In the January issue of this newsletter, I discussed how the Fed and central banks around the world literally stumbled into creating the greatest and most artificial stock market and general financial asset bubble in history. And, while all winter seasons since the 1970s have seen a final bubble, none have been like this one, with such unprecedented money printing to combat deflation and necessary financial debt/bubble deleveraging and new highs in stocks.

So, of course this policy of unlimited money printing since the bottom of the last crisis in late 2008 forward has not cured anything. Debt and bubbles are all higher than ever. We just heated up the economy with artificial inflation, which has not created the consumer inflation the gold bugs expected, but rather off-the-charts inflation through bubbles in financial assets.

Central banks only sought first to bail out the banks and keep a domino effect like the one we saw in the early 1930s from happening… the first $1 trillion of quantitative easing (QE) into 2009 would have done that. They were also looking to replenish the banking system with reserves so that banks would lend again and create the traditional money multiplier effect. But surprise, surprise: consumers and businesses were already over in debt and capacity from the great bubble boom that peaked in 2007, as I predicted it would 20 years in advance.

What did occur was that massive QE created inflation in financial assets, which created higher spending, largely from the top 20%, which owns 88% of those financial assets and creates 50% of the spending. That top 20% is spending like a normal 4%+ recovery; the other 80% is not. So, we get an unprecedented 2% real growth recovery after an equally unprecedented $3.7 trillion ($16 trillion globally) in money printing and a 5% of GDP fiscal deficit. Now, you don’t get something for nothing here… and we still have to go through “detox,” or the deleveraging of unprecedented debt and bubbles that are weighing on the economy… or, like Japan, we don’t ever get back to spring again!

Hence, my forecast into late 2022+ is that we see a final crash in this winter season that looks more like the first crash of the last winter season, in the early 1930s. That makes the trillion-dollar question, when does this unprecedented bubble finally peak and burst? That’s what I will look at in this issue, but the short answer is that I am now convinced we are talking about a few months, and maybe already peaked.
I first thought we were finally entering the final orgasmic stage when Trump got elected by surprise in November 2016. At that point, it was obvious we had a ways to go with tax cuts, deregulation and the looming fiscal stimulus, and stocks rallied harder.

But I have since realized that the final blow-off stage started after the 20%+ correction into late December 2018. That was most comparable to the final steep correction into October 1998, during the last major tech bubble. And that one led to the final blow-off rally that got the steepest in the last five months. This final rally has looked very similar and appears to have entered that truly final stage, starting in early October after the Fed came back to full-out QE in mid-September, around the repo crisis…

That’s why I now say that we have a few months at most, not years. I will give two scenarios and targets a little later in this article.

**Repo and Coronavirus Excuse for QE II: Markets No Want Taper!**

The Fed has been living under the delusion that the 2008 crisis was a “black swan” – a temporary crisis that we needed to just get over so that everything can be all right again. If they could just keep the economy going, it would get back to normal and be self-sustaining again… and pigs can fly!

This was not a black swan, however, but rather a predictable and unprecedented debt and financial asset bubble created by the Fed and central banks around the world. The 1929 debt and stock bubble peak (which grew from endless stimulus policies) followed the initial creation of the Fed in 1913-14 and led to the Great Depression – a better name for the Great Depression would have been “the Great Detox.” That was anything but an accident or black swan!

This one is even more global and started to peak naturally in late 2007 as demographic trends were cresting; but central banks, led by the Fed, decided to fight this deflation and deleveraging at all costs and printed $16 trillion since. The Fed was the first to taper after 2017… but the “markets on crack” are saying: “We want more crack – or else we’ll puke all over you!” The repo crisis was the first puke.

I am going to summarize a number of factors that I have talked about in our daily e-letter Economy & Markets over the last month as this repo crisis and return of aggressive QE has emerged… and guess what? Stock markets have been up even faster in response…up until the sharp crash from the February 2019 peak.

