Insider Money

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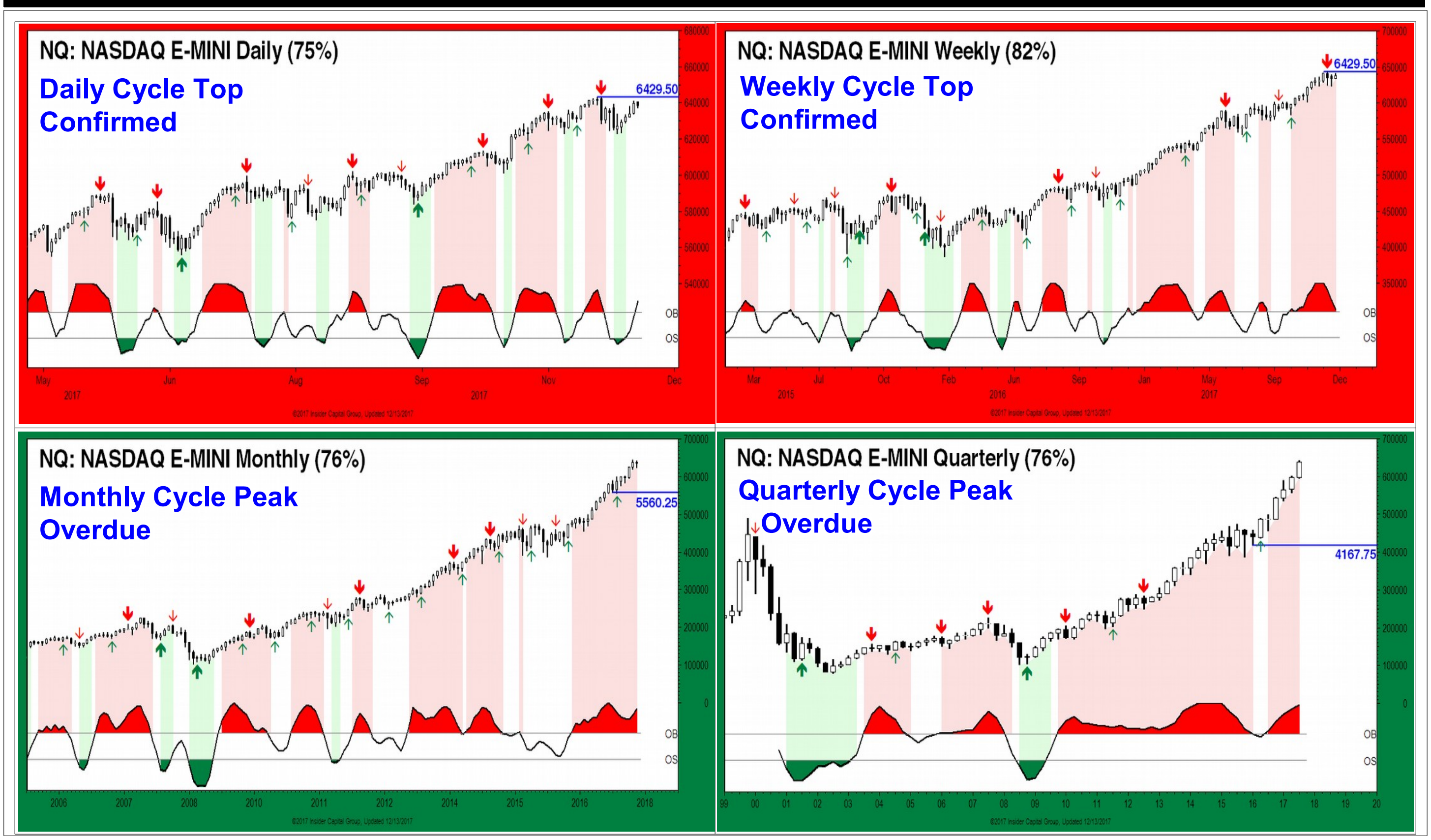
Case-Shiller 20-City Composite Home Price Index

While it may lag Canada, UK, and China, the home prices in the US have reached bubble levels. This comes as Republicans appear ready to pass a tax bill that tilt the playing field to benefit of landlords over homeowners.

