INDEPENDENT TRADER NEWSLETTER

Independent Financial Portal
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In today's edition:

Groupthink - a guarantee of a loss

A few years ago I read a very interesting report. It alleged that the average memory of non-professional is less than 2 years back. In other words, if you are one of these people who encouraged by fashion or advertised recommendation made a mistake ones by investing in overpriced assets (and lost some money on the way) there is a high probability you are going to repeat your mistakes.

This finds confirmation in the equity market. In 2000 the street was hoarding stocks of internet companies because apparently, we were witnessing a transformation towards the new economy. Seven years later everyone was buying the real estate and stocks of developers. The result is known to all. I am raising this topic as again in the US and Western Europe we see fashion for tech companies returning and consequentially their price is extremely high. In my opinion, it is a great opportunity to short and benefit from falls.

The perfect example of how imagination can disconnect from reality is Netflix (NFLX). Netflix gives you access to a huge online library of movies. The market is slowly becoming sated. Amazon, Hulu or HBO are stepping up their game and the competition starts to be very aggressive. Nevertheless, Netflix invests madly to increase their reach and they are not paying attention to the cost of this operation. Only this year company binged on 1 bn USD of their capital and their debt is now at 2.4 bn USD. The cost of servicing their obligations classifies them as junk.

Shareholders are still blind to those circumstances even though EV/EBIT equals 170, more than 96% of other companies in this sector. I used EV/EBIT on purpose. It is a better indicator than traditional P/E when it comes to expanding firms with a high cost of maintenance of their library. Recap: simply put the EV (enterprise value) is firm's market capitalisation + debt – cash. EBIT is firm's earnings before any taxes and interest payments.

P/BV (Price/Book Value) is very high at soaring 18 (more than 98% of the sector).

Pricing like this demonstrates one of two things. Either investors have no idea why they buy Netflix or they assume that the firm will decisively dominate the market and squeeze miraculous profits out of nowhere. I believe Netflix is one of the most overpriced companies from its segment which in itself is very expensive.

See for yourself below.

Netflix is now one of the most expensive NASDAQ companies – index of tech firms. Over the past few years investors again found faith in high-tech. Since 2009 bottom index of tech firms quadrupled reaching speculative bubble levels. Notably, not as extreme as in 2000. Worth mentioning is the fact that share price took 15 years to return to its records.

Will this time be different and overpriced stocks are not going to plummet? It is very unlikely although no one will give you any guarantee. In the US we see the economy doing very poorly and political uncertainty only adds to the mix. With Janet Yellen attempting to raise interest rates all year long she may actually pull the trigger in December. Raising interest rates by another symbolic 0.25% is much more likely at the end of 2016 than ever before. Also, this is the first time that I believe in this possibility.

Today, almost 70% of investors believe that a rate hike is due in December. This means that less than 30% will be surprised. The lower percentage of 'surprised' public the smoother reaction of the market. We still have to acknowledge that even a move of minuscule 0.25% makes the stock market plunge. The more overpriced industry/shares the more violent their nosedive.

Summary

All I want you to remember from this article is this: do not invest in fashionable, costly assets getting even more expensive thanks to the influx of capital from unaware investors. From Everest heights, the price can, of course, reach higher but the market eventually is reminded of common sense and it verifies stock prices in an unapologetically brutal way.

See Simon Property Group. Enormously expensive REIT invests in retail real estate. The drop of their price was so massive that I closed my short position with profit in anticipation of a temporary bounce. I will open my short position again (earning money if the stock goes down) when price stabilises a bit higher. This is a pure speculation and I am not encouraging this unless you are an experienced investor.

If you accept a higher risk and still want to short I would recommend using a 1-year put option. Looking at how blindly optimistic the stock prices are those options are not pricey and what is more important you risk only the money you buy the option with and not the bulk of your capital.

Trader21

Goldman Sachs – a repository of corrupted politicians

It may seem like all the bankers and politicians have a very short memory as they are trying to continuously profit without changing their modus operandi. One of the methods used is to offer politicians cushy positions for their cooperation with financial circles. This setup benefits both sides and confirms that the government is not what decides about the future of a country.

Barroso's new employer? You guessed it, Goldman Sachs

Autumn 2014. After a decade of presiding the European Commission, Jose Manuel Barroso finished his tenure. He waited for 18 months (legally required cooling-off period) and proceeded to accept a job offer from Goldman. If Barroso cared at least a bit about the future of Europe and Europeans he would not have accepted a position at the bank which helped Greeks hide their debt level before they entered the Eurozone. But let us be honest, it is hard to ask someone to care about average Mr. Smith when he started his political career in communist parties.

We saw criticism of Barroso move coming from several EU officers. The question has been raised pointing fingers at the revolving door between Brussels political sphere and the financial sector. There are voices in Brussels that the ethics code itself is not adequate if situations like this can happen. Applying critical analysis to this matter we see that among those who protest against these practices are politicians who are going to accept a position at Goldman Sachs (or any other big institution) without hesitation. Since the very beginning, the history of the European Union is full of those instances.

Goldman Sachs owns political faces you know

Barroso is far from being a snowflake. Many known names from the world of big politics are easy to connect with the banking industry. I have to give Goldman honorary mention here because they are unparalleled in terms of using renowned faces. The bank successfully applies pressure to secure governmental positions for their officials and after their term ends, they return to Goldman. Sometimes the order is reversed. Do you know Mario Draghi? The former Director General of Italian Treasury proceeded to be employed by Goldman and ended up being the head of the ECB.

There are more people connected with Goldman Sachs. Before Mario Monti became the head of Italian government (replacing democratically elected Silvio Berlusconi) he worked at Goldman.

When Greece misinformed about their level of indebtedness before entering the Eurozone, the head of National Bank of Greece was Petros Christodoulou – who started his career at Goldman.

Until 2015 Peter Sutherland was chairman of Goldman Sachs (GS). In the '80s he was the Attorney General of Ireland, later became the European Commissioner for Competition and was the key Irish official during negotiations about bank nationalisation and bailout conditions for this country.

Otmar Issing is another advisor from GS. Issing is deemed to be the architect of the Euro, chairman of Deutsche Bundesbank transformed later into the European Central Bank.

Rubin's story

Political puppets controlled by banks return favors to their masters. The story of Robert Rubin stands out. A man who strongly influenced banks' position they enjoy today. He worked 26 years for GS (co-chairman) and since 1995 to 1999 he was Secretary of the US Treasury. During his tenure, Rubin made sure that the Glass-Steagall Act was revoked by Bill Clinton.

