, you should net out a 12% 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.

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?

Financials will absolutely the best place to be for the next several years as they enjoy investment perfect storm. The bond market is getting its final comeuppance taking interest rates up, deregulation is underway, and loan volumes are rising.

Rising interest rates, deregulation, rising share trading volumes, increased loans, should boost earnings by 50% in 2018 alone.

Expanding bank multiples could add another 10%-20%. This is why financials have been the best performing sector since July, when I turned bullish again.

Materials and energy stocks will continue to prosper on the back of rising commodities prices and accelerating global economic growth. These sectors will also be your coming 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 for the moment, you can expect them to make a comeback as well. We now have a hugely anti-technology administration, which never misses an opportunity to deliver a fresh punch to the sector. Watch for an antitrust move against a FANG stock to become one of the shockers of 2018.

Look at the abandonment of net neutrality rules, the retreat from globalization, the deep sixing of alternative energy and electric car subsidies, and of course a monstrously anti-California tax package.

However, the long-term fundamentals for technology are so overwhelming that they will overcomes these headwinds. Some $2.5 trillion in repatriation funds will pour into all the big stocks. And now you have artificial intelligence and exploding bitcoin mining adding fuel to the fire.

That means that technology will continue to be one of the top performing sectors of 2018, but they may have to take a rest first.

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

I expect energy prices to outperform as well, as energy prices continue a slow grind up on the back of an accelerating global economy.

Foreign stocks coming off a stellar year will remain in the spotlight. Their economies are now all growing faster than the US. Watch the Japanese (DXJ) and European (HEDJ) hedged stock market ETF's very carefully.

Rising interest rates will eventually have worrying impact on stock prices. They will pare back mergers and acquisitions and corporate stock buy backs in major way. But that will be 2019 business.

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, deregulation, and lower taxes.

Share prices will deliver anything but the straight-line move we saw over the last six months. Expect a couple more 5% plus corrections in 2018, and for the Volatility Index (VIX) to revisit $20 multiple times. The higher prices rise, the more common these will become.


QQQ PowerShares QQQ Nasdaq GM
© StockCharts.com
2-Jan-2018 Open 156.50 High 158.52 Low 156.17 Close 158.49 Volume 32.5M Chg +2.73 (+1.75%)
RSI(14) 73.72
QQQ (Weekly) 158.49
MA(50) 141.28
MA(200) 112.90
Volume 32,524,416
MACD(12,26,9) 4.946, 4.807, 0.139


IWM iShares Russell 2000 ETF NYSE
© StockCharts.com
2-Jan-2018 Open 153.20 High 153.97 Low 152.46 Close 153.90 Volume 20.5M Chg +1.44 (+0.94%)
RSI(14) 68.18
IWM (Weekly) 153.90
MA(50) 141.18
MA(200) 120.35
Volume 20,467,656
MACD(12,26,9) 3.798, 3.560, 0.238

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 returning home by train because their religion forbade airplanes.

A bet that bonds will fall is one of the surest things out there. Look no further than the market reaction to the passage of the tax bill, which triggered an instant 20 basis point rise in ten-year Treasury bond interest rates.

Bonds can smell the coming expansion of the national debt a mile off.

Trump's ambitious military, infrastructure, and tax cutting plans are going to require to biggest government borrowing binge in history. We not talking small numbers here.

The new tax package will balloon the national debt from $20 Trillion to $30 trillion in the optimist case, and to a stratospheric $40 trillion in the pessimistic one.

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

The fundamental reasons for this trade, which wrote me a check almost every month in 2017, are as strong as ever.

1) The **Global Synchronized Recovery** is accelerating.

2) The Fed will start dropping on the bond market in the very near future $6

billion a month, or $200 million a day, worth of paper in its **QE unwind**.

3) It is widely perceived that potential **tax cuts** will provide further stimulus for the US economy.

All are ***HUGELY*** bond negative.