Asset Class	Index	2017 YTD
Gold	Futures	+8.24%
Crude Oil	Futures	+6.66%
Equities	Wilshire 5000	+18.92%
Bonds	T-bond Futures	+2.58%
Euro	Dollars/euro	+11.20%
Real Estate	PHLX Housing	+42.68%
Commodities	Goldman-Sachs	+5.42%
	Average Return	+15.95%

Mutual Fund	Index	2017 YTD
Bear Stock	Rydex Ursa	-17.46%
Bear Bond	Rydex Juno	-9.79%
Bull Bond	iShare IEI	+1.35%
Junk Bond	SPDR JNK	+6.19%

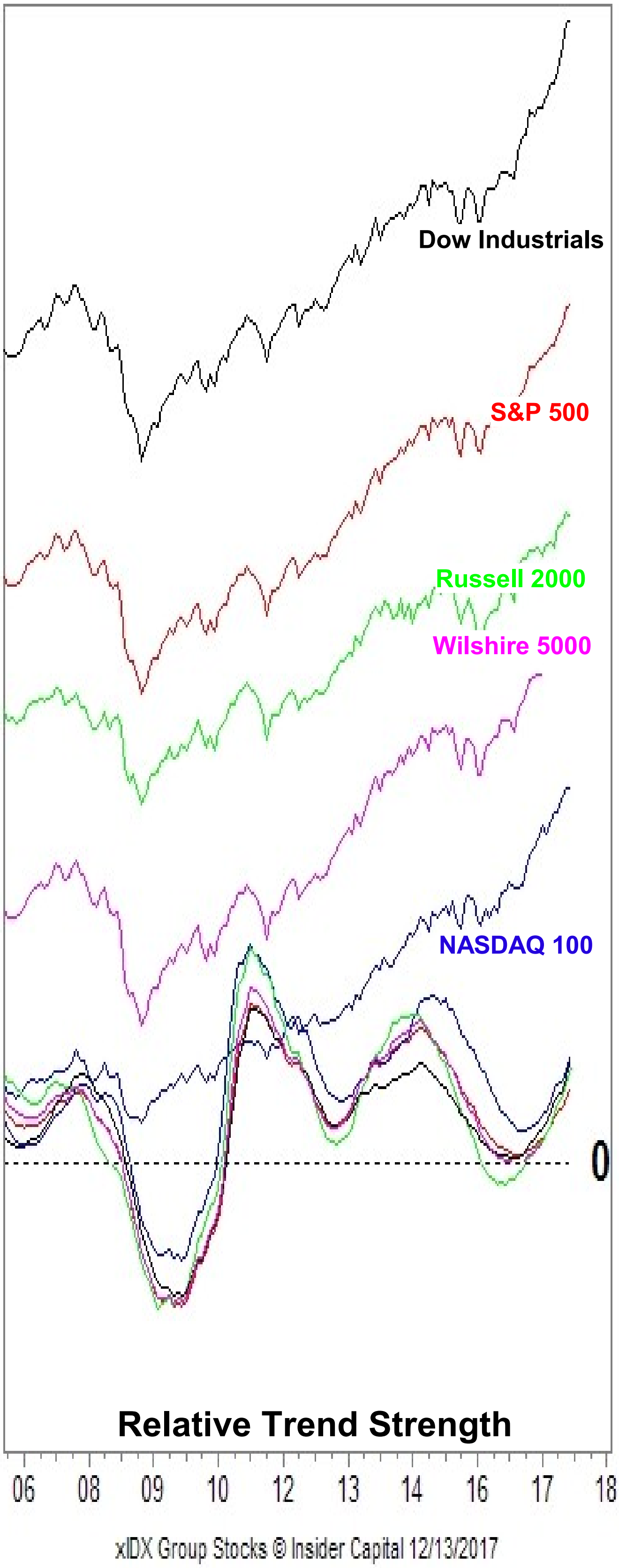
BRIESE CYCLES: NASDAQ Futures



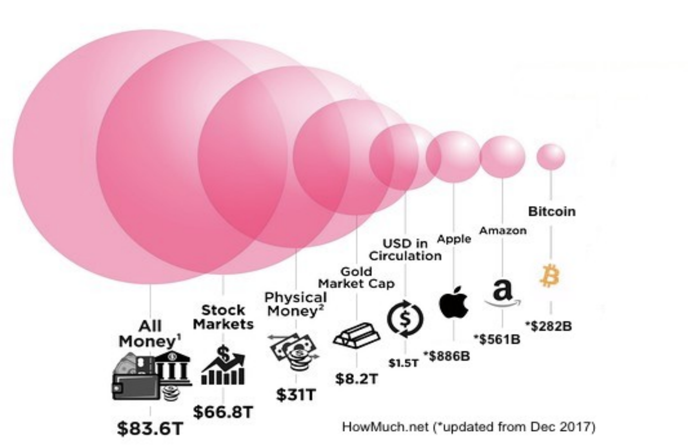
All information has been obtained from sources believed to be reliable, but accuracy and completeness are not guaranteed. Statements and recommendations are subject to the limitations inherent in market analysis and may be changed without notice. No claim is made that future recommendations will be as profitable as past performance or that they will not result in losses.

THERE IS RISK OF LOSS in investing. Those using this information are responsible for their own actions.

Stock Indexes Price Monthly



Bitcoin Market Cap Compared



I had hoped not to find the need to discuss Bitcoins and their brethren in these pages. But several developments demand our attention.

First, the total value of outstanding Bitcoins has surpassed a quarter trillion dollars, while the combined value of all 1355 cryptocurrencies has reached half a trillion dollars--one third of physical US dollars in circulation--not peanuts.