This Act was introduced in the US in 1933. Regulation separated commercial banking from investment banking. The act lasted for 60 years. At the end of the '90s Clinton administration defused Glass-Steagall Act and as a result banks blended into huge financial establishments – later called "too big to fail". During 2008 meltdown Lehman Brothers collapsed but other banks were saved. When the dust settled banks came out stronger than ever before. Once the Glass-Steagall was removed deposits were threatened. In the past, a deposit was just the opposite side of a credit but deposits today are used to leverage bank's risky operations.

Summary

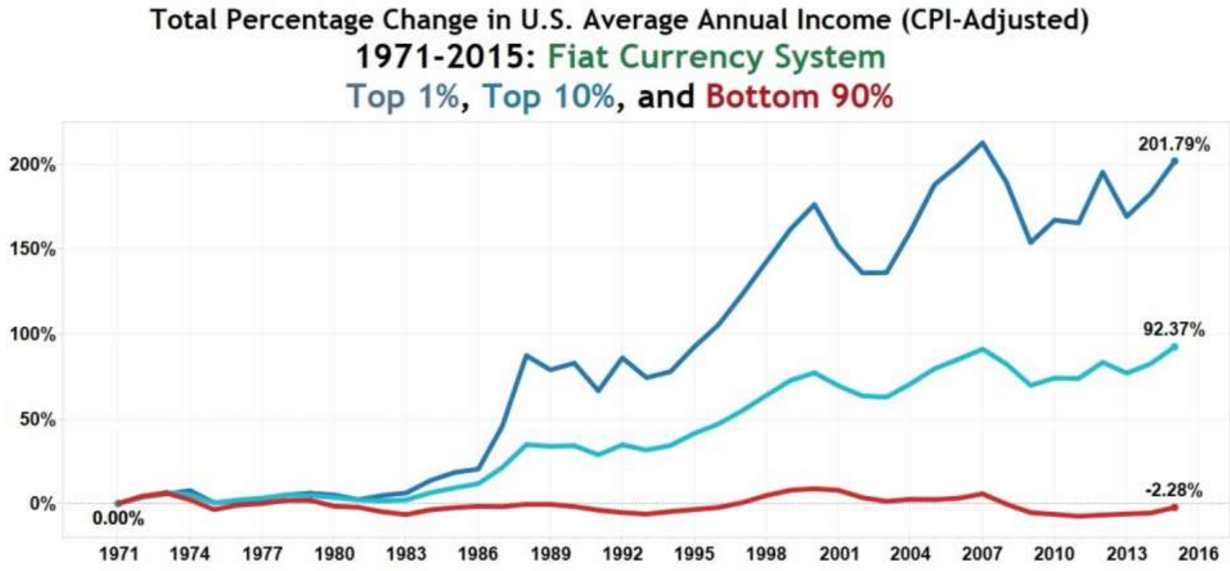
There are many claiming that saving banks and introduction of stimulus packages put us into recession but prevented catastrophic depression. The problem is that the way this situation is handled lays in hands of a very small group of people simultaneously increasing their influence and capital. These resources are used to buy politicians and media creating an atmosphere that millions of people are grateful for salvaging the economy. You may wonder why voters are surprised that rich are getting richer and poor are getting poorer.

A crisis is a natural situation. It is a cleansing mechanism both in the economic and political way. Unfortunately, the system we have now unleashes only negative consequences of the turmoil. Any recession/depression is used to intrude upon citizens' lives and further consolidate corporations which are already "too big to fail". This way Goldman Sachs and other big banks were working hard these past years. Employment of Barroso is just a confirmation that bankers are continuing with their tactics.

Independent Trader Team

Game of Central Banks

During the last 40 years, central banks have gained power they previously could only fantasize about. They were given full control over the currency supply and interest rates. These are the tools to plan booms and depressions. Thanks to such a great authority banks could create economic bubbles and their inevitable bursts. The result is one of the biggest capital migration in history from the middle class to 1% advantaged with access to particular data in advance.



Source. Zerohedge.com

Remnants of the gold standard limited bankers until 1971 but for 40 years they enjoyed free reign with no government nor society being able to meaningfully control them. You must have heard this line that a central bank "has to be fully independent" – by default, it has to be independent from the society.

The last link to the gold standard fell in 1971 and since investment banks and central banks have enjoyed an ever-growing influence. Careless actions and privileged position led to a drastic jump in risk and the first serious crisis in 1998. The first domino to fall was the bankruptcy of Long-Term Capital Management - an investment fund managed by two Nobel Prize winners. Instead of letting this institution fail, lobbyists pushed the government to save it. The message for senior executives on Wall Street was clear. It does not matter how big the risk is, someone will have to save us. At the end of the day, we are too important to be left behind.

As a natural consequence. crises in 2001 and 2007 followed previously laid scenario. The government saved bankrupted entities with taxpayer's money while central banks lowered interest rates and showered capital markets with additional funds to gamble with. The reason behind the crisis became the bitter cure for financial disasters.

Every single time the economy was down, the danger drastically snowballed. After 2007 slump we saw a coordinated action of central banks aimed at lowering interest rates and printing additional currency at a scale unseen before. The difference between this meltdown and the previous one was that central banks were given free hand to battle the results of their own wrongdoing.

Before 2008 central banks' responsibility was to deliver the capital to commercial banks. During the last crisis, respective governments took it upon themselves (or rather taxpayer's back) to take over toxic assets and increased indebtedness to 'stimulate' the economy. To learn from other's mistake it was sufficient to look at Japan's case to understand how big of a failure this approach is. People learn only during crises and not proactively thus we see Abenomics spread all over the world.

To finance ballooning government spending regime can either increase taxes or increase debt. The government chose the latter.

