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How Could Stocks Hit New Highs as Lockdowns Cause the Worst Economic Damage Since 1929?

By Juan Villaverde with Bruce Ng

What kind of "Twilight Zone" is this?

How can it be that basic fundamentals — like economic growth and profits — no longer seem to have any visible impact on financial asset prices?

Well, this epic disconnect is actually not unique to today's topsy-turvy, post-pandemic world.

Much the same thing happened when the 2008 Global Financial Crisis hit the economy like a ton of bricks. Economic growth and profits fell through the floor. But asset prices — stocks, bonds, fine art, antiques, even rare whiskey — shot up to new highs.

This was obviously fantastic for folks owning lots of assets. Because they got rich. But the non-asset-owning classes, particularly those whose livelihoods depended on labor and wages, almost got completely left out.

This led directly to the epic wealth disparity between rich and poor you see in America today. It also helped stoke the vast reservoir of frustration that caused cities — from Portland, Ore. to New York, Seattle to Chicago — to burst into flames.

In truth, the epic disconnect we observe between economic health and asset prices basically only exists because of a false assumption that the unit of account (that is, money) we use to value those assets is relatively stable itself.

Allow me to illustrate what happens when it is not ...

Argentine Stocks Valued in Argentine Pesos

Figure 1.

This is a chart of the S&P MERVAL Index, Argentina's equivalent of the S&P 500 Index. As you can see, Argentine stocks shot up 2,000% in 10 years.

Does that mean the Argentine economy is 20 times larger today than it was back then? Are Argentine stockholders 20 times richer?

Not by a long shot!

Argentina's gross domestic product (GDP) was $423 billion in 2010 — compared to $449 billion in 2019. That's practically dead in the water!

So, how could the MERVAL be up so much? Good, old-fashioned Argentine inflation, that's how. To see what really happened, just observe ...

Inside this Issue ...

Argentine Stocks Valued in U.S. dollars

Figure 2.

What a dramatically different picture!

Strip out the distorting effects of an inflating currency, and what do see? Answer: Argentine stocks have been basically chum for a decade!

The correlation investors expect between economic performance and asset valuations totally breaks down when the value of money falls like a rock.

When that happens, asset prices skyrocket, while the economy withers.

Now, let's try applying this same analytic yardstick to the U.S. stock market ...

The S&P 500 Valued in Gold

Figure 3.

Valuing the S&P 500 in gold eliminates the distortions caused by an inflating U.S. dollar — the same way valuing Argentine stocks in dollars got rid of distortions caused by an inflating peso.

Using "hard money" as a yardstick reveals what really happened. U.S. stocks peaked way back in 2000. And they've actually been in a long bear market ever since.

What about the great post-2008 bull market? That one that took the Dow from 7,000 to 28,000?

Totally smoke and mirrors. ***In real terms, it never happened!***

In fact, the whole post-2000 rise in stock prices is a monetary mirage — a sleight of hand engineered by the world's central banks.

It was a clever trick to hide a sobering reality that the world economy hit the upper limit of what debt-fueled expansion can accomplish 20 years ago — and has actually been sliding downhill ever since!

Notice that, when we use honest (that is, non-inflating) money as a yardstick, the question with which we originally began disappears. There actually is no disconnect between economic performance and asset prices.

But this also leaves us facing a stark reality. The purchasing power of the U.S. dollar — which far too many investors still take for granted — is tanking. Big time.

This means rising asset prices do not leave you better off. The best they can do is give you a false sense of security.

The value of money is evaporating. And no power on Earth can stop it.

Clearly, gold will help protect your wealth, as it has for thousands of years. But, if you want to go beyond mere survival and pile up real profits in this monetary climate, you need to turn to **Bitcoin (BTC, Weiss Tech/Adoption Grade "A-")** and other top Weiss-rated crypto assets.

Bitcoin went from $1,000 to $20,000 in 2017. But, when falling global confidence in depreciating paper currencies finally reaches a tipping point, it's going to make 2017 look like a drop in the bucket!

Crypto Markets Temporarily Correct, But the Red-Hot DeFi Boom Rages On

During the six months following the pandemic panic sell-off in March, Bitcoin went from under $5,000 to above $12,000. But, by last month, storm clouds were starting to gather.

- Surging demand for "decentralized finance" (DeFi)-related transactions so exceeded capacity on the Ethereum network that processing slowed to a crawl, and network fees exploded to all-time highs.
- An avalanche of DeFi-related trades so overloaded global crypto exchange giant Binance that its computers buckled under the strain and briefly went down.
- Market greed (as measured by the Crypto Fear & Greed Index, a key sentiment indicator) shot up to within a whisker of new 16-month highs.

Signs of market froth like this often cluster around near-term market tops, and so it was this time. When some traders started taking profits, the downturn in prices triggered a wave of margin calls among legions of over-leveraged buyers chasing the DeFi investment boom.