Second, the approval by the Commodity Futures Trading Commission and subsequent introduction this week of exchange trading in Bitcoin futures on the Chicago Board Options Exchange to be followed next week by a Chicago Board of Trade demands comment.

Third, introduction of futures means that ETF's are soon to follow. For those keeping count this is a derivative (ETF) of a derivative (futures contract) of an unregulated marketplace. What could go wrong?

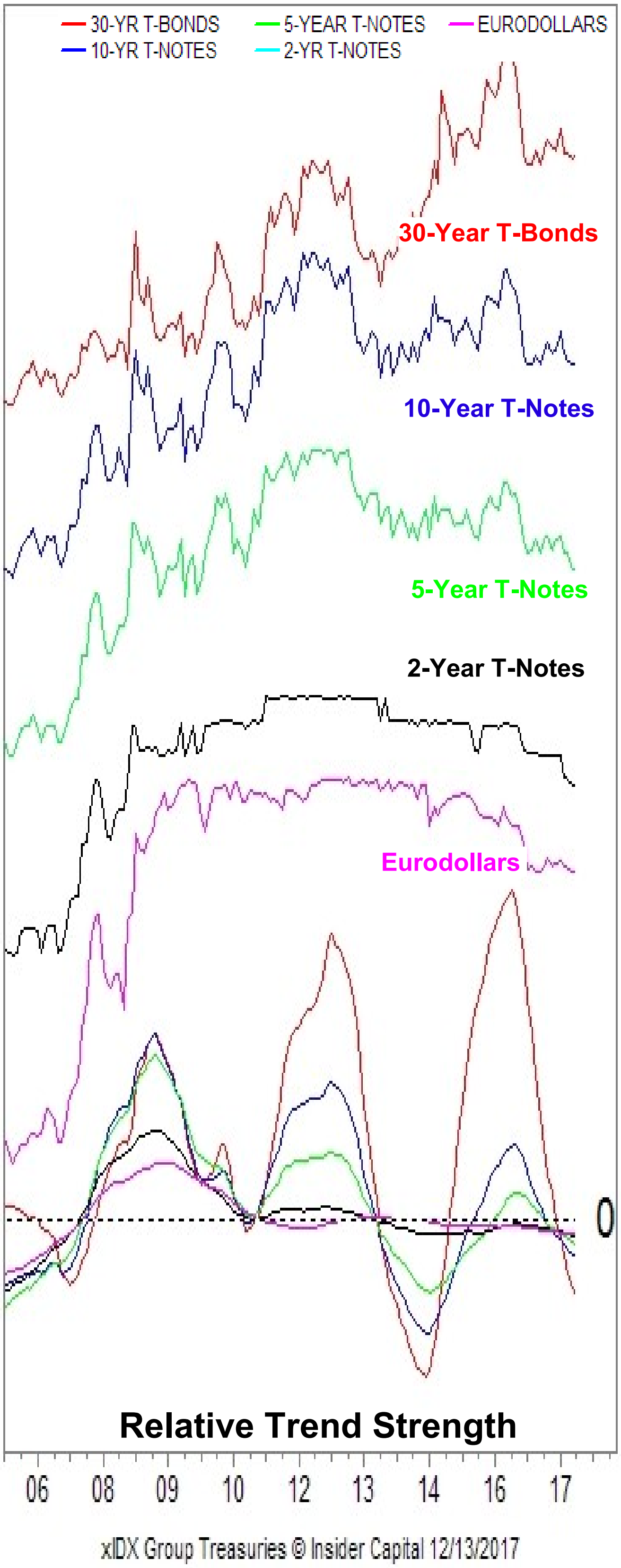
Bitcoins are not real coins, by the way. In a very simplified explanation, they are no more than encrypted bits of computer code representing a transaction, which is stored in a digital block like this:

00000000000000000c05a2f67ea3f3d84adb452dd21736596c3ec4856a1a1dc2

The transactions are stored in a public database or ledger called a blockchain. Before a block (transaction) can be added to the blockchain (ledger), it must authenticated through cryptography.

TREASURYS

TREASURY FUTURES MONTHLY



Because the blockchain is distributed over a peer-to-peer network of computers with no central authority or regulator, each transaction must be decrypted by the computer network. This takes beaucoup computing power by data *miners* who are compensated for this requisite protocol with (what else) Bitcoins.

In order to own a Bitcoin, you require a digital wallet to store your transactions. These can be lost, stolen, or made inaccessible just like any other other computer file. There have been some notable thefts including a 2014 hack of 850,000 Bitcoins from the Mt. Gox exchange ($400 million then, but $10 billion at today's valuation) and $78 million worth just reported by cryptocurrency mining marketplace NiceHash. Once gone, the prospects of recovery are apparently quite poor.