The biggest long-term trend currently hitting is that 90-year Super Bubble/Great Reset Cycle, which stands out more than any other since the first major stock exchanges started in the late 1700s, around the time of the Industrial Revolution and the advent of free market capitalism and modern democracy… the biggest convergence of economic trends in all of human history.

But the biggest trend of all right now is the sharp resurgence of QE in response to the repo crisis of mid-September and the fact that the coronavirus has given the Fed and China and all of the central banks a bigger excuse to keep creating money. QE has become the financial antibiotic of our time, the cure for all ills. Anything goes wrong, just print more money… Like that doesn’t have consequences!

**A Once-in-a-Lifetime Bet**

Let me say this off the bat: This is not the first repo crisis or the first sudden surge in Fed injections outside of the long, extended QE since late 2008. There have been two other instances since 1999.

The first one was a sudden injection between mid-December 1999 and January 5, 2000. This occurred just in case Y2K caused some big economic problems and the system needed liquidity. That, of course, didn’t happen, as I had predicted. That $120B (billion) surge would have been more like $250B today. It hit right in the middle of the last blow-off phase of the tech bubble from October 1999 into March 2000, and certainly helped goose it, as it has this one. Two months after the Fed backed off that surge, the markets began a crash that started off down 41% in the first two-and-a-half months on
the Nasdaq. That money went right into financial assets and stocks, just like it has and does today.

And what caused the current repo crisis? The Fed’s tapering of its QE, which rapidly shrank bank reserves to the point that banks no longer felt comfortable lending overnight to each other. So, let’s start with the Fed’s balance sheet.

After the first massive and coordinated QE surge into 2009, central banks have been playing tag team. Japan first went off the reservation in 2013, tripling its rate of QE. The Fed tapered in 2014 to a peak, but the ECB in Europe stepped up its QE. Overall, the global peak of the Big 4 (including China) peaked at $21T at the end of 2017.

As you can see here, the Fed started selling off their bonds in 2018 instead of just maintaining them like in 2014-17. Its BS (that’s “balance sheet”. . . and a decent pun) fell from $4.516T to $3.762T, or by $754B. Overall globally, the Big 4 fell from $21T to $20, or about $1T.

The big problem was that the excess reserves of banks held at the Fed fell much faster: from a peak of $2.72T down to $1.26T, or down $1.46T. That was 1.94 times as much as the tapering. Banks started panicking and suddenly stopped funding repos in mid-September at that critical stress point. With the cumulative repo and QE/T-bill purchases, the Fed has injected $423B net since mid-September (as you can see on the next chart) and that has brought the balance sheet back up to $4.159T. That has made the banks more comfortable with repo funding thus far.

Fed Repo Injections Explode to $424B Peak, $423B Now: No Big Deal?
In that case, stocks will continue to rise on that factor alone, but likely more in the tech stocks.

If repos continue to decline back towards zero with rising reserves, then the BS will remain flatter – as will stocks, as they won’t be getting continued stimulus and could even move down with disappointment… So, this is a big deal, and we are monitoring these Fed purchases and its balance sheet every Thursday late afternoon when the numbers are released.

Right now, there is a very close and strong correlation with stocks and the rise of the BS since mid-September on a two-and-a-half-week lag. It correlates with all the major indices, but I look here at the lead bubble: the Nasdaq.

The Nasdaq here first peaked on January 24 and has moved more sideways before crashing sharply since its higher peak on February 19. This sudden rise was directly in line with this two-and-a-half-week lag on the rise in the BS. Literally, a 1% rise in the BS is creating a 1% rise in stocks… now that’s a direct correlation! Since we are still on the high side of the Fed balance sheet’s rise, stocks should be due for a strong bounce out of this first coronavirus reactions as it suddenly spread outside of China broadly.

With Trump emboldened now that the impeachment process is over, the trade war has stalled, the Iran threat has faded, and there’s no new imminent danger from the coronavirus, stocks have reversed from above the high side of this indicator to way below. Again, such a move – and such a strong reversal back to stimulus by the Fed – fits very well with this being the final phase of the blow-off, much like October 1999 to March 2000. This blow-off rally could be over for most indices, as I will show ahead, as it has lasted just over 4.5 months, very close to the five-month sharp crescendo from October 1999 into March 2000.