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 for funds. This will be a global problem. There are going to be a heck of a lot of government bonds out there for sale.

The Federal Reserve has also taken note of Trump's plans to stimulate an economy entering the ninth year of a recovery. So, you can also count on three more 25 basis point hikes in overnight interest rates to 2.25%.

You see that 2.50% yield for the ten-year Treasury bond you see on your screen today? You will laugh at that figure in a year as it hits 3.0% to 3.5%.

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.

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

The IShares 20+ Year Treasury Bond ETF (TLT) trading today at $125 could drop below $100. The 2X ProShares 20+ Short Treasury Bond Fund (TBT) now at $41 is headed for $60 or more.

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) are already reading the writing in the wall, being the only fixed income asset in 2017 to deliver losses. This lackluster return ***ALWAYS*** presages an inverted yield curve by a year, where short term interest rates are higher than long term ones. This in turn reliably predicts a full scale recession by 2020.


TLT iShares 20+ Year Treasury Bond ETF Nasdaq GM
© StockCharts.com
2-Jan-2018
Open 126.49 High 126.51 Low 125.07 Close 125.49 Volume 16.2M Chg -1.37 (-1.08%)
RSI(14) 51.95
TLT (Weekly) 125.49
MA(50) 122.51
MA(200) 118.25
Volume 16,238,206
MACD(12,26,9) 0.854, 0.866, -0.012

TBT ProShares UltraShort 20+ Year Treasury NYSE
© StockCharts.com
2-Jan-2018
Open 33.99 High 34.72 Low 33.98 Close 34.51 Volume 3.6M Chg +0.73 (+2.16%)
RSI(14) 47.39
TBT (Weekly) 34.51
MA(50) 36.47
MA(200) 43.11
Volume 3,594,773
MACD(12,26,9) -0.552, -0.572, 0.020
S O N D 16 F M A M J J A S O N D 17 F M A M J J A S O N D 18

HYG iShares iBoxx $ High Yield Corporate Bond ETF NYSE
©StockCharts.com
2-Jan-2018
Open 87.30 High 87.36 Low 87.25 Close 87.34 Volume 7.2M Chg +0.08 (+0.09%)
RSI(14) 60.50
HYG (Weekly) 87.34
MA(50) 85.73
MA(200) 79.36
Volume 7,223,489
MACD(12,26,9) 0.425, 0.518, -0.093


MUB iShares National Muni Bond ETF NYSE
© StockCharts.com
2-Jan-2018 Open 110.60 High 110.64 Low 110.51 Close 110.59 Volume 966.9K Chg -0.15 (-0.14%)
RSI(14) 58.36
MUB (Weekly) 110.59
MA(50) 108.90
MA(200) 105.38
Volume 966,919
MACD(12,26,9) 0.359, 0.417, -0.058
O N D 16 F M A M J J A S O N D 17 F M A M J J A S O N D 18

A Visit to the 19th Century

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

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 overnight rates now at 1.25% and ten-year Treasury bonds at 2.50%, the US now has the highest interest rates of any major industrialized economy, and they are rising gradually. Interest rates in the rest of the world remains flat, with no prospect of a serious increase this year.

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

The Euro (FXE) is the only currency that ha a chance of rising in 2018, as its economy is now growing faster than that of the US, and will be the next to raise rates. The European Central Bank has already announced that it is ending its quantitative easing in October, which has been a drag on the Euro for years.

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. The Bank of Japan has indicated that this state of affairs will not change anytime soon.

The dramatic sell off we saw in the Japanese currency in 2015 is the beginning of what I believe will be a multi decade move down. Look for

¥125 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 the yen again.

There is a new factor in the currency markets this year. The repatriation of $2.5 trillion of cash by US multinationals enabled by the new tax law is hugely dollar positive. A lot of foreign investors will chase this money home, leading to even more dollar buying.