While it is obvious why a futures exchange might want a piece of the Bitcoin speculative pie, it is unconscionable (although not unprecedented, unfortunately) that US regulators would legitimize an unregulated, opaque marketplace useful primarily to those seeking to operate outside the purview of regulatory, banking, monetary, taxing, and law enforcement authorities; including criminals and rogue nations.

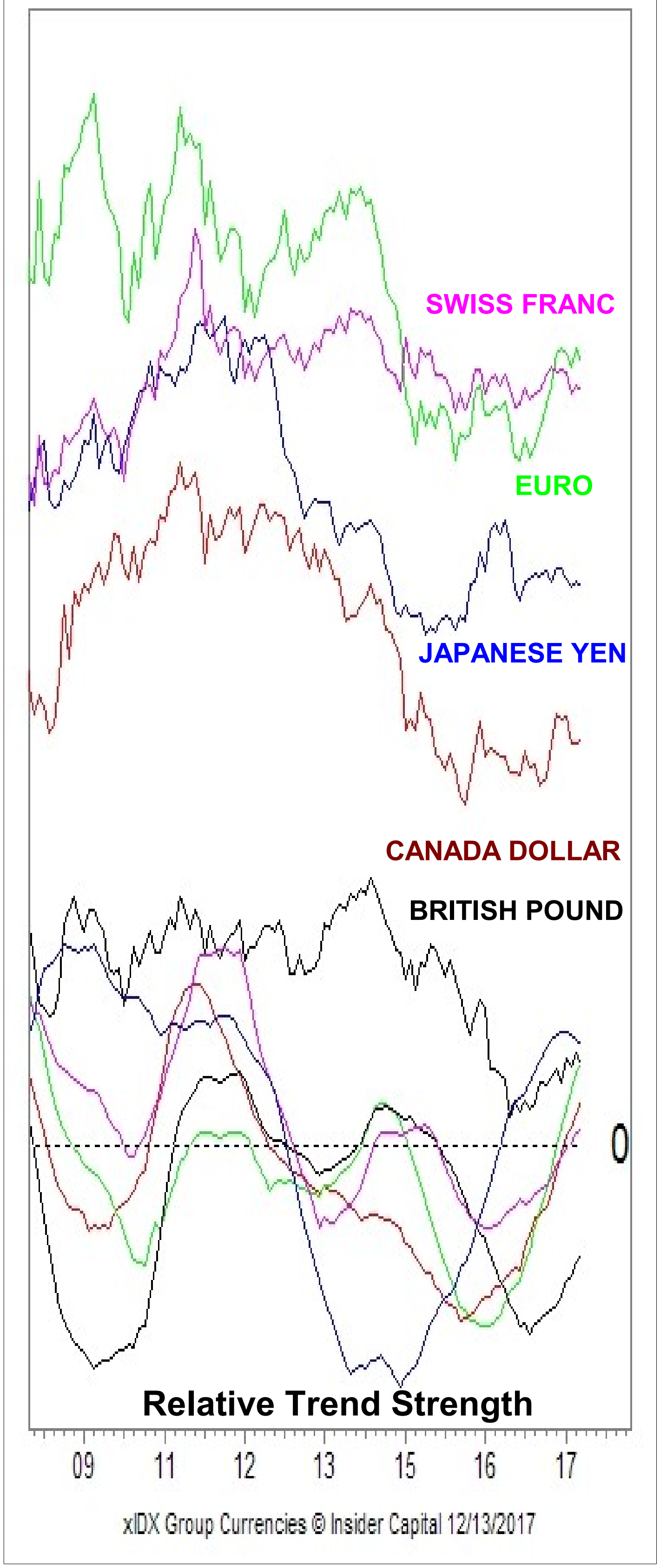
The Commodity Futures Trading Commission (CFTC) is charged with insuring a transparent and secure marketplace. In other words, the CFTC should be regulating Bitcoins, not abrogating this duty only to turn around and create a whole new series of trading outlets for an unregulated market. Enron all over again.

Without CFTC approval, there could not be exchange traded Bitcoin futures and options. The SEC could not authorize Bitcoin ETF's without futures markets providing regulated access to Bitcoins.

The mere anticipation of futures and binary options contracts dramatically swelled the speculative Bitcoin bubble. One Bitcoin wallet provider, Blockchain, reported a half million new sign-ups as Bitcoin prices advanced 40% during the first week of December.

Exchange traded futures contracts now pave the way for big bank and other institutional participation, creating new (known and unknown) risks to shareholders and depositors.