Fears of the repo crisis returning and the still rapidly expanding coronavirus – which threatens growth in China internally, travel internationally, and the disruption of supply chains out of China (especially to the U.S. and Korea) – is likely to keep the Fed printing at $60-80B a month on good old-fashioned QE for months ahead. This means the Nasdaq could still reach its top-end target in the next few months of 10,000+.

I have been using the following logarithmic or exponential Nasdaq chart to plot the top trendline of this unprecedented, totally artificial bubble forward and targets ahead this year. But the recent coronavirus correction has brought into question whether this rally can last that long. Late April into May would be a more likely top at this point, if the recent correction does not follow the typical path of that first crash down 42% or so in 2.6 months or so. I will look at the two most likely scenarios ahead, but I favor the scenario with one more new high for the Nasdaq only.
Such a final peak in a long-term bubble like this often has a throw-over rally that exceeds such a trendline briefly and could see a Nasdaq of 11,000+ by late May, but that is less likely if other stock indices are not rallying to new highs when the Nasdaq does... if it does.

This Nasdaq trendline shows the points where risks get elevated and where asymmetrical stock trades can be made: like put options on the Nasdaq 100 (ETF: QQQ) to hedge stocks against that historical first 42%+ bubble crash in the first 2.6 months on average, or to make a small trade on such a six-month+ option that could catch that first crash with a 10-15-times extreme payoff within three to six months. The first point after this recent crash would be a new high at 10,00 or higher on the Nasdaq between late April and early May.

This is not that complicated of a transaction, but it’s something you have to consider with a financial advisor or expert if you are not an experienced trader. I don’t trade for a living and neither should most of you. But this is a once-in-a-lifetime asymmetrical bet that may be worth considering.

**Track Back to the Last Bubble**

Late November to May is also a favorable season for stocks. You know the saying, “sell in May and go away.” The Nasdaq trendline hits around 10,200 – 10,400 during May and an over-throw rally to 11,000 would normally be easy. But I am seeing a higher likelihood that the next rally will not only be the final one, but will not see other major indices make new highs – and that says divergence, game over!

This coronavirus is clearly the one thing that could burst China’s biggest bubble, which is the epicenter of this bubble, like the U.S. was for the 1920s’ bubble. Remember, that 6% growth in 2008-09 was considered a recession for China’s over-indebted, over-driven, over-capacity economy. Growth this year is clearly going to be 5% or below, and the turn could easily be more drastic as the virus threatens to shut down major parts of its economy and supply chains to the rest of the world, as its largest manufacturing exporter.

The most optimistic, and the most reasonable scenario, sees the virus blowing itself out with the adverse effects of warmer, more humid weather in East Asia ahead. Even that would last into June or July and cause serious impacts on China and the world economy.

The weird part is that the virus looks to both slow growth and exaggerate the stock bubble through accelerating QE again everywhere, but particularly China. It simultaneously holds the potential for accelerating and bursting the greatest bubble in history. If that doesn’t get us, rising corporate loan defaults in China and the emerging world will. The infamous “Belt and Road Initiative” is already threatening to bankrupt a lot of emerging countries that are being induced to make major infrastructure investments at high interest rates from Beijing that will not pay off in a slowing world economy.

China is, in effect, exporting its over-building, excess capacity strategy globally – and it is precisely such over-borrowing and excess capacity that always leads to a great deleveraging and depression!

I will conclude here by looking at the two scenarios that are now most likely given this sudden, sharp crash that changes the entire momentum of this final blow-off rally.

The first scenario is the most likely to me, as the stock market did not show any major signs of
divergences to suggest it was a final top. In this scenario, we get a sharp rebound to this crash – that has already likely begun on February 28. The Nasdaq rallies faster than the last one to new highs by somewhere between late April and May. The other major indices like the Dow and the S&P 500, maybe – and the Dow Transports, the small cap Russell 2000 and NYSE do not. That would be a strong divergence and a final top.