FXY CurrencyShares Japanese Yen Trust NYSE
@StockCharts.com
2-Jan-2018
Open 85.62 High 85.62 Low 85.40 Close 85.47 Volume 99.4K Chg +0.33 (+0.39%)
RSI(14) 48.68
FXY (Weekly) 85.47
MA(50) 85.99
MA(200) 86.47
Volume 99,432
MACD(12,26,9) -0.368, -0.381, 0.013


FXA CurrencyShares Australian Dollar Trust NYSE
© StockCharts.com
2-Jan-2018
Open 78.26 High 78.31 Low 78.19 Close 78.31 Volume 40.5K Chg +0.30 (+0.38%)
RSI(14) 56.70
FXA (Weekly) 78.31
MA(50) 76.66
MA(200) 77.09
Volume 40,550
MACD(12,26,9) 0.035, 0.043, -0.008

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

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

Industrial commodities, like copper, iron ore, have been on a tear, discounting the recovery of both China and the global economy, as I have been predicting.

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

However, 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 foreign exchange 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 commodities industry, delivering the five year bear market that we are only just crawling out of.

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 2017.

The food commodities were certainly the asset class to forget about in 2017, as perfect weather conditions and over planting produced record crops for the third year in a row, demolishing prices. Almost everything ended on lows for the year.

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) ETF's. You can also play through (MOO) and (DBA), and the 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 ETF's (PHO) and (FIW), These are all great infrastructure plays, which should benefit from increased government spending.


$COPPER Copper - Continuous Contract (EOD) CME
© StockCharts.com
2-Jan-2018
Open 3.30 High 3.31 Low 3.27 Close 3.28 Volume 103.3K Chg -0.02 (-0.68%)
RSI(14) 64.84
$COPPER (Weekly) 3.28
MA(50) 2.84
MA(200) 2.63
Volume 103,254
MACD(12,26,9) 0.115, 0.110, 0.006

DBA PowerShares DB Agriculture Fund NYSE
© StockCharts.com
2-Jan-2018
Open 18.79 High 19.01 Low 18.79 Close 18.97 Volume 1.3M Chg +0.21 (+1.12%)
RSI(14) 47.40
DBA (Weekly) 18.97
MA(50) 19.53
MA(200) 22.00
Volume 1,317,681
MACD(12,26,9) -0.230, -0.229, -0.001


CORN Teucrium Corn Fund NYSE
© StockCharts.com
2-Jan-2018
Open 16.75 High 16.89 Low 16.75 Close 16.84 Volume 65.9K Chg +0.08 (+0.47%)
RSI(14) 37.53
CORN (Weekly) 16.84
MA(50) 18.31
MA(200) 22.45
Volume 65,878
MACD(12,26,9) -0.461, -0.471, 0.010

Snow Angel on the Continental Divide

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

I wrote endlessly at the end of 2016 and the beginning of 2017 that energy would be the top performing asset class of the year, and that is exactly what happened.

Incredible as it may seem, energy was one of the least volatile asset classes of 2017. Texas tea started out at $55 a barrel in January, bottomed at $42, and then finished the year at $58.50, versus my yearend target of $60.

I expect oil to do OK year, but by a relatively modest margin. Look for a range of $50-$65.

All eyes will be focused on OPEC production, looking for new evidence of quota cheating, which is slated to expire at the end of 2018.

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

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

OPEC production versus American frackers will create the constant tension in the marketplace for all of 2018.

The new factor in 2018 will be the initial public offering for Saudi Aramco, at $2 trillion, the largest in history. Expect the Saudis to endure hell or high water to keep oil prices lofty until this deal is out the door. Don't touch oil with a ten-foot pole after the deal is done. It will be the greatest "pump and dump" IPO of all time.

With nearly a quarter of Trump's cabinet appointments going to the oil industry, deregulation here is a sure thing. But it was never the drag on profits that it was for the financial industry, 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 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 over 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. But we may never see $100/barrel crude again.