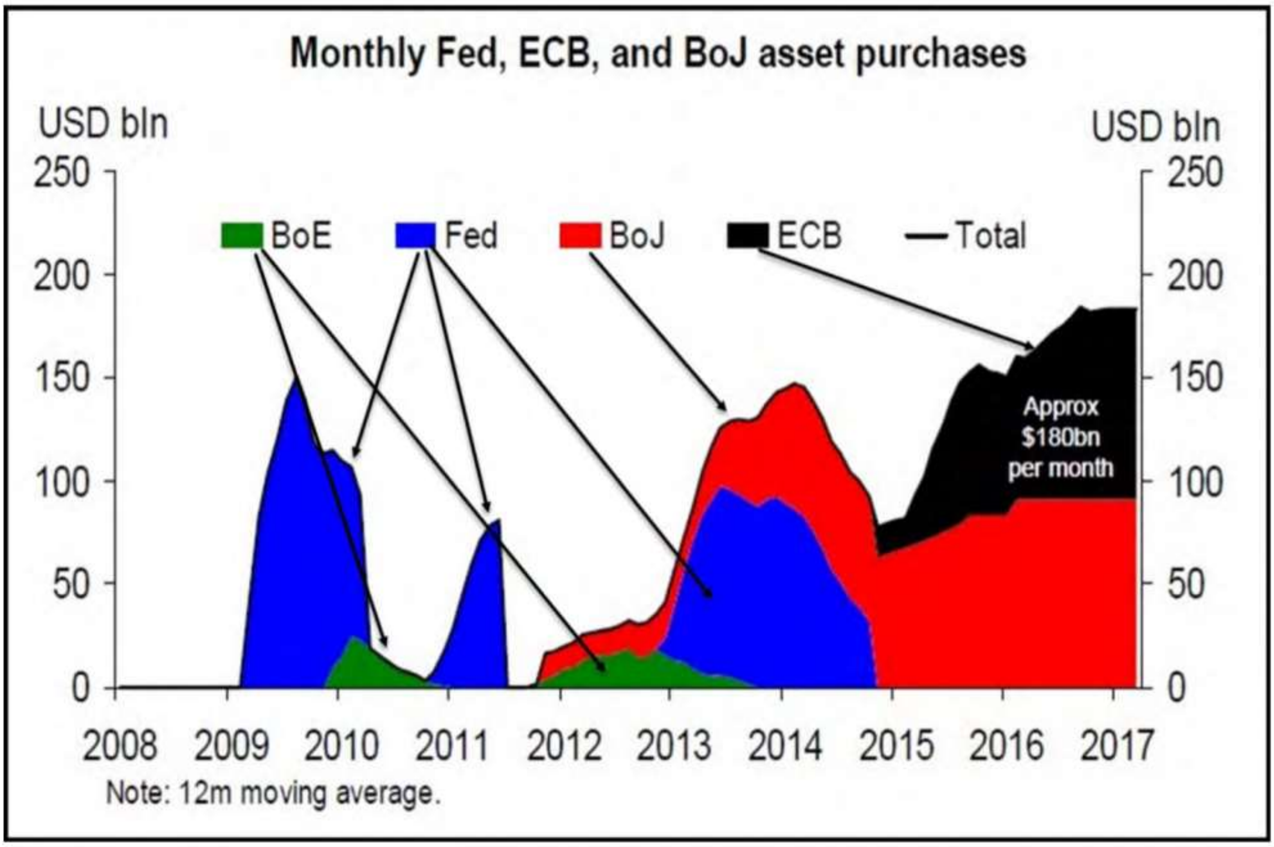
Investors understood how bad economic situation was in the majority of countries. Everyone is prudent about the money they worked hard for and this is why investors were not keen to borrow to authorities through bond purchases. Under normal conditions, the worse situation of a borrower the higher the interest rate is to compensate for the higher risk of bankruptcy. This market mechanism limits the state ability to borrow money and also indirectly prevents from bankruptcy.

Understanding the gravity of this situation central banks entered this casino. If bankrupted governments cannot acquire the capital cheaply it is up to us – bankers – to print currency and borrow authorities as much as they need. These practices called 'monetisation of debt' were linked only to the 3rd world countries before and always ended up with a spiral of hyperinflation and a total loss of currency credibility.

This time, central banks under the umbrella of the Bank for International Settlements (BIS) figured out a truly devilish idea. A destruction of one currency is visible but a destruction of every currency at a similar rate will preclude panic in the financial market when investors would start pulling their money out.

The first one to start printing was the FED. Six months later the BOE joined and the ECB began printing only in 2011. In the same year, we saw storm clouds gathering over the PIGS debt. After famous Draghi's "whatever it takes" line, Germany gave a green light to destroy Eurozone currency to save both German and French banks filled with bad debt of Southerners.

Below you can find a chart (far from perfectly) showing how central banks continued the printing relay to save the system they are the biggest beneficiaries of.

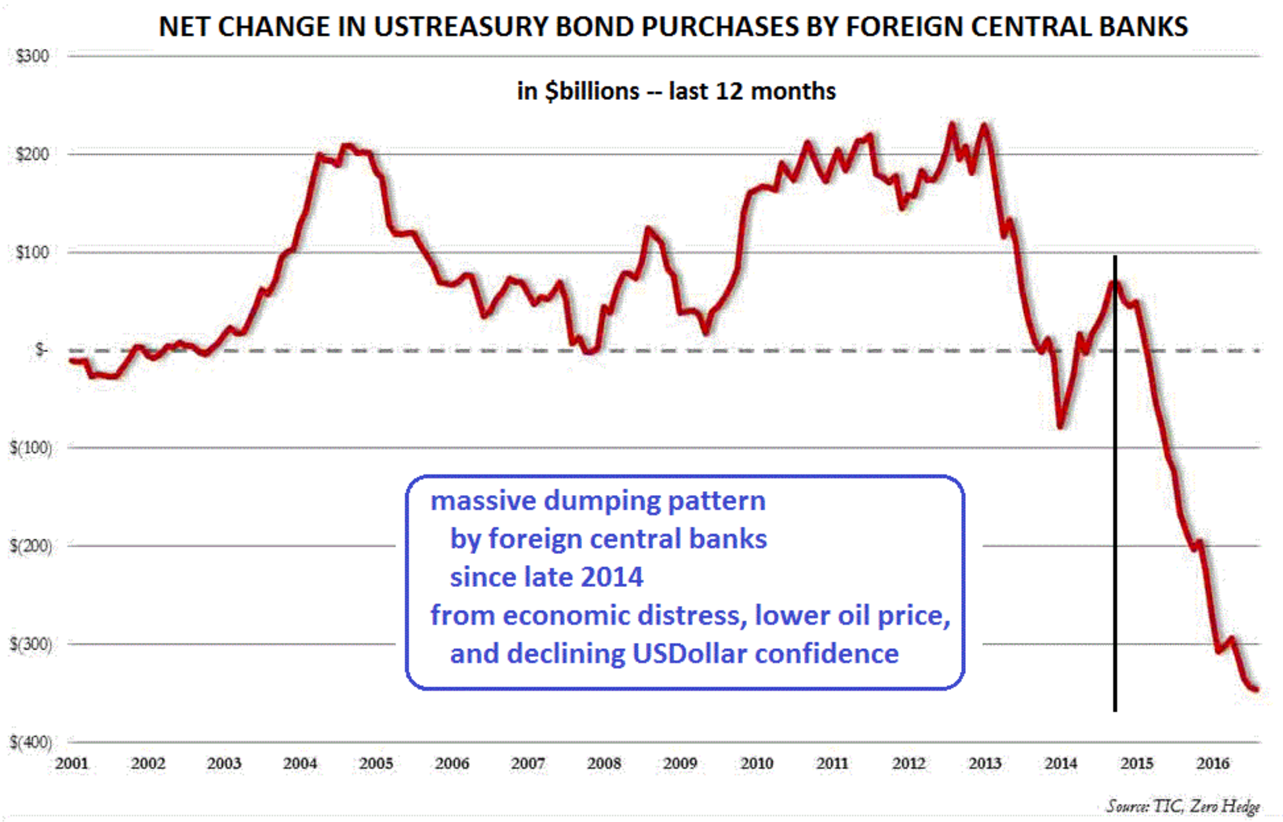


Source: dbresearch.com

The bill for the last 12 months of central banks' buying spree is 2.5 trillion USD. Financed by nothing else but printing machines.