What we should expect here is an announcement by the Fed’s Powell that he is going to cut rates ½% in March and step up QE further. That will kick up my Fed balance sheet indicator for stocks near term as well.

Note that this scenario would track closely with a previous forecast I made for a final peak in early 2020 around 10,114 on the Nasdaq as a Fibonacci exponential acceleration of the first two advances wherein the same point gains were made in less time for each successive wave.

Scenario 1: One More Thrust to New Highs, 10,000+ on Nasdaq Only

Then we see that dreaded 42% or so first crash in 2.6 or so months as has been the average for the last century of for major bubble stock peaks. The Fed and central bank strong stimulus could seem to work at first, but the coronavirus continues to spread more rapidly into May or June anyway. Then the smart money shorts big time and broader investors run for the exits.

Scenario 2 would see this crash continue to accelerate after a weaker bounce... saying this was the top.

Scenario 2: The Top Is In: 40%+ Crash, Then Failed Rally Into Election

I will be tracking this crash versus that March to May first crash off the first tech bubble – as I did both the January to February crash in 2018 and the deeper October to December crash in 2018. In both cases, I was able to declare halfway in that they were not following the big crash trajectory and that the top was not in yet. I still see this scenario as less likely after this black swan virus has done this much damage so quickly due to many accelerating impacts on supply chains globally and business slowdowns with deflationary aspects especially in China.

If the markets have a “dead cat bounce” here and start to fall again. The first level of strong support comes on the S&P 500 through its bottom trend line back to 2009. That would hit at around 2,550 – 2,600, or 35% off the top. The Nasdaq would be down more like 40% around 6,000 – 6,200 if that happened. Then the odds would be for that strong counter rally back to around 3,250+ on the S&P 500 and 8,000+ on the Nasdaq before failing. Then we get the long crash into late 2022 or so down 80%+.

And one important note in this short, serious crash? What was the safe haven here? Bitcoin was down 19%, gold down 6%, the US dollar down 2%... Oh, it’s Treasury bonds up 8%! Europe is less affected by the supply chain problems from China than the U.S. currently, hence euro a bit stronger for
now. Dollar still likely to be a strong haven play as well into the greater downturn.

**There’s Only One Good Way Out of This: The Hard Way!**

I hold to my forecast that we will see the worst crash and downturn in the final years of the original winter season, which began in 2008, between later this year and late 2022 for stocks and 2023 for the economy. The Dow has gone to near 30,000 and could crash to as low as 5,000… Do you want to sit through that? Most financial advisors are advising just that! Do you know the percentage gains you have to make to compensate for such massive losses to just get back to even? A 50% loss takes a 100% gain to offset. An 80% loss (more likely here) takes a 400% gain!

In Tony Robbins’ survey of the most successful investment and hedge fund managers of our time, the number one rule is “First, don’t lose money!” It is so hard to make back.

If we don’t see a major crash start by March of 2021 at the latest, then I will have to reconsider my Great Reset… we may just be moving into an era in which the western/developed world falls into a longer-term “coma economy” on life support (meaning endless QE) like Japan. That would be the worst long-term scenario to me, as it only leads to death, not revival or spring/rebirth.

Deleveraging and detox are painful, but they are the only proven solution once you get over-leveraged with debt and financial bubbles like today… History is crystal clear on this.

Gold bugs predicting a hyper-inflation outcome to endless money printing have already been proven overwhelmingly wrong by over two decades of the most massive money printing by Japan: 105% of GDP cumulative vs. 24% at peak for the U.S. A failure to deleverage will only result in that coma economy, with roughly zero growth and inflation over three decades now. Their demographics guarantee a continuation of that for decades to come. Only higher immigration, higher births, and debt deleveraging could change that.

There are no intentions or signs of such change despite 30 years of a lost economy. Japan’s economy is so weak that even the declining sector of younger people increasingly don’t want to date, have sex, or get married… lest they have a kid and obligations they can’t support!