Add to your long-term portfolio (DIG), ExxonMobile (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. Any increase in fracking creates more supply of natural gas.

These were your big trades of 2017, and could be so for 2018 as well. But expect to not get much sleep at night along the way.

$NATGAS Natural Gas - Continuous Contract (EOD) CME
© StockCharts.com
2-Jan-2018
Open 3.03 High 3.10 Low 2.92 Close 3.06 Volume 305.4K Chg +0.10 (+3.49%)
RSI(14) 52.91
$NATGAS (Weekly) 3.06
MA(50) 3.02
MA(200) 3.04
Volume 305,351
MACD(12,26,9) -0.037, -0.036, -0.001


OXY Occidental Petroleum Corp. NYSE
© StockCharts.com
2-Jan-2018
Open 74.01 High 74.30 Low 73.49 Close 73.98 Volume 2.8M Chg +0.32 (+0.43%)
RSI(14) 79.94
OXY (Weekly) 73.98
MA(50) 62.63
MA(200) 68.31
Volume 2,829,956
MACD(12,26,9) 3.138, 2.210, 0.928
S O N D 16 F M A M J J A S O N D 17 F M A M J J A S O N D 18


58
AMTRAK

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 busts. So it is timely here to speak about the future of precious metals.

Precious metals delivered a respectable year in 2017, up 11.48%.

This may seem odd, as non-yielding assets like precious metals do terribly during times of 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?

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 here up 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. To see what I mean take a look at a gold chart for the 1970's, when interest rates were rising sharply.

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 2017.

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 2018 at $1,250-$1,400. 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.

$GOLD Gold - Continuous Contract (EOD) CME
© StockCharts.com
2-Jan-2018
Open 1305.30 High 1316.70 Low 1304.60 Close 1316.10 Volume 246.2K Chg +6.80 (+0.52%)
RSI(14) 58.07
$GOLD (Weekly) 1316.10
MA(50) 1266.85
MA(200) 1233.05
Volume 246,215
MACD(12,26,9) 5.779, 4.958, 0.822
Sep Oct Nov 2016 Mar Apr May Jun Jul Aug Sep Oct Nov 2017 Feb Mar Apr May Jun Jul Aug Sep Oct Nov 2018


GDX VanEck Vectors Gold Miners ETF NYSE
© StockCharts.com
2-Jan-2018 Open 23.46 High 23.84 Low 23.42 Close 23.82 Volume 43.2M Chg +0.58 (+2.50%)
RSI(14) 73.53
GDX (Daily) 23.82
MA(50) 22.43
MA(200) 22.70
Volume 43,160,080
MACD(12,26,9) 0.294, 0.091, 0.204
17 24 Aug 7 14 21 28 Sep 11 18 25 Oct 9 16 23 Nov 6 13 20 27 Dec 11 18 26 2018


$SILVER Silver - Continuous Contract (EOD) CME
© StockCharts.com
2-Jan-2018
Open 17.03 High 17.23 Low 16.99 Close 17.21 Volume 71.4K Chg +0.06 (+0.36%)
RSI(14) 68.78
$SILVER (Daily) 17.21
MA(50) 16.67
MA(200) 16.98
Volume 71,425
MACD(12,26,9) 0.101, -0.060, 0.161

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 banks 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 is still underway. We are probably 5 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 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 gross 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 2020's. 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 Xer's who follow them, and 86 million in the generation after that, the Millennials.

The boomers have been unloading dwellings to the Gen Xer's 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 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 2020's, as they did during the 1970's and the 1990's, 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 the gross income, compared to only 18% for owners, and less 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, 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).

You might wonder if the recent loss of real estate and income tax deductions will bring the boom to a screeching halt in blue states.

