

ARE WE ALL IN? DON'S BLOG 2018.01.08

There never has been a time when market participants were more certain that there is no way central bankers will allow a financial market crash. Their infallibility goes without question. The good Lord himself has taken a backseat. Note the following total returns obtained during 2017, all positive:

S&P 500	21.8%	China	22.0%
Dow Jones	25.1%	Taiwan	14.0%
Nasdaq	28.2%	DAX	12.5%
Nikkei	19.1%	Italy	13.6%
S. Korea	27.9%	France	9.3%
Hong Kong	36.0%	Turkey	47.6%
Indonesia	20.0%	Poland	23.2%
Vietnam	48.0%	Hungary	23.0%
Singapore	18.0%	Brazil	26.7%
Argentina	77.7%	Chile	34.0%

You might note that the weakest countries had the best returns. That, to my mind, raises a red flag. But let's be honest. My flagpole has long ago bit the dust due to the overload of red flags.

If the above was not enough, note some numbers concerning the first week of the new year. Again, all positive:

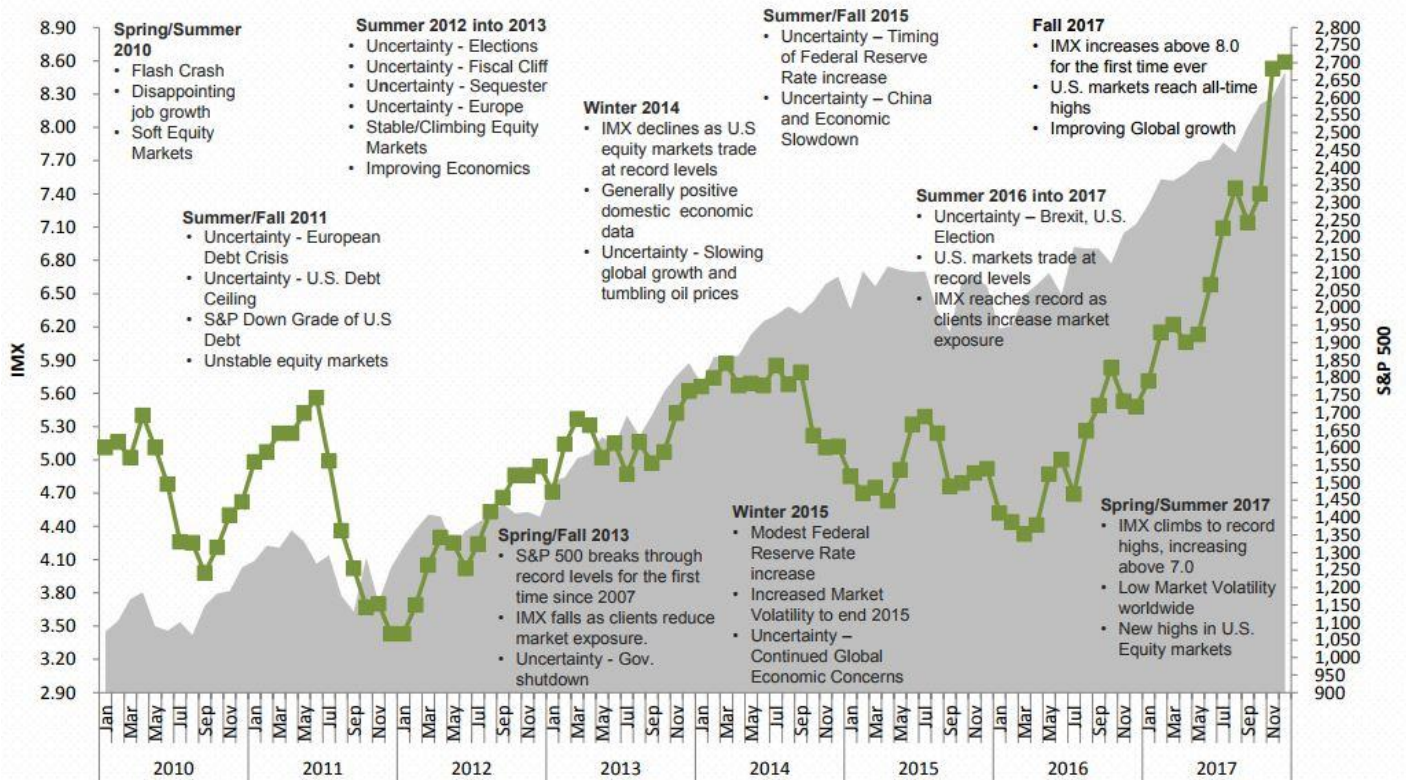
S&P 500	2.6%	Shanghai	2.6%
DAX	3.1%	Brazil	3.5%
France	3.0%	Russia	4.6%
Spain	3.7%	Argentina	7.1%
Italy	4.2%	Romania	3.0%
Japan	4.2%	Pakistan	5.1%
Hong Kong	3.0%	Poland	2.5%

All this from just four days of trading. Why go to school? Why get a job? One needs only to borrow some money and buy the world's common stocks. It's easy street, until it isn't. "Whether on a U.S. or global basis, there is a broad consensus view that 'fundamentals' are exceptionally constructive. Lost in all the euphoria is the critical issue of finance (debt):

global finance is alarmingly unsound,” so says the Credit Bubble Bulletin. It’s hard to believe this could go on forever, but of course I’ve said that several times before. Being right on the fundamentals but wrong on the market is not being warm and fuzzy. Wrong on the fundamentals and right on the markets would have enhanced the kitchen table. Oh well.

The following three charts depict the good, and then the bad and ugly. One of these days they will all get in line.