How stupid can central banks be? This grand experiment has already failed, especially in the first and most exaggerated country to do it, Japan. How much longer can they maintain any credibility?

How can anyone with any common sense not see that if you have to keep stimulating an economy this excessively for this long… that it is already dead! It is not coming back to normal without a big detox.

**Deleverage or Die!**

And just a final thought: Insanity is doing the same thing over and over and expecting a different result. We’re going on 11 years here. Japan’s at 24.

How much longer will you believe the two things that clearly won’t happen by history:

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**Special Update**

My co-author of *Zero Hour*, Andy Pancholi, has offered a free update only to my subscribers from his newsletter *Market Timing Report*. This will include his proprietary histograms for key turning points ahead, focusing on the key leading stock Apple, along with cycles around the coronavirus and other key geopolitical events. Apple is one of the most affected by the supply chain shutdowns in China, and there is a very key turning point approaching soon. I recommend you check this out. Access Andy’s update at this link: https://madhedgefundtrader.clickfunnels.com/ir-report.
1. A magical revival of our economy from something for nothing money creation and endless financial drugs and steroids, or

2. A hyper-inflation scenario after two decades of money printing now at a cumulative of 105% of GDP in Japan that has caused no notable inflation.

The winter season is the season of deflation and deleveraging. That season is 100% necessary to clear the decks for the next spring season. You can’t get to spring without going through winter. QE is the equivalent of blowing heat (inflation) into the economy to prevent winter (deflation). It is impossible to create inflation in an environment wherein consumers and businesses are over in debt and don’t need to borrow. Bank lending and the money multiplier from that is what creates consumer price inflation.

That’s why we are seeing financial asset inflation instead of consumer price inflation – as the money printing from QE is going directly into financial markets, not bank lending and capacity expansion and growth for the future. Despite the greatest monetary and fiscal stimulus combined in history, we can’t seem to get real growth above 2% sustainably or inflation above 2%. Japan can’t top 1% for either...

So, what would have been the scenario without $16 trillion+ of global QE and massive fiscal deficits? Deflation! What does our economy actually need for a brief period of time (like 1930-33)? Deflation, which leads to deleveraging to shake-out unproductive loans, banks and companies.

There is a smarter way to encourage deleveraging, one that entails policies that force marking loans to market value then giving some monetary support to banks that actually write down loans to consumers and businesses to reduce their debt burdens and free up spending capacity for the next spring boom. I’ll cover that in more depth in my forthcoming book, tentatively titled *The Greatest Financial Con of All Time*.

Deleverage or die… It’s that simple.

The Summer of Discontent

By Rodney Johnson

Well, the headline might not be exactly right. Ripped off from Shakespeare’s Richard III, and paraphrased, it’s supposed to imply the unhappiest of seasons. We’re not there yet. But we could be close, and it’s because of a disease.

Over the past several months, we’ve witnessed a growing threat to the economy. Even with a couple of bright spots thrown in, we’re still headed down an unexpected path, and the end is unknown. This could all be worry for nothing, or it could be the beginning of a very dark period for the financial world.

I’m, of course, referring to Bernie Sanders.
As for what comes next, politics will play a big part, so we'd best get prepared!

In the waning months of 2019, moderate Joe Biden remained firmly in the lead in national polls. But Senator Elizabeth Warren was gaining ground, and Pete Buttigieg raised a lot of cash. Sanders was always hanging around, but he didn't seem likely to jump out in front.

What a difference a couple of months make! Buttigieg and Sanders took first and second in Iowa and New Hampshire, while Warren struggled to remain relevant. Now, Bernie has taken command with a big win in Nevada, taking 46% of the vote (still only a plurality). Yes, Joe Biden came in second, but he was far behind at 20%, and I hear they've sent a search party to look for his campaign. It's rumored to be somewhere in South Carolina, and could resurface on February 29.

Amidst all the noise, few people saw Senator Amy Klobuchar edging her way into the top group in New Hampshire, but she couldn't capitalize on that momentum and finished with just under 5% in Nevada. Her campaign, like many others, is now running on financial fumes.