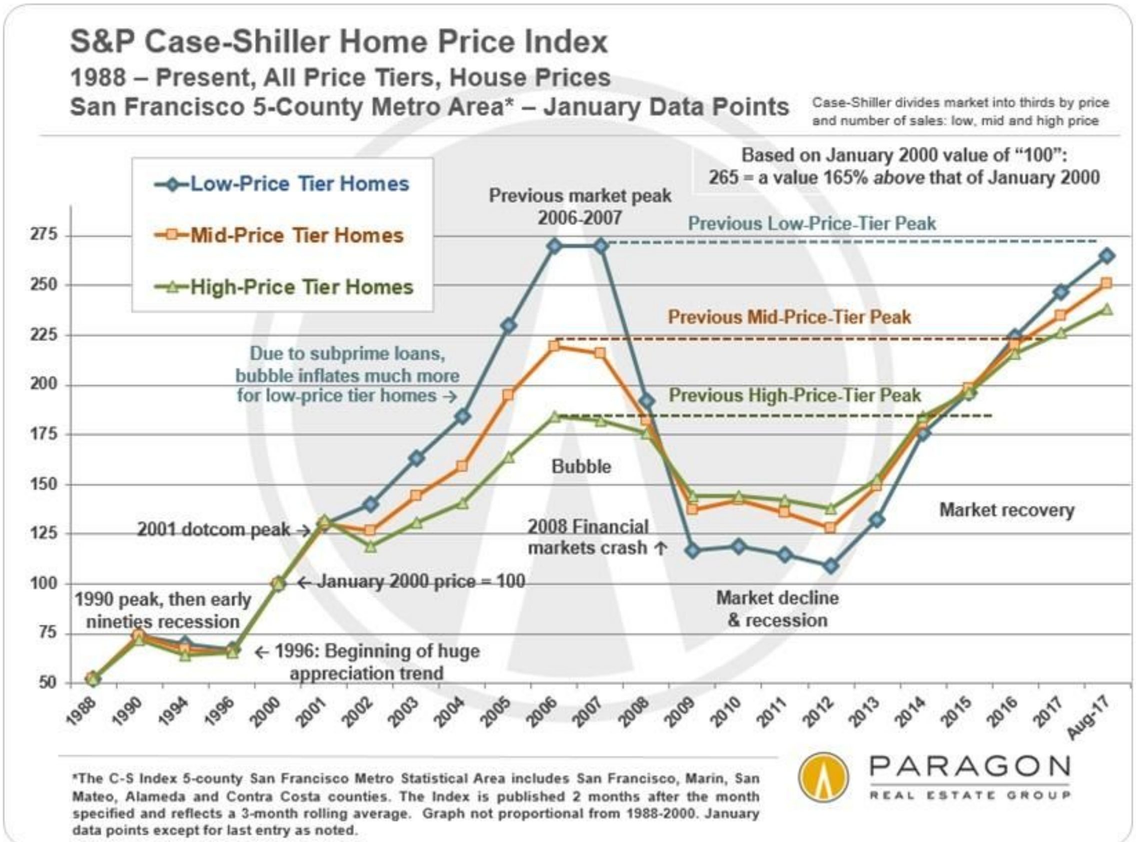
No to worry. The structural shortage there is so severe that they will barely make a dent in prices. In any case, the loss of these deductions may be only a short term two-year affair only. When deductions return, then prices will ***really*** take off!

That means the major home builders like Lenar (LEN), Pulte Homes (PHM), and KB Homes (KBH) are still a buy.