Investor Movement Index – vs. S&P 500



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Total Global Debt (all sectors)

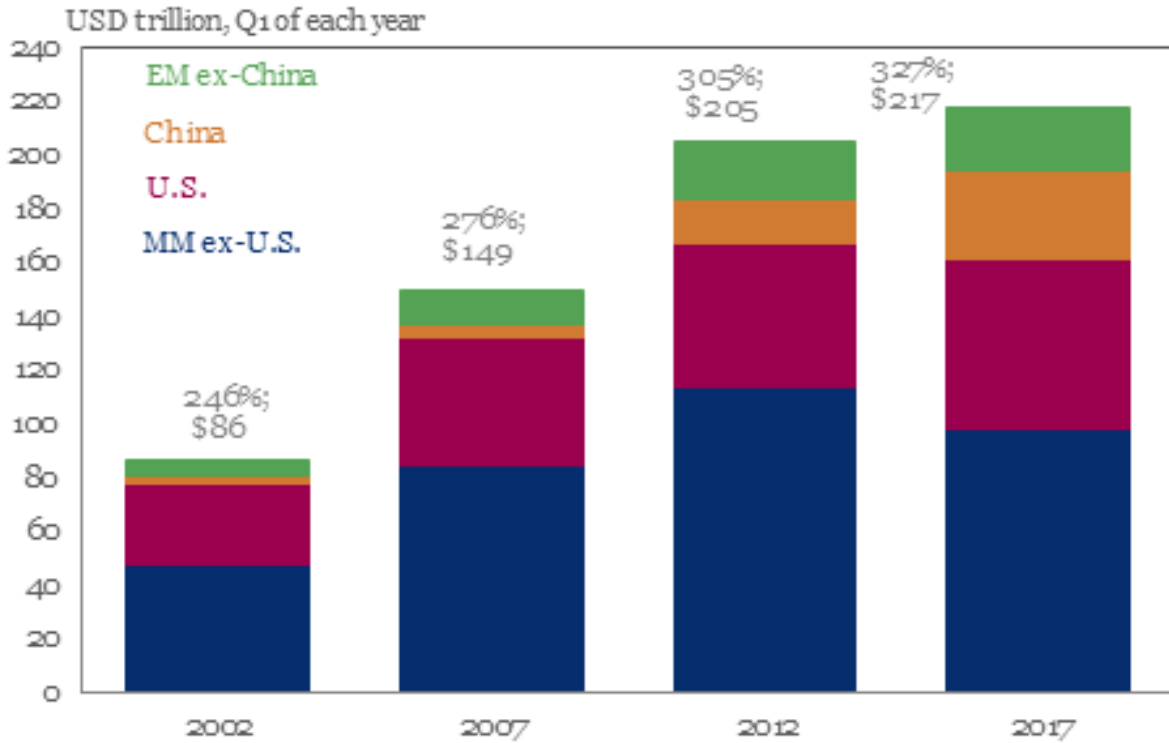
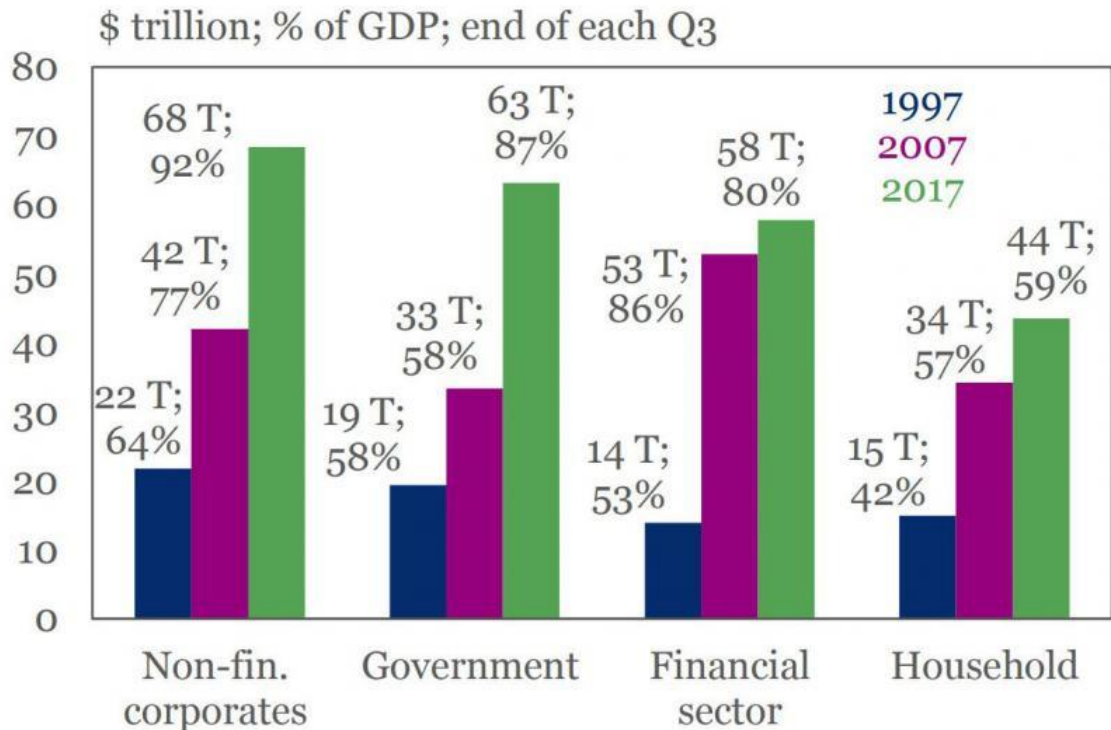


Chart 1: Global Sectoral Indebtedness



Source: IIF, BIS, IMF, Haver