The arguably top-level candidates can be grouped into the far left, comprised of Sanders and Warren, and the moderates, including Buttigieg, Klobuchar, and Biden. I haven't mentioned Mike Bloomberg yet because voters won't be able to make their voices heard on him until Super Tuesday. That being said, he's part of the moderate bunch.

As a group, the moderates took more of the vote in New Hampshire than the far left. That flipped in Nevada, where Bernie and Pete combined to take the majority. This will be important if an absolute leader doesn't emerge on Super Tuesday, when 1,357 of the 3,979, or 34%, of delegates are awarded. If the far left and the moderates essentially split the tallies in the coming primaries, then we could get a brokered convention, where the delegates must cast ballots on slates of nominees until someone emerges as a winner.

This could be a problem.

The candidates were asked on stage about their views on a convention in which no one captured a majority of delegates during the primaries. The only candidate who supported backing the lead candidate with a plurality of votes was Bernie Sanders. If he shows up to the convention with 40% of the votes, but then doesn't get put on the ticket, you can bet that he and his band of Bernie Bros will be very angry, and very vocal.

No matter who wins the nomination, I can hear many readers saying either, “There's no way any of them could beat Trump,” or “If nominated by the Democrats, the dead rose bush in my front yard could beat Trump.” That's a common theme in the emails we receive. Voters appear to be set on their views, with little room for the opposing view.

I think we should be open to many possibilities, and I point to the 2016 as an example of the unexpected becoming the reality. I know of very few people who were convinced at the start of 2016 that Trump would win both the nomination and the general election.

Maybe Bernie will win the nomination and the election. Perhaps someone from the moderate camp will pull off an upset. No matter what, investors need to consider what a change in the White House might mean to their portfolio. Here's a quick hint: Nothing good.

Every Democrat has outlined how he or she will raise taxes to pay for new social programs. I'm not saying their proposals are right or wrong for America. I'm simply relaying their message that high earners, savers, and investors capture too much of the value generated in the U.S. and that it's time for a change.

To that end, the moderates want to raise individual taxes at least back to where they were under Obama, and they want to raise corporate taxes at least halfway back. Sanders and Warren are much more ambitious. They want individual taxes to increase dramatically, tack on a wealth tax, increase corporate taxes, and ding investors with a separate transaction tax.
Changing the tax code requires an act of Congress. If a newly-installed Democratic president doesn’t have a willing House and Senate, then we could get gridlock, which would at least put off the most dramatic changes. But that doesn’t mean nothing would change. Through executive orders the president can affect many areas of our lives, and can certainly call for his departments to “reinterpret” regulations.

As the primary season rolls on and this possibility sinks in, expect volatility to be the order of the day, with more downside risk than upside opportunity. The markets puked their guts up on Monday February 24, right after the Nevada caucus. Part of it was definitely the spreading COVID-19, but we can’t totally discount the market reaction to the possibility of a socialist in the White House.

The Dow dipped more than 1,000 points, and the 30-Year Treasury bond yield dropped under 1.9%, while the 10-Year bond yield fell below 1.4%. With the overnight rate set at 1.5%, this means investors are willing to put money to work for many years at a lower interest rate than they could get by investing overnight. And that doesn’t even consider inflation, which is running around 2%!

Put another way, there is nowhere on the curve of U.S. Treasury bills, notes, and bonds, that you can invest and earn more than the headline inflation rate. If you needed a sign that there’s something wrong in the markets, the yield curve is it. John Thomas wrote a piece explaining why he thinks we’re on the way to zero on the 10-year bond. (To see that piece, click here.) I think that’s entirely possible.

If the combination of the COVID-19 and political uncertainty put the brakes on the U.S. economy, central bankers won’t have much of a choice but to push overnight rates to zero and then start buying bonds to drive down long rates.