This is official data but it may as well be that facts are more dreadful. The FED officially stopped their purchase program of the US treasuries at the end of 2014. When we analyse what is happening today in the financial market it is clear that the truth is different.

According to the official record, the FED has not bought any government debt for 2 years. Other central banks also keep selling the debt as you can see on the chart below. Simultaneously the US government increased its debt by almost 3 trillion USD. Interestingly, the yield of the US debt fell from 2.4% to 1.7%.

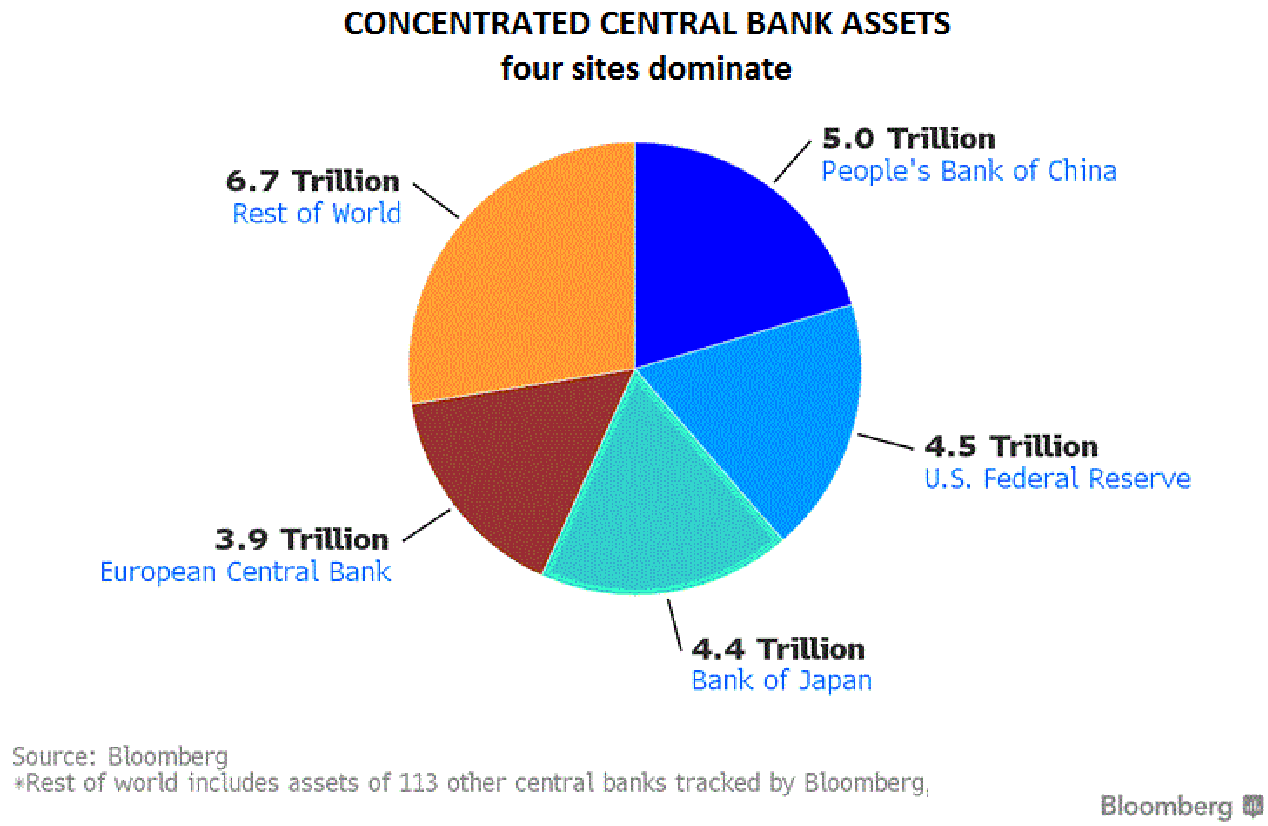


To summarise, the world is dumping American debt, the US continues to issue fresh 1 trillion every year. How is that possible that the price goes up?

The answer: there is a buyer on the market purchasing a vast amount of UST sold by everyone else. This anonymous buyer may be the Exchange Stabilization Fund as they do not need to report to anyone. Who gave them 4 trillion USD to buy this debt? Most probably the FED which is above all the law too – proven by 2010 Congress testimonies. This is when we heard that 16 trillion USD was printed out of thin air and borrowed to banks in the US and Europe. We should remember that even Ben Bernanke “did not know” who got this money. He also did not see any problems in FED printing the amount of the US GDP.

This is why we can assume that the speed of currency printing is not 200 billion USD but rather 350 – 400 billion USD each month!!!

In case you think the estimate above sounds like a conspiracy theory and we should only use official data, I encourage you to pay attention to who owns most assets bought during QE. It looks clearly that the 4 biggest central banks – FED, ECV, BOJ, PBOC – own 75% of all central banks' assets in the world.

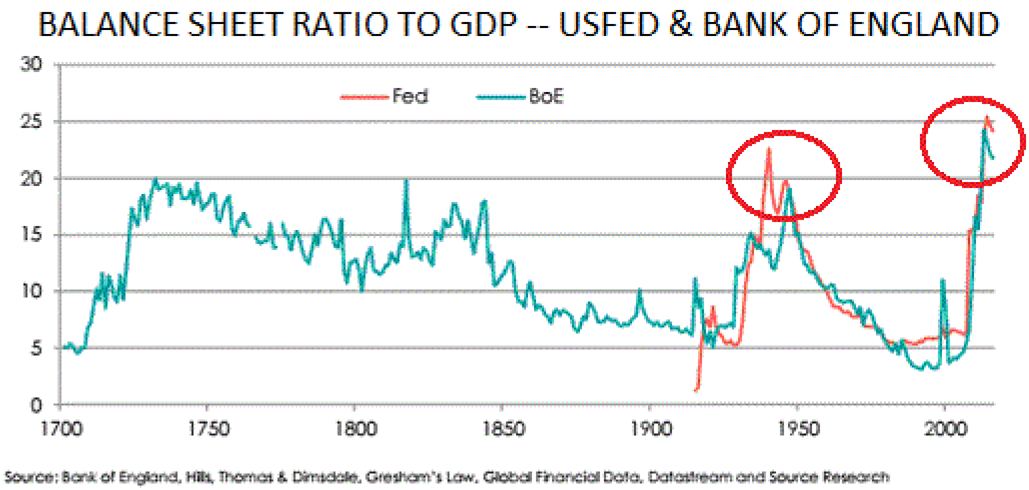


If one can influence the central bank's policy - and the BIS has this sort of control - one has to coordinate only 4 institutions to destroy the purchasing power of currencies in a controlled manner through currency and asset price manipulations.