Naturally, all this took a toll on crypto prices. Bitcoin dipped below key support near $10,000 before popping back up again. More importantly, this pullback is NOT anything that should set alarm bells clanging — at least among long-term investors.

There are three key reasons why.

1. Greed gives way to fear.

The powerful six-month rally that followed the March pandemic panic sell-off also lifted the Crypto Fear & Greed Index to 16-month highs.

Now, as you can see, "greed" has abruptly and rather steeply given way to "fear."

Notice also what happened the last time markets were this fearful.

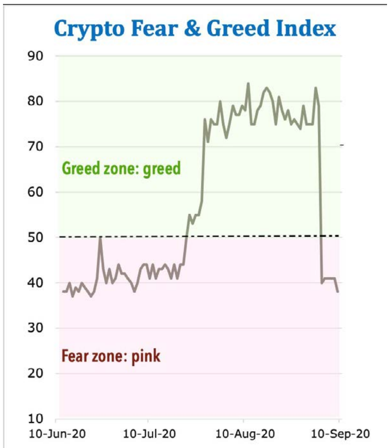


Figure 4. This index distills multiple data streams (volatility, momentum, trading volume, Twitter hash-tags, Redit mentions, and Google search trends, e.g.), into a single sentiment indicator. Readings above 50 indicate a greedy mindset. Below 50, a fearful mindset.

That was mid-July, when Bitcoin was around $9,000 and on the cusp of a major move up. And so it's likely to be again.

What you see here is basically a crypto version of Warren Buffett's famous maxim for making money in stocks:

"Be fearful when others are greedy and greedy when others are fearful."

2. Weak hands shaken out.

Flushing out over-margined buyers and casual momentum traders leaves Bitcoin ownership largely in the hands of true believers who own crypto for the long haul. This is healthy for the market and helps build a solid base for the next leg up.

The selling also threw a bucket of cold water over the sizzling DeFi sector. Amid great clouds of hissing steam, some "projects" were quickly exposed as outright scams.

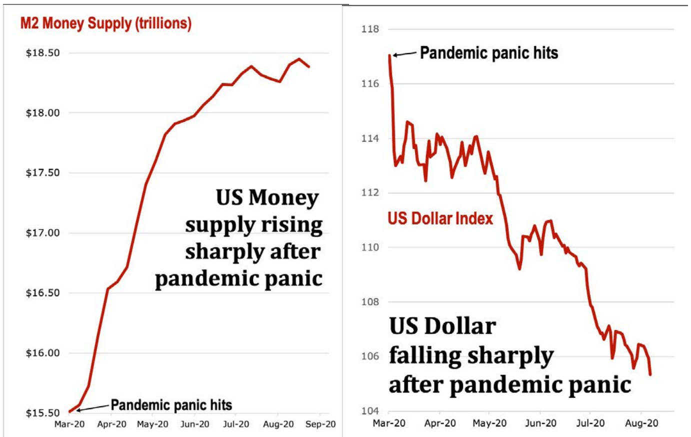
Cooling off the hype also cleared away the speculative froth that had also enveloped DeFi projects with really solid fundamentals.

3. "QE Infinity" shows no sign of slowing down.

The biggest financial mega-trend of the 21st century so far is the wholesale corruption of paper currencies around the world — of which the U.S. dollar is the most important.

From the dot-com bubble of 2000, to the 2008 Global Financial Crisis to the pandemic panic of 2020, the response of the Federal Reserve (and other central banks) has been twofold: Print mountains of money and force interest rates to near zero (or below).

And, even though these policies have been eating away at the value of the dollar for decades, the pandemic panic is starting to look like a tipping point.



Figures 5 and 6.
Source: Federal Reserve Bank of St. Louis.
www.stlouisfed.org

Because, ever since then, the American money supply is rising. And, as you would expect, the value of U.S. dollar is falling.

Make no mistake, the growing lack of confidence in U.S. currency is the single most-powerful fundamental force driving Bitcoin (and gold) up. And that's simply because both are beyond any government's ability to corrupt.

Gold, however, is even heavier than lead, which makes it difficult and expensive to protect and transport. Bitcoin, on the other hand, weighs next to nothing and can travel via the internet at practically the speed of light.

For this reason, we think it's going to be even more valuable than gold going forward.

So, hold on to your Bitcoin. You're sitting on 26% gains, and the long-term outlook could hardly be brighter.

Chainlink Up 138% — With More to Come

We urged you to buy **Chainlink (LINK, Weiss Liquidity/Availability Grade "B")** back on June 14 (when it closed at $4.68). Since then it's been a wild ride. As we write, LINK is at $10.99 — which means you have a 138% gain. Nice going!