Portfolio Update

With so much turmoil in the markets, I sold several positions earlier this week and bought one, which I’ll recap here:

- Sell Tapestry (NYSE: TPR) at the market
- Sell Broadcom (Nasdaq: AVGO) at the market
- Sell Nvidia (Nasdaq: NVDA) at the market
- Sell Shopify (Nasdaq: SHOP) at the market
- Sell Skyworks, Ltd. (Nasdaq: SWKS) at the market
- Buy Invesco QQQ Trust (Nasdaq: QQQ) at the market

We sold Tapestry, the old Coach, which now also owns Kate Spade and Stuart Weitzman, because the stock hit our stop loss of $26. Granted, the stop was close because I didn’t want to give this one much room. If retail rebounded during the holidays and beyond, then this stock would make sense. But the virus has put global retail in a precarious position. As I noted when we bought it, Tapestry’s U.S. sales are enough to cover the dividend, but if Chinese sales fall dramatically it will cast a pall over the entire company.

We also dropped Broadcom and half of Nvidia because the global slowdown associated with the virus should set back computer shipments and orders for at least several months, if not a couple of calendar quarters. On top of that, Broadcom never performed like Nvidia, so we shed the entire Broadcom position. My goal was to keep the other
half of Nvidia for a rebound, but then the selloff continued, so we banked our profit on the second half and moved on.

The same thing happened with Shopify. The company is firing on all cylinders, but it falls into the category of a darling growth stock. When markets roll over, investors tend to leave these companies quickly to bank some of their fat gains. We took some gains early in the week, then closed out the position on Friday.

For any of you who kept an eye on Stamps.com after I sold it in early February, all I can say is, “AUGH!” We held fast to our discipline and sold the stock when it dropped below $75, only to watch it walk into the mid $90s before rocketing higher after earnings. I thought this would happen, which is why I bought it in the first place. I know looking at what could have been is a fool’s game, but hey, there are times when I feel like that darn fool.

Beyond Stamps.com, our most annoying investment is Aimmune Therapeutics (Nasdaq: AIMT). As expected, the company received FDA approval for its peanut allergy treatment, which will serve as a gateway for its treatment of other allergies, including eggs and tree nuts. Instead of rallying on the news, the stock got a little bump then sold off and is in danger of breaching our stop loss at $22.50. How does that make sense?

There is a competing drug company, privately-held Alladapt Immunotherapeutics Inc., that just made the news. Alladapt is developing a drug that targets the proteins involved in allergies to create a regimen that reduces allergies. But Alladapt hasn’t started clinical trials, so it’s not close to market, whereas Aimmune can be prescribed today.

Tanger Factory Outlets (NYSE: SKT) is another holding under pressure, but there’s more than meets the eye. Short sellers attacked this stock at the end of last year, hoping to drive the market cap below $1.5 billion, about $15 per share, at year-end. They succeeded. They wanted to force the SPDR S&P Dividend ETF (NYSE: SDY), which held more than 20% of SKT shares, to sell the position, driving it even lower. Part of the rules of the ETF is that it can’t hold a stock with a market cap below $1.5 billion.

The managers of SDY voted to sell the stock, per its rules, but said they wouldn’t inform the market of when those sales will take place. This puts Tanger under a cloud for a while, but that’s fine with me. The stock pays 11.32% today on a stock price of $12.50, and has a coverage ratio of less than 70%, meaning it takes less than 70% of the company’s free cash flow to cover the dividend, which is great. They should be able to maintain, and even increase, the dividend in the quarters to come.

But there’s still the issue of the virus. Tanger operates outdoor malls. If shoppers don’t show up because of virus fears, it could affect the ability of retailers to maintain their leases. I’m still watching this one.

The bond funds in our Bust portfolio held up well at first, then rolled over as the selling continued. This is not because of the quality of the bonds. I think it’s a liquidity issue. These holdings are closed-end mutual funds which are mostly held by individuals. As they sell, they put pressure on the price of the funds even though the bonds inside the funds are increasing in value as yields drop. It’s crazy, but that’s how it works. The yield on the Blackrock Taxable Municipal Bond Trust (NYSE: BBN) rose above 5%, even though the 30-year municipal bond index sits at 1.4%. Yes, the bond index is for tax-free, but grossed up for taxes at 40% would still only be 2.33%. This holding should bounce back quickly once the selling slows down.