CURRENCY FUTURES MONTHLY



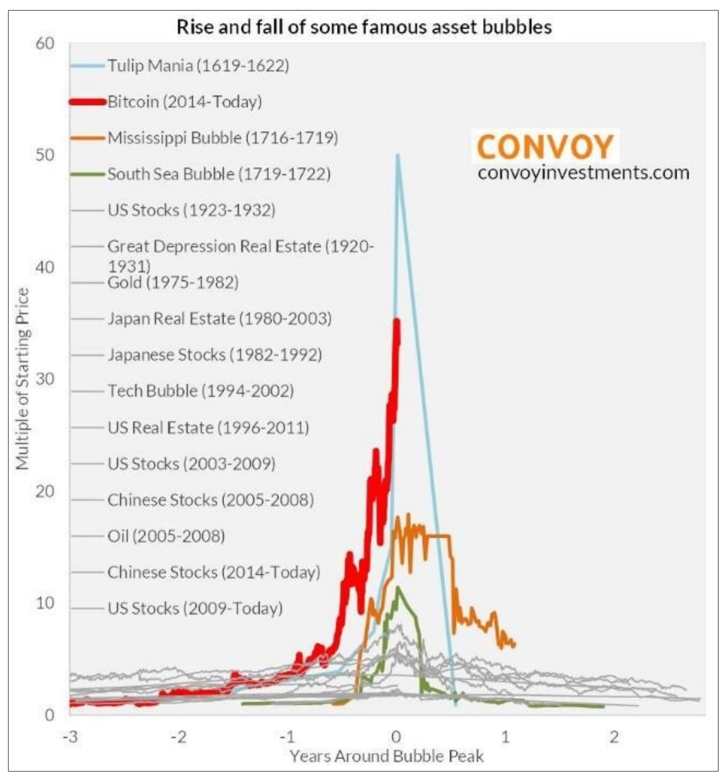
The CFTC seeks to justify abandoning its statutory regulatory duties by watering down its futures contract authorization, stating:

> *[this] is not a Commission approval. It does not constitute a Commission endorsement of the use or value of virtual currency products or derivatives.*

Passing the buck to the very market participants the Commission is charged with protecting:

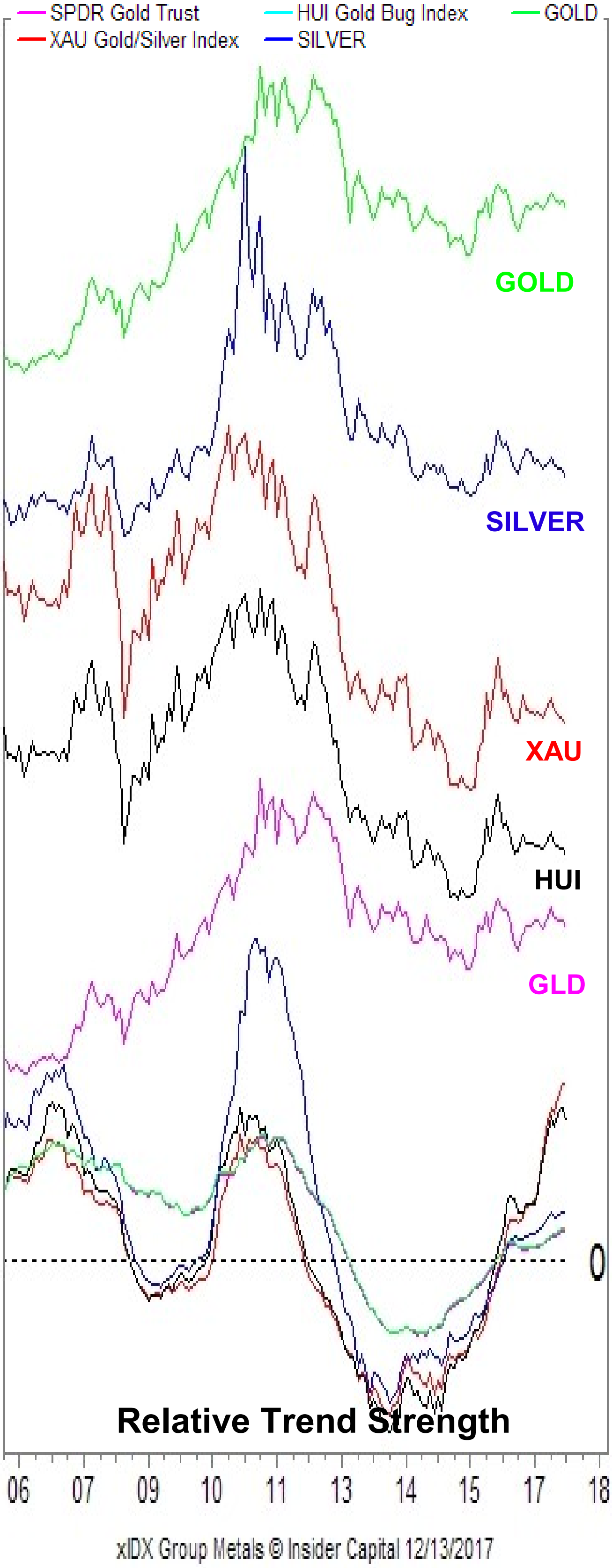
> *It is incumbent on market participants to conduct appropriate due diligence to determine the particular appropriateness of these products, which at times have exhibited extreme volatility and unique risks.*

It is pretty obvious that the CFTC rushed Bitcoin futures approval without due diligence. It is a solution engendering its own problem. There are no legitimate producers clamoring to hedge future price risk on a regulated exchange. On the contrary, speculating on price action is the whole game. Here is how the action to-date compares to historic speculative bubbles. Only the 17th century Tulip Bulb Mania was larger.