You could have read many times on this blog that we 'enjoy' high prices of equities thanks to (among others) the huge and continuous QE program. Despite official position of the FED (not printing) equity prices in the US are very high. How is that possible? The Federal Reserve does not need to officially buy equities to push their prices up. Another central bank can do this for the FED, also indirectly.

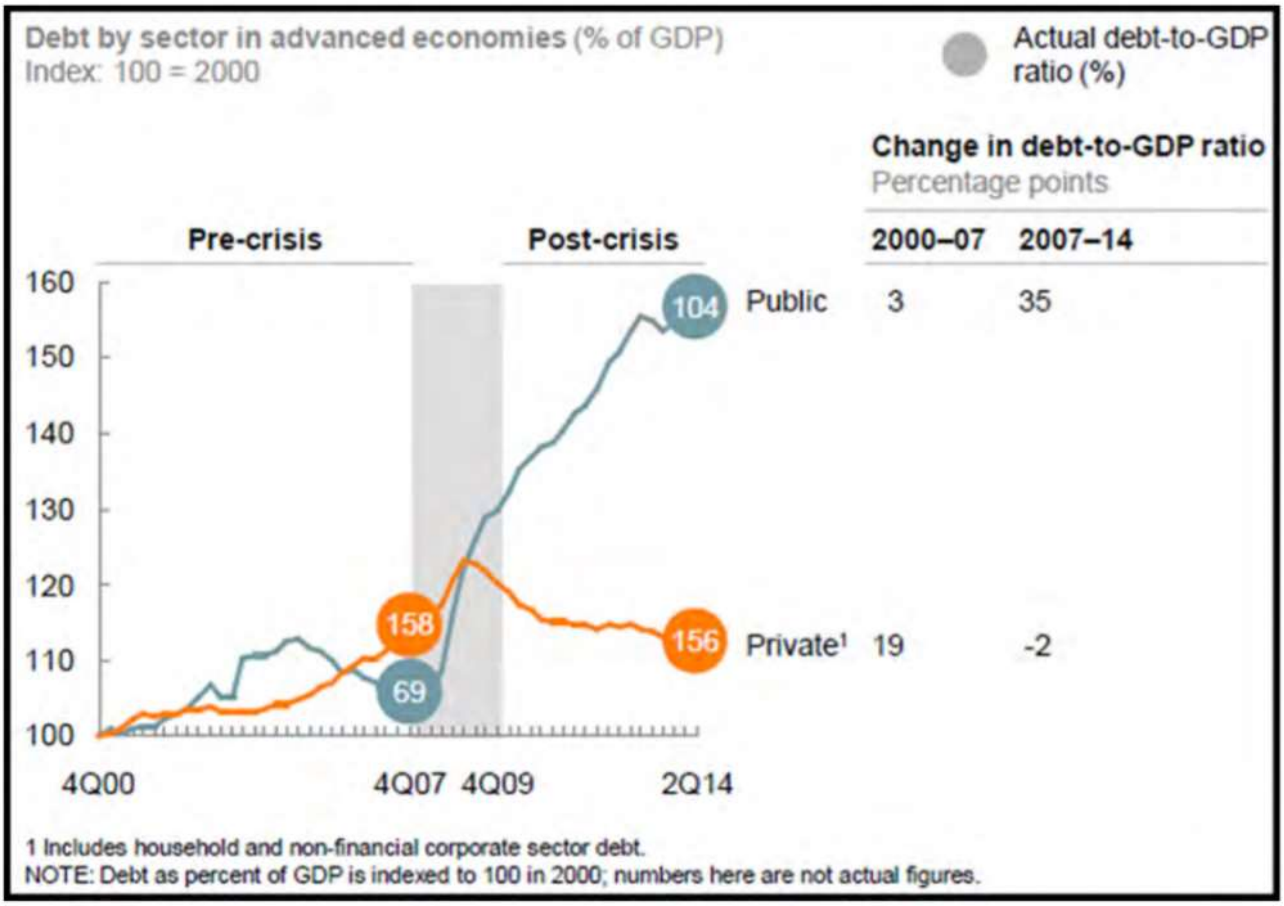
Think about the following scenario. The BOJ buys equities in Tokio. The central bank is a buyer whereas other party sells them. This selling party now has money to buy equities in places like Europe or the US. For example, the Swiss National Bank spends a lot of money on buying equities of the biggest American corporations listed on NYSE. The BOJ owns 60% of all ETFs listed on Tokyo's stock exchange.

The size of intervention i.e. central banks' purchase program, is presented very well below. Balances of both FED and BOE are record high. Both banks were required to secure monetary stabilisation as their primary duty. Neither succeeded. Now they resemble hedge funds with infinite resources rather than institutions working for society's good.



Dramatic increase in debt

Most of the interventions – buying government debt – cause an increase in public debt. At the end of 2007 average government indebtedness in the developed world was equal to 69%. Seven years later it was 104%. Today we expect 110-115% and what is worse, with only a few exceptions, there seems to be no end to governments' borrowing. A gigantic part of this debt is accumulated by central banks. At some point, they will become the biggest creditor of 'independent states'. When kicking the can down the road finally disappears from the options' list, authorities will receive an offer to write-off their huge obligations. The question is what kind of compromise will they accept (how much sovereignty will we lose)?



Source: Zerohedge.com

Summary

Central banks became the hostage of their own actions. Artificially suppressing interest rates for the last 8 years and constant currency printing made them lose all ammunition they were so happy to use during every crisis in the past. To prevent countries from going bankrupt, central banks only led to the explosion of the public debt.

A reasonable solution for today is for bankers to cause double-digit inflation with interest rates being low. This can reduce the amount of debt to manageable levels. The level of interdependency and risk is so high in the financial sector that no one can predict, not to mention control every aspect of how this state of affairs can develop.

A good example is rising LIBOR and very low liquidity. Can magicians from Basel handle this case or will stock prices in developed economies and bonds all over the world fall hard and violent to reasonable levels?