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 Index
1988 – Present, All Price Tiers, House Prices
San Francisco 5-County Metro Area* – January Data Points
Case-Shiller divides market into thirds by price and number of sales: low, mid and high price
Based on January 2000 value of "100": 265 = a value 165% above that of January 2000
Low-Price Tier Homes
Mid-Price Tier Homes
High-Price Tier Homes
Previous market peak 2006-2007
Previous Low-Price-Tier Peak
Previous Mid-Price-Tier Peak
Previous High-Price-Tier Peak
Due to subprime loans, bubble inflates much more for low-price tier homes →
Bubble
Market recovery
2001 dotcom peak →
2008 Financial markets crash ↑
← January 2000 price = 100
1990 peak, then early nineties recession
Market decline & recession
← 1996: Beginning of huge appreciation trend
275
250
225
200
175
150
125
100
75
50
1988
1990
1994
1996
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
Aug-17
*The C-S Index 5-county San Francisco Metro Statistical Area includes San Francisco, Marin, San Mateo, Alameda and Contra Costa counties. The Index is published 2 months after the month specified and reflects a 3-month rolling average. Graph not proportional from 1988-2000. January data points except for last entry as noted.
PARAGON
REAL ESTATE GROUP

ITB iShares U.S. Home Construction ETF NYSE
© StockCharts.com
2-Jan-2018
Open 43.85 High 43.95 Low 43.50 Close 43.90 Volume 7.4M Chg +0.18 (+0.41%)
RSI(14) 85.20
ITB (Weekly) 43.90
MA(50) 35.05
MA(200) 28.26
Volume 7,426,475
MACD(12,26,9) 2.696, 2.375, 0.321
S O N D 16 F M A M J J A S O N D 17 F M A M J J A S O N D 18


LEN Lennar Corp. NYSE
© StockCharts.com
2-Jan-2018
Open 63.93 High 64.85 Low 63.79 Close 64.84 Volume 3.7M Chg +1.60 (+2.53%)
RSI(14) 70.85
LEN (Weekly) 64.84
MA(50) 53.57
MA(200) 47.01
Volume 3,711,453
MACD(12,26,9) 3.213, 2.591, 0.623

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 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 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 X, pick up my various adapters, and pack up.

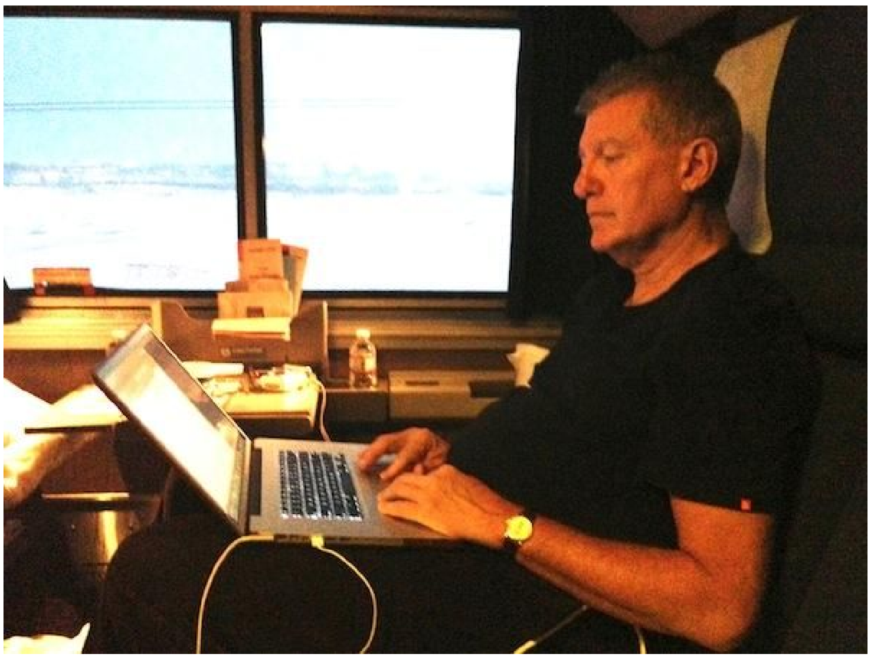
We arrive in Emeryville 45 minutes early. With any luck, I can squeeze in a ten mile night hike up Grizzly Peak and still get home in time to watch theball drop in Times Square.

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 trading in 2018!

John Thomas
The Mad Hedge Fund Trader



The Omens Are Good for 2018!

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