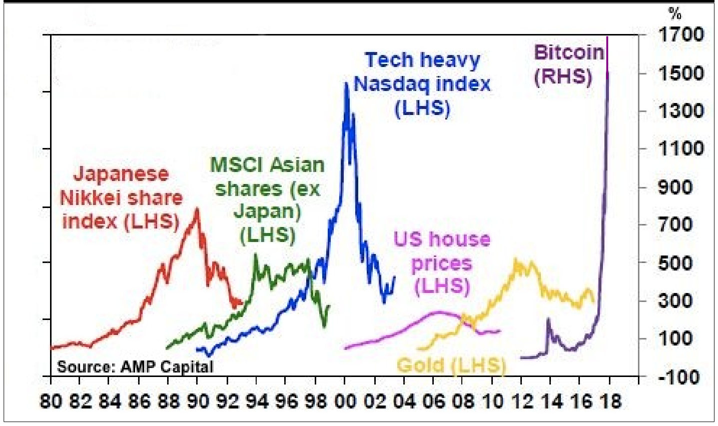


The next chart highlights modern bubbles.

PRECIOUS METALS MONTHLY



Modern Speculative Bubble Multiples



- On April 10, 2000, I issued my first-ever sell signal for the NASDAQ.
- In 2006, I called US house prices a bubble, which would lead for the first time ever to a national price downturn.
- On August 15, 2011, I begged subscribers to sell gold, noting *These charts always, always, always end with prices going down, down, down for a long, long, long time. Always.*

As we sit here on December 15, 2017, Bitcoin has risen 1700%, breaking all modern speculative bubble records. It is, therefore, likely set a new modern record for post bubble plunges.

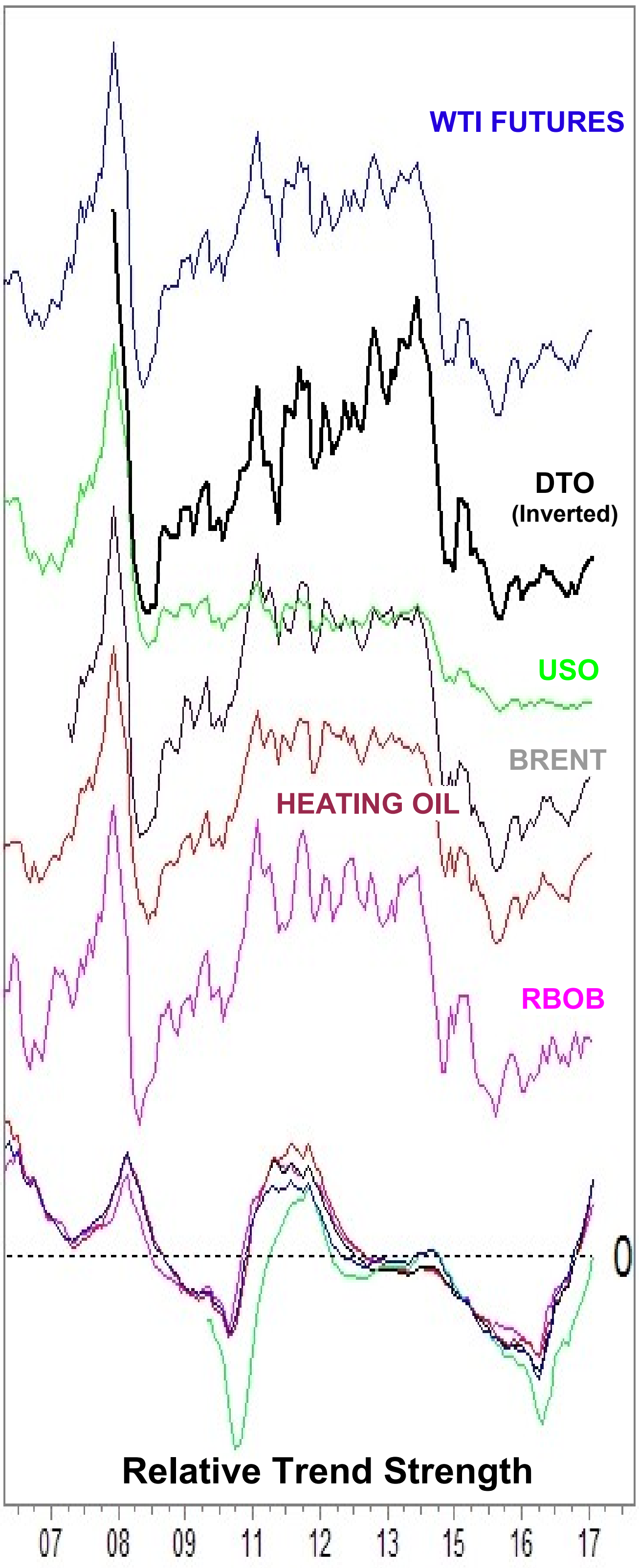
This is not meant to encourage you to trade Bitcoin futures, long or short. Quite the opposite. (And we are not adding cryptocurrencies to our regular coverage.)