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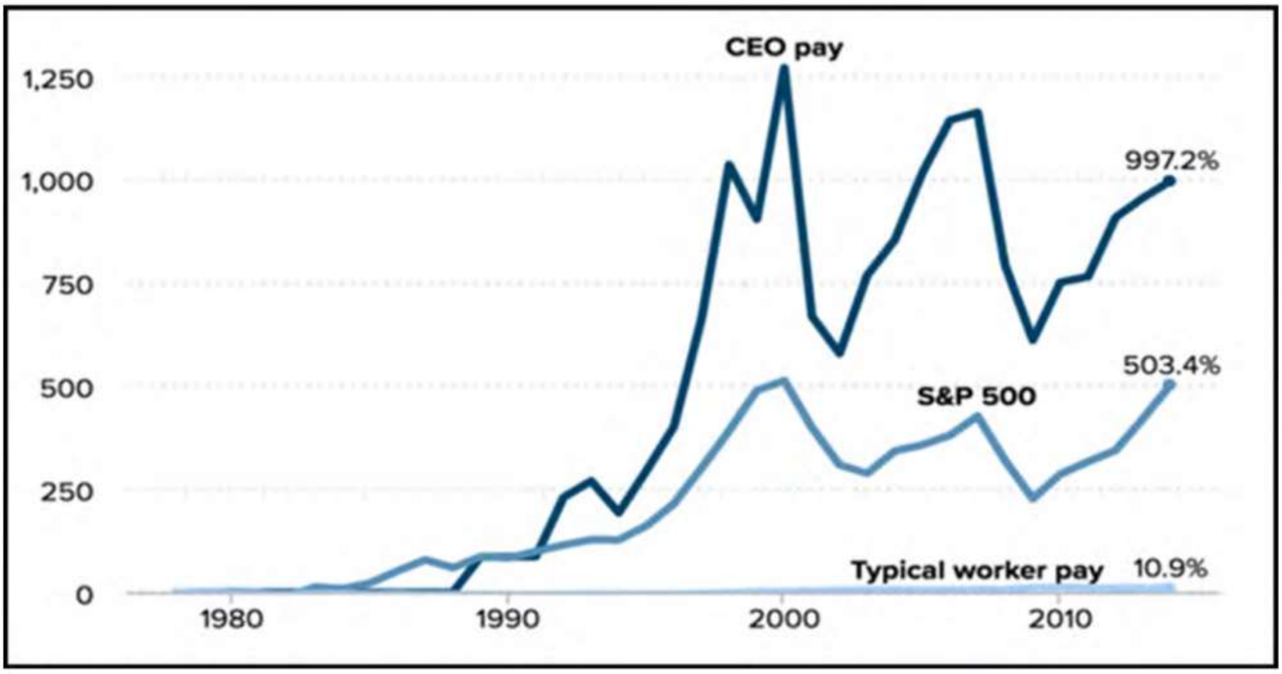
Clinton v Trump – the long-awaited verdict

Only in few days, Americans will choose their new president. In my opinion, this election is one of the most important events in decades. Since Kennedy, you can see that the choice of candidates represented only the interests of the establishment. This time it may be different due to Trump's promises to limit the dominance of the wealthiest 0.01% part of society. I do not believe he is the 'saviour' of the middle-class as he pretends to be. It is rather strategic of him to use growing discontent in the ever divided society. The drastic difference between 90% of American workers and top bracket is the main reason for dissatisfaction.

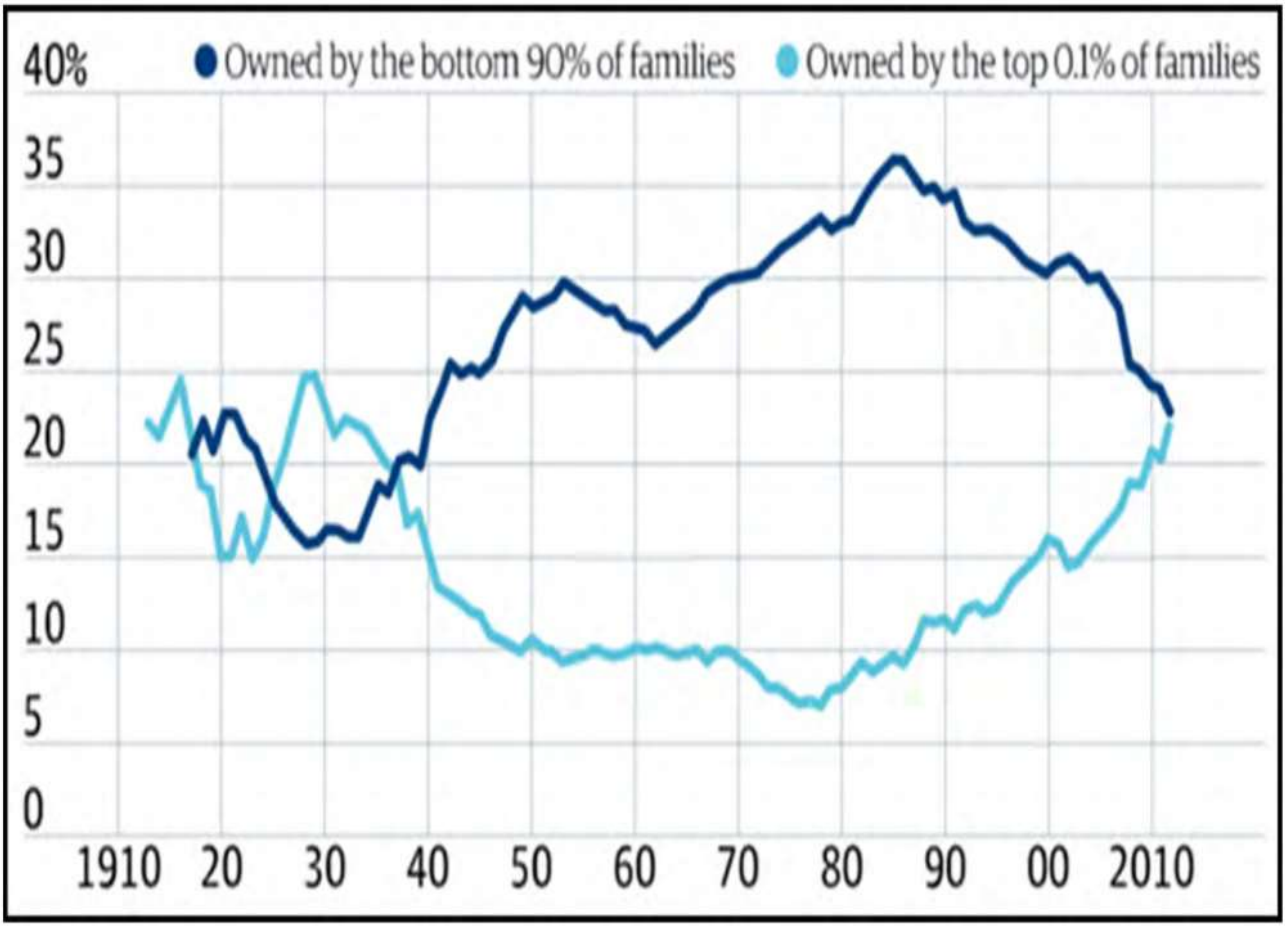
The chart below shows how big the chasm is between average Joe and S&P 500 workers.