We’re adding one holding this month, the Invesco QQQ Trust (Nasdaq: QQQ). The ETF holds the top 100 non-financial stocks traded on the Nasdaq, like Apple and Amazon. This is a broad play on a bounce back that should happen sometime in the next week or so. Even if it takes a little longer, this is a great time to put some Q’s as they’re called into our portfolio.
# Boom & Bust Portfolio

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<td>02/28/2020</td>
<td>$205.80</td>
<td>$211.36</td>
<td>$0.00</td>
<td>2.7%</td>
<td>Buy Invesco QQQ Trust (Nasdaq: QQQ) at the market</td>
<td></td>
</tr>
<tr>
<td>Aimmune Therap</td>
<td>AIMT</td>
<td>01/15/2020</td>
<td>$35.37</td>
<td>$23.62</td>
<td>$22.50</td>
<td>$0.00</td>
<td>-33.22%</td>
<td>Buy up to $50</td>
</tr>
<tr>
<td>KushCo Holdings</td>
<td>KSHB</td>
<td>03/26/2019</td>
<td>$5.69</td>
<td>$1.09</td>
<td>$0.00</td>
<td>-80.84%</td>
<td>Buy up to $6.50</td>
<td></td>
</tr>
<tr>
<td>Entegris</td>
<td>ENTG</td>
<td>03/01/2019</td>
<td>$36.22</td>
<td>$53.93</td>
<td>$47.00</td>
<td>$0.31</td>
<td>49.75%</td>
<td>Buy up to $42.00</td>
</tr>
<tr>
<td><strong>BUST PORTFOLIO</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tanger Ficts REIT</td>
<td>SKT</td>
<td>12/20/2019</td>
<td>$14.82</td>
<td>$12.01</td>
<td>$0.36</td>
<td>-16.6%</td>
<td>Buy up to $20.00</td>
<td></td>
</tr>
<tr>
<td>QQQ $188 Mar20 Puts</td>
<td>QQQ200320P00188000</td>
<td>08/23/2019</td>
<td>$10.59</td>
<td>$5.04</td>
<td>$0.00</td>
<td>-52.41%</td>
<td>Buy at Market</td>
<td></td>
</tr>
<tr>
<td>BR Tax Municipal Bd</td>
<td>BBN</td>
<td>11/30/2018</td>
<td>$20.37</td>
<td>$25.28</td>
<td>$18.80</td>
<td>$1.73</td>
<td>32.57%</td>
<td>Buy up to $20.50</td>
</tr>
<tr>
<td>BlkRck Mun 30Tr-SBI</td>
<td>BTT</td>
<td>09/27/2016</td>
<td>$24.11</td>
<td>$24.50</td>
<td>$2.83</td>
<td>13.36%</td>
<td>Buy up to $24.50</td>
<td></td>
</tr>
</tbody>
</table>

*Numbers current as of March 2, 2020*

**NOTES:** The Boom & Bust Portfolio is an equally-weighted strategy and does not include dealing charges to purchase or sell securities, if any. Taxes are not included in total return calculations. “Total return” includes gains from price appreciation, dividend payments, interest payments, and stock splits. Securities listed on non-U.S. exchanges; total return also includes any change in the value of the underlying currency versus the U.S. dollar. For transparency sake, we want you to know that we have an advertising relationship with EverBank. As such, we may receive fees if you choose to invest in their products. Stop-losses: The Boom & Bust Portfolio maintains stop-losses on every stock, ETF and bond recommendation; stop-losses are not exercised for mutual funds unless otherwise noted. Sources for price data: Yahoo! Finance (finance.yahoo.com), Financial Times Portfolio Service (www.ft.com), TradeNet (www.trade-net.ch/EN), and websites maintained by securities issuers.

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