STOCKS

On paper, cryptocurrencies do not seem to have a large enough market cap to impact the economy or financial system. However, a reversal in fortune would likely to have a negative impact on investor sentiment generally.

Asset bear markets show a contagion effect because investors will often choose to sell an asset showing a profit just to avoid being forced to sell another at a loss. This often leads to indiscriminate widespread selling. With stock markets at valuation levels only seen once or

OIL SECTOR MONTHLY



xIDX Group Oil © Insider Capital 12/13/2017

twice in history, it may not take much to reach the tipping point.

I held this *Insider Money* issue up for the weekend to get a look at current net futures trader positions in the *Commitments of Traders* report. In stock indexes, the pattern is clearly bearish based on prior similar extremes between hedge fund bulls and commercial bears.

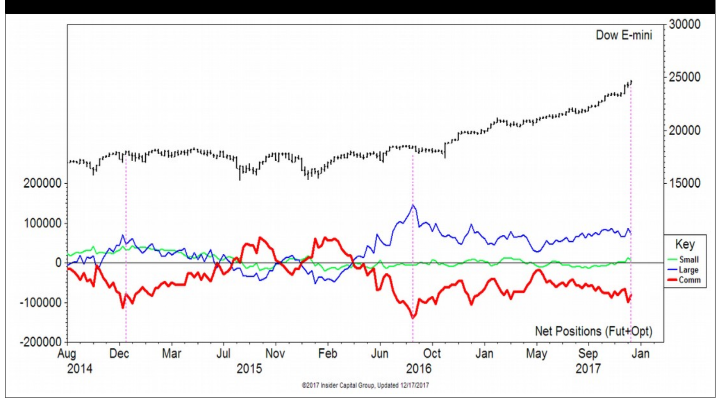
Looking at the two prior extremes over the past 3 years (marked with vertical lines on chart below) might lead you to conclude that any setback should be viewed as a buying opportunity. But risk levels have risen as the bull market has aged, now the second longest on record.

Over the past year's issues, we have recorded a litany of risk factors (easily reviewable on the subscriber's page) that suggest that a much deeper and longer downturn is due.

Bull markets do not end on bad news. They end on good news, when the news is so good that prospects for better news down the line are not apparent. The current situation fits this pattern. Republicans look set to pass a tax bill favorable to corporations and shareholders.

Sure, it will be some time before these benefits accrue, but stock markets discount such news immediately. Prospects look bright perhaps as bright as they will ever look in this cycle. Considering the Fed's forecast for higher rates, expectations for a steepening yield curve, a coming spending limit battle, FBI investigations proceeding, and the Republican hold on Congress slipping, what if this is (to coin a phrase) *as good as it gets*? That is the question on Mr. Market's mind right now.

Combined Stock Index Net Positions



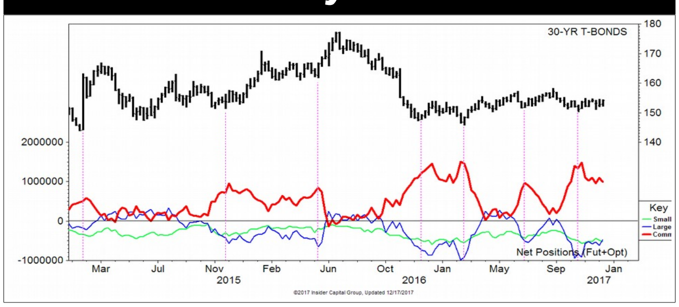
BONDS

After implementing a third rate hike this year, the Fed has reportedly penciled in a continuing series of hikes for next year. At least three. Neither this nor the Fed's plan to reduce its balance sheet by not reinvesting interest payments and maturing securities, are good news for the stock market.

This week, the yield curve (10-Year minus 2-Year Treasury Yield) fell to a ten year low. Ten years ago at this time, the stock market had already peaked and the great recession had just begun. [*The latter was not known for another year, but was presciently reported here as fait accompli in December 2007.*]

Yield Curve Against Wilshire 5000

Combined Treasury COT Net Positions



Commercial insiders are consistently well-positioned for Treasury market moves. Their buying halted the last decline in October and they remain heavily net long in expectation of a further advance. (The chart shows combined net positions for 2- to 30-Year Treasury contracts.) Given the rising rate environment, a rational reason to be bullish Treasury prices might be the expectation of flight to safety buying on a stock market break (or other asset classes). Insiders seem to anticipate risk.