Source: Economic Policy Institute

During the 1978 – 2015 period, the pay of the employee of the biggest corporations skyrocketed from 500 to 1000%. Most Americans barely saw any difference during this 37 year period!

This pay chasm quickly translated into wealth disproportions, see below:



Source: Washington Center for Equitable Growth

As a result of disproportions in earnings, wealth distribution and active attempts to save big banks and conglomerates we see something emerging for the first time since decades. Someone from outside of the establishment who does not represent the interest of said establishment has a chance to win the election.

This situation presents a threat to the power elite and the deep state and naturally the reaction is to discredit and stop non-establishment challenger.

All mainstream media uncritically chose to side with Clinton resembling propaganda machines working overtime just like in Third Reich rather than applying the same standards for both presidential nominees. Clinton and Trump are going head to head in this race, but you will not know this from the polls because practically every single one of them tells you that Clinton is leading. These polls are published by third parties which already made headlines during the referendum in the UK in July when they were unequivocally showing Remain camp as a winner. Soon after Brexit won.

Independently of who wins we should be ready for both scenarios and policies they represent:

Clinton wins

a) Geopolitics:

In case next president of the US will be a Democrat we shall see a dangerous continuation of what we experience today. The US will continue fulfilling their role so characteristic for falling empires: provoke conflicts with potential enemies as long as there is a chance to hold onto the status of the only superpower in the world. The conflict resembles the Cold War - NATO on one side and Russia with China on the other. A destruction of the Middle East will continue.

The war in Syria is about two things. Firstly, it serves a purpose of cutting Russia from the Mediterranean Sea (Russian naval base in Taurus – Syria). Secondly, a takeover of Syria enables the US to build a pipeline from Qatar to Europe pushing aside Russian Gazprom as a monopolistic seller of energy to Europe. This battle will shape future of Europe and will continue until one side decidedly wins.

Similar battlegrounds are in India, Brazil, RSA and Iran. We should not expect military conflict there but rather an attempt of the US to dismantle the alliance of BRICS emerging as a significant threat on the international stage. Replacing democratically elected president of Brazil with a puppet selected by Washington is only a prologue.

In terms of trade, the Clinton administration has to push for more deals like TTIP or CETA. In general, they do not improve the situation of most signatories and definitely not their citizens but prioritise lobbied interest of international corporations and those who contributed millions to the Clinton campaign.

Citizens of the United States should see a continuation of a slow decay around them. The degradation of the middle-class is going to advance with big banks and corporations with privileged with access to politicians will enjoy a passive administration ready to help them go unpunished if necessary. A huge budget deficit of 1.3 trillion USD for 2016 Clinton has to raise taxes. This will affect the middle-class and poorer people. In the US one of the top corporate tax brackets is at 35%, however, the biggest institutions from Wall Street pay an average of 1.8% thanks to their international structure. One of the biggest factor that limits the development of SMEs are overregulation and high taxes.

After so many scandals, Clinton has to clean up several federal agencies to continue her presidency. The FBI has enough material to lock Clinton in prison for years. I am thinking about the Clinton Foundation, private servers and mysterious deaths of people who were close to testifying against Clinton. The CIA has no warm feeling towards Hillary due to her private servers, resulting in several operations and a number of agents being burnt or eliminated. If not for Hillary privileged status she would have already enjoyed charges of treason – and punishment they entail. All in all, those two agencies must be reshuffled unless another Clinton presidency will end in impeachment.

b) Financial markets – the coming weeks

Clinton win leads to preservation of the status quo also in the financial market. Investors hate changes and uncertainty. Recently equities have fallen because chances of both candidates are tied. After possible Clinton win equities should react positively and give an additional few percent. The price of gold will fall below 1300 USD. I do not expect big changes because the financial markets have already discounted future turmoil based on the polls giving the win to Clinton.

Trump wins

In the beginning, I want to say that Trump is unpredictable. With that being said, he is a businessman who built an empire and knows how the economy works. Understanding that the resistance from privileged groups will be gigantic, will he have enough resolve to introduce at least one of his big changes he campaigns for?

One of the Trump's flagship is to revoke deals which lead to de-industrialisation of the US in the last 20 years. While shipping off well-paid jobs to Mexico or China the middle-class was hit the worst.

Trump wants to cut taxes and increase competition among SMEs. It sounds very good, but I have to be sceptical because it sounds too good to be true. The real deficit is equal to 1.3 trillion USD (7% of GDP) and Donald wants to simultaneously increase infrastructure by spending another 250 billion USD.

Win of Trump increases the chances to end the conflict with Russia. In my opinion, this is one of the most important factors. This is not about the US or Russia but rather a possibility of a World War during which use of nuclear weapons is probable and not only possible. One of the first steps to de-escalate the situation is to remove Western sanctions on Russia. This improves the situation in Europe with the biggest beneficiaries – Germany and France. Both of them will again take the dominant role in Europe and improve relations with Russia at the expense of smaller players like Middle and Eastern European countries.

Potential improvement of relations between Russia and the US will hurt China which only gains from the situation today. This may be the reason why China sees Trump as a negative factor for them.

Trump is openly anti-globalist and his win can speed up trends set by Brexit. A few months ago Europeans realised that corrupt and bureaucratised EU may not last forever. Another clear signal from the US may improve the standings of anti-establishment parties in Europe like German AfD or Italian M5S resulting in Italy leaving the EU.

A big unknown is the case of FED's independence. Trump is a big critic of the central bank's policy but I doubt he has what it takes to introduce groundbreaking changes in the monetary policy in the US. Today's situation is indeed catastrophic, the dollar is holding its value only thanks to backroom dealings of the Exchange

Stabilization Fund and massive QE in Europe, Japan, and China. Trump is not stupid and knows how attempts of previous presidents that challenged the FED ended.

Undoubtedly, he will push for a purge in the banking sector. Banks and their CEOs buying their freedom with fines now will have to go to jail. This is going to score a lot of points for Trump. President Trump means a lot of troubles for Clinton as the circle of people above the law is already quite big.

Financial markets – the coming weeks

As mentioned before, investors believe Clinton will win tomorrow and they prepare for this scenario. If Trump wins market will be hit by uncertainty and no definitive answers.

This will result in red colour in all stock exchanges around the world and climbing gold price. We can draw parallels with the Brexit referendum. The biggest loser apart from equities will be Mexican Peso. Trump already announced canceling the trade deal from which the South neighbour benefits a lot.