Even so, there's still plenty upside ahead. That's because Chainlink occupies a sweet spot in the heart of one of the hottest sectors in crypto: smart contracts.

Smart contracts are special computer programs that animate and empower just about every practical application that cryptocurrencies offer — and that includes DeFi!

But smart contracts live only on the blockchain, so they have no natural connection to the outside world. No way of knowing what interest rates are, what various assets used as collateral are currently worth — or even what day it is.

All the current real-world data they need to function must come from external sources. And that's where Chainlink comes in. It's the no. 1 global supplier of real-world data to smart contracts.

Smart contracts are one of the fastest-growing sectors in crypto, so this has all the makings of a self-reinforcing spiral to higher prices. So, hold for higher ground.

Ethereum Falls Below Support at $400, But You're Still Up 88%

As Bitcoin broke below support near $10,000, **Ethereum (ETH, Weiss Tech/Adoption Grade "A")** broke support near $400. However, this price does not reflect the future value of Ethereum. Here are two key reasons why:

1. An upgrade known as EIP 1559 will soon roll out and cut circulating supply.

From that point forward, Ethereum burned all ETH network transaction fees. Some have argued this could eventually make Ethereum as deflationary as Bitcoin, itself — with its 21 million hard ceiling on the number of coins that can ever be created.

2. The quest for yield is a 21st-centry megatrend.

Right now, one of the most storied DeFi residents of the Ethereum blockchain is yield optimizer **yearn.finance (YFI)**. You can think of it as a computerized hedge fund that constantly allocates and re-allocates capital among the very highest-yielding DeFi lending platforms.

Average annual returns have recently been running about 37%.

That's why legions of yield-starved investors are pouring money into DeFi, making yearn.finance a shooting star.

Some say the DeFi craze is nothing more than another financial bubble — like Japanese stocks in 1989, tech stocks in 2000 or securitized mortgages in 2008.

We think not. That's mainly because more than a decade of near-zero interest rates has created a volcano of pent-up frustration at no longer being able to earn a decent yield on savings.

> (Trivia question: When was the last time you could earn a modest 5% on your U.S. dollar savings?
>
> Answer: Would you believe 2007?)

Cryptocurrencies are giving rise to a global financial ecosystem unshackled from the lunatic policies of fiat money. DeFi is an example of how this emerging ecosystem honestly reflects market forces. And people are flocking to it as a result.

The quest for yield is another 21st century megatrend with more than enough pent-up energy to keep the DeFi boom going for a very long time. And because the vast majority of DeFi platforms are creatures of the Ethereum blockchain, this is also hugely bullish for Ethereum.

The recent correction changes none of this. So, hold on to your ETH.

Tezos Chosen to Host the Bank of France's New Euro Stablecoin

Tezos (XTZ, Weiss Tech/Adoption Grade "B-") is another smart-contract platform eager to compete with Ethereum for a hefty piece of its DeFi-related business. And, this week, it took a big step forward.

Generale-Forge, the crypto-tech arm of French investment bank Société Générale, chose Tezos as the blockchain to host the new euro stablecoin being developed by the French central bank. Among the reasons cited for this choice:

- Tezos' on-chain governance, which allows it to quickly adapt to changing market conditions.
- Its formal verification of smart contracts — which guarantees the smart-contract computer code running on the network is mathematically correct and effectively bug-free.

Thanks largely to the recent crypto correction, Tezos has been pretty much dead-in-the water for weeks. But you're still up 98%. Hold.

3 Reasons We're Still Bullish on Synthetix

Synthetix (SNX, Weiss Liquidity/Availability Grade N/A) is an Ethereum-based DeFi app whose smart contracts let you trade just about any asset — gold, fiat currencies, all manner of crypto assets and even real estate — with vastly lower transaction costs and far less time for settlement.

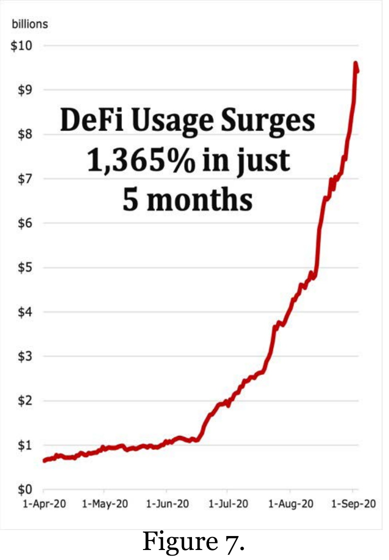


Figure 7.
Source: DeFipulse.com

Take stocks, for example. When you buy shares the old-fashioned way, a parade of intermediaries — brokers, dealers, market-makers and custodians — typically stand between you and the seller.

Like other DeFi apps, Synthetix dispenses with these intermediaries. The result is fast, efficient trades at a tiny fraction of the cost of traditional methods.