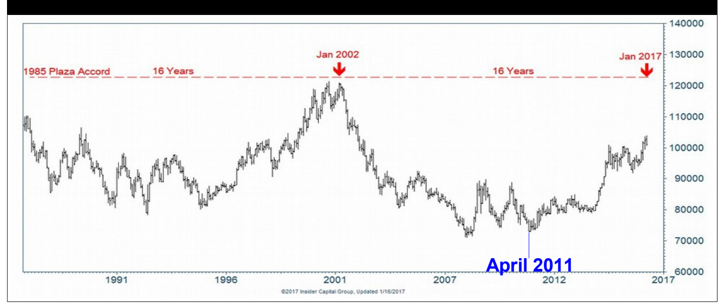
Years of central bank bond buying extended the normal 30-year interest rate cycle. As central banks continue tapering, the bond price bubble they left behind must deflate.

While sovereign bonds may benefit short term from investor flight to safety out of other bubble assets, holders of non-government bonds (including municipals) can expect continuing and accelerating bubble collapses.

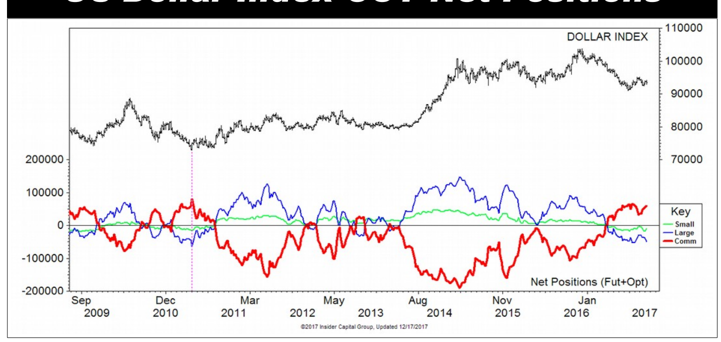
DOLLAR

As the dollar topped the first of this year, we carried the below chart showing the 16-year top-to-top cycle in the US dollar against a trade-weighted basket of currencies (dominated by the euro). While this pinpointed the top, commercial insiders used this year's downturn to accumulate their most bullish futures position since the April 2011 market bottom, then resumed buying on the recent minor setback (second chart below). This suggests that they expect a significant price bounce near-term. Given the cycle picture, we would view any dollar rally as a selling, not buying opportunity. This remains a top pattern.

US Dollar Index December 2016



US Dollar Index COT Net Positions



GOLD & SILVER

Is gold still considered a safe haven for a stock market bear? How about for cryptocurrency investors? We may soon find out. This week's gold and silver rebounds were fueled buy commercial buying, a bullish pattern.

But long-term bear markets in both gold and silver remain intact. The gold chart below illustrates that the rebound off the November 2015 low amounted to only the minimum expected Fibonacci 38.2% of the initial decline from the September 2011 bull market peak. Despite the hopes and cheers of gold bugs, precious metals bear markets look far from complete.

Golds Fibonacci Bear Market Rebound

CRUDE OIL

Last month's bearish outlook has intensified as the record spread between hedge fund bulls and commercial bears (chart shown in November *IM*) has expanded. The odds of the next major move in oil are overwhelmingly bearish.

The record speculative long bet leaves oil prices susceptible to an extended / deep decline as an unprecedented number of leveraged speculative positions may be forced to liquidate in a vicious circle of selling waves triggering ever-lower sell stops. This could easily force a retest of market lows beneath $30. Caveat: With oil, weather and geopolitical conditions are always unknown risk factors.

REAL ESTATE

As this is written, it appears that the House and Senate are preparing to pass a massive new tax bill. Given the President's business interests, it is not surprising the proposed bill benefits landlords, many of whom use real estate investment trusts, partnerships, limited liability companies, S corporations and sole proprietorships to pass through income to personal tax returns.

On the other hand, homeowners are set to see increases as deductions for property taxes and interest payments are capped. Meanwhile the bill essentially doubles the standard deduction, reducing the incentive to buy a home by making far fewer homeowners eligible for preferential tax treatment though the itemized deduction.

We can argue about the relative merits, but the housing market bubble will be squeezed, perhaps in a big way.

RECOMMENDATIONS

Fundamental outlooks are usually open to interpretation and disagreement. There is little disagreement that stock prices are at rarefied valuations by most measures. The only argument is how much further these values might be stretched before the inevitable regression to mean. As bull markets always do, this one has trained investors to always buy the dips. This habit will prove their undoing.

(I am referring to the stock market, but could just as easily be talking about cryptocurrencies.)

We have been keeping our powder dry because those with cash in hand at the next stock market bottom are likely to find buys of a lifetime.

Cash nest eggs should be kept secured in government insured savings accounts or short-term government notes.

Those with risk capital available should be monitoring our daily or weekly trading publications (www.InsiderCapital.com) for entries into anticipated market reversals.

Jeannette and I wish you the happiest of holidays and a prosperous 2018. - Steve Briese, Editor-in-Chief.

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