Medical and insurance sector are going to be hit the most in the United States. Sectors that made a huge profit off Obamacare now will face - another flagship project of Trump - the repeal of the ACA.

Soon, I will write about the prospective increase of the interest rate by the FED as the chances for that are rising also if Trump wins. Throughout 2016 I was betting that even after the FED announced to hike rates 4 times this year there will not be even one. For 10 months FED failed to raise rates. The situation in the market changed dramatically and now Yellen may not have any other choice but to 'pull the trigger' in December and add another 0.25%. This move would start a wave of equity sales all over the world. The one to blame? Trump and his unpredictable, chaotic plans regarding the financial sector.

Summary

Prices of equities and precious metals indicate Clinton win. Trump is a mystery for everyone. His chances to win increased in the recent weeks but according to the polls, he is still in the red. The establishment does everything it can not let go of power it holds. Media aligned themselves with Clinton, the voting system is prone to fraud as many people can vote in different states without showing their ID and even deceased people sometimes contribute to elections. In contrast to Europe, in many states there is no requirement to identify voters. If you are on the list, all you have to do is say your name and the voting booth is all yours. There have been instances where the machines counting votes showed thousands of votes in favour of one candidate and ZERO cast for his opponent. Stalin's saying seems to be a description of modern US: "It's not the people who vote that count. It's the people who count the votes."

On the one hand, we have the system promoting Clinton, but there are also different kind of powers on the opposite side. For some unknown reason, the FBI was allowed to roll out their biggest guns against Hillary. There seems to be a big struggle behind the curtain that will affect the future of the USA and the globe.

Investors believe in Clinton's win. If she wins and election are deemed legal, markets will not experience any shocks. In case of Trump winning the election shorting equities and going long on gold and miners is a good idea. There are a lot of methods but I prefer to use options which are relatively cheap and safeguard me against the consensus in the market that tomorrow Clinton wins.

Tomorrow we will know everything. Although I consider myself apolitical, I would vote for Trump as I cannot imagine more dangerous and corrupted president - a puppet catering to the needs of central planners - than Clinton. I am far from being a fan of Donald Trump, but within the choice of two candidates having the highest likelihood to win I prefer someone who actually can identify sources of problems and at least look for a solution rather than initiate military conflicts to turn the society's attention from the tragic economic situation.

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President Trump - what does it mean for you?

Gigantic funds from both military and financial sectors. Unanimous cooperation of the mainstream media. Polls signalling only one possible result of this election. All of the above did not help Hillary Clinton to win. The new President of the United States is Donald Trump.

Stunned Mainstream

"Shocking". This is the adjective mostly used in relation to the result of yesterday's election. Many remember dozen of polls giving an undisputable win to Hillary Clinton. The sheer conviction of her inevitable success made betting agencies pay only 22 cents on every dollar you put for the former Secretary of the State. The resounding "why" starts ringing in the background.

On Tuesday we saw average citizens going to vote. 'Average' here means those who may still classify as the middle-class but most probably already fell out of this band after the government took their money one way or the other. On the Election Day, they were not driven by experts' opinion. They paid attention to the last 8 years they remembered very well – shrinking salaries, high inflation and another tax they were compelled to work for. All this made them look for an alternative, change.

One more thing which became even more evident yesterday. The result of this race shows that polls are only a tool to manipulate the electorate.

Reactionary Market

According to our prognosis victory of Trump led to losses across equity markets. We believe that thanks to central banks and the Plunge Protection Team situation has been smoothed out – if not for their intervention markets would have landed much lower.

Among all indices, Japan is standing out where Nikkei lost over 5%. Looking at the Bank of Japan in the past we should expect printing more currency and direct purchases made by the central bank. Japanese bankers will do anything to stop further haemorrhaging even if it means more debt.

Everyone who owns gold had a big smile when the news of new president arrived. What is interesting is that gold first jumped up to 1335 USD and then stabilised at 1300 USD. This unusual drop may be associated with backroom actions of central banks and the Plunge Protection Team. Silver has a similar story to tell.

With precious metals on the rise, miners were also on the winning side. Before trading started on Wednesday GDXJ was already 7.8% ahead.

President Trump left many in shock and disbelief but the reaction of market was foreseeable. In case of Hillary Clinton's win investors were looking forward to a continuation of Barack Obama's policy. The defeat of the former Secretary of State increased uncertainty pushing the capital towards safer assets – precious metals.

What would Trump's policy look like?

First of all, we have to be objective. Influence of the Military-Industrial Complex is not going to suddenly disappear. Attempt to put the US and Russia on a collision course will continue especially due to the fact of still existent military advantage of the US.

Assuming that nothing extraordinary happens until Donald Trump is sworn into office I want you to pay attention to future Vice-President (VP) Mike Pence. He is not a typical figurehead media was expecting to see in the office. During campaign Pence was a strong asset in Trump's corner and will be playing important role in Trump's administration.

The former governor of Indiana is an experienced politician. There is a chance that new President of the US (POTUS) will be responsible for making a show while many decisions will come directly from the VP. While in office, Pence lowered both public expenditure and taxes. This solution is the last hope for the country. For now, America has anaemic GDP growth and debt is on the rise. There is a chance to show everyone that the free market reforms are better in stimulating the economy than shoving printed money into financial markets by the FED.

Decisions made by Trump (or Pence on president's behalf) will depend on the economic situation of the US. Hypothetical crisis can put severe public pressure on new government and limit its options.

Sooner or later the US will have to face recession. This is the result of last 15-20 years of American monetary policy and economic governance not the election of new POTUS.

Summary

The result of 8th November is a testament to a mobilisation of the middle-class, quickly shrinking in recent years. The revolt in American society is growing. Only 8 years ago everyone seemed to believe in the burning need of "choosing the first black president of the US". Four years later he was the "lesser of two evils". Today the establishment promoted the "first woman becoming American president". Finally, the patience of taxpayers has been depleted.

Millions had the chance to see for themselves the level of media untruthfulness. Thanks to the increasing role of the internet everyone was able to verify any information.

Trump's presidency can lead to the warmer relation with Russia which can marginalise the growing role of Middle and Eastern Europe but an election of Clinton could have led to a conflict on a global scale. Even though there is no official war between Russia and the US, Syria experienced civilian exodus. What would be the death toll of the open conflict given that war theatre would be in Europe?

Markets were convinced about Clinton's win and this gave low-risk chance to short equities in the US and stockpile on precious metals.

Finally, I want to highlight that what happened during last few months would not have been possible two years ago. In June we saw the UK voting to leave the European Union. Today we have Donald Trump as the 45th President of the US. It may be that the overarching goal is a further destruction of monetary systems. Everyone who promotes protectionism could then be blamed for the systemic failure and used as an argument to return to the path of an ever more globalised world with new world reserve currency – SDR.

Independent Trader Team