Right now, SNX is the only reco in our Crypto Portfolio that's under water (-37%). Here are three reasons why we're not worried:

1. Meteoric growth of DeFi.

The total value locked (TVL) in DeFi has shot up 1,365% in five months — with almost no end in sight.

Synthetix is poised to take advantage of the growth of DeFi as one of the most used decentralized exchanges in the Ethereum ecosystem.

2. Staking rewards.

Owning SNX entitles you 0.3% of all trading fees generated on the exchange, in proportion to the amount of SNX you hold. This means owning SNX is like owning shares in a stock exchange. The more revenue Synthetix generates, the more trading fees you get.

3. Derivatives.

Futures trading is set to launch mid-October this year. With futures, highly leveraged trades are possible, leading to higher trading fees and, hence, higher income to SNX holders.

Leveraged futures trading is the golden goose of DeFi. When Synthetix first started trading options, it jumped from $1.90 to $2.60 in a week. Two months later, it was a $6 coin. We're looking for similar price action when futures trading starts.

Cardano

Cardano (ADA, Weiss Tech/Adoption Grade "B+") is another crypto project that aspires to give Ethereum a run for its money as the world's no. 1 smart-contract platform. The problem is that it has yet to actually roll out its smart-contract capability.

The forthcoming Goguen upgrade is supposed to take care of this. But its "mainnet" release won't occur until sometime in Q4. So, don't be surprised to see rather lackluster trading until this key development actually takes place.

In the meantime, you're sitting on a hefty 75% gain. Hold your position.

How to Stake Your Cardano and Earn 4% to 5% Crypto Income

Cardano's recently completed upgrade, Shelley, opened up a whole new way to make money with ADA: staking. This is a process whereby coin holders (of Proof-of-Stake cryptos) are allowed to participate in validating new transactions and share the rewards for doing so.

For ADA coin holders, staking means earning 4% to 5% in passive crypto income — while waiting for your coins to go up another 75%!

Now, maybe 4% to 5% doesn't seem like very much. But it ain't chicken feed!

In fact, in today's near-zero interest rate world, it's four to five times what you earn on your U.S. dollar savings account.

Staking can be done in two ways. Directly, if you have the desire and expertise to actually organize and run a node on the ADA network. Or indirectly, by pooling your coins with other passive investors and delegating them to proxy who takes care of all that then shares the rewards for doing so.

So, how can you get started in staking?

Download the Daedalus wallet. Created by Cardano developers, it's probably the easiest way for a casual investor to stake the ADA coins they already own to earn extra income.

Once you've downloaded the app and set up your wallet, you'll need to transfer in your ADA coins from either a personal wallet or crypto exchange platform. Just follow the instructions that pop up.

When you go to stake your coins, you'll see a list of all staking pools you can delegate your stake to. Next to each pool, you'll see a number indicating a ranking that reflects factors like availability, staking fees and reputation.

These ranks are constantly shifting, so the list you see is really just a current snapshot in time. But it's still useful. We suggest you choose any no. 1-ranked stake pool.

Delegating your stake to the pool you choose requires no special expertise or hardware. The pool operator handles all that. He then sends you your pro-rata share of the staking rewards, after subtracting a small fee for the service he provides.

To estimate how much you'll get, see this staking calculator. Payouts currently run 4% to 5% and fluctuate constantly. Even so, this far exceeds what you can earn on bank savings.

Weiss Ratings Crypto Investor Portfolio

Recommendations	Reco Date	$ Cost	Current Quote ($) as of 09/23/20	Total % Gain
Crypto Positions				
Cardano (ADA/USD) **	9/12/18	$0.05368758	$0.07727600	43.9%
Bitcoin (BTC/USD)*	4/26/19	$8,629.30	$10,254.78	18.8%
Ethereum (ETH/USD)***	8/7/19	$206.04	$321.54	56.1%
Tezos (XTZ/USD)	11/27/19	$1.25753900	$1.94	54.3%
Chainlink (LINK/USD)	6/26/20	$4.72	$7.69	62.9%
Synthetix (SNX/USD)	8/28/20	$6.89	$3.72	-46.0%

* Bitcoin's $ Cost and Total % Gain columns reflect average of initial purchase 4/26/19 ($5,217.25) and subsequent buys 8/7/19 ($11,901.45), 8/30/19 ($9,584.37), 10/2/19 ($8,266.70), 11/1/19 ($9255.15), 4/24/20, (7,550.90)

*** Ethereum $ Cost and Total % Gain columns reflect average of initial purchase 8/7/19 ($224.51) and subsequent buy 4/24/20 ($187.57).

** Cardano $ Cost and Total % Gain columns reflect average of initial purchase 9/12/18 ($0.06840000) and subsequent buy 11/27/19 ($0.03897516).

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