

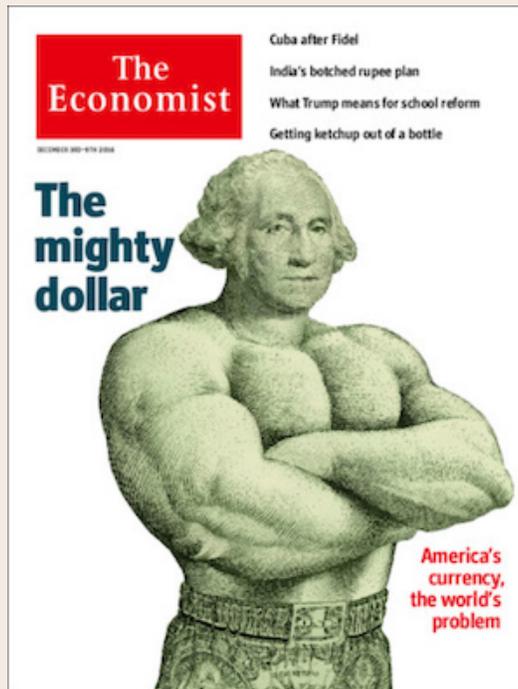
WHAT ARE THE MARKETS TELLING US?

April 1, 2018

“It’s never been a better time to be a contrarian.” This was the heading of the lead article in *WILTW* July 20, 2017. The observations noted in this article remain valid and timely today. We quote from the article, as follows:

When the tech “bubble” bursts, it will have immense consequences. First, another pillar of support for the U.S. dollar and investing in the U.S. will crumble. That means more capital will be withdrawn from the U.S., bringing further weakness in the U.S. dollar—all of which will feed on itself. Second, the bursting of the tech and dollar bubbles will weaken the case for passive investing and bring back to life active money management. As performance shifts from the S&P 500 and its heavy weighting in tech stocks to other parts of the world, capital will go as it always does to where it is treated best. Third, capital may be harder to come by for technology investments, especially as the reign of “free money from the Fed” comes to a close. Fourth, the tech onslaught, which has brought terror to every industry, could be slowed.

The Economist is still very widely read and its covers have been excellent contrary indicators over the years. As we have written for decades, everyone pays lip service to contrary thinking, but few can execute it because being a contrarian requires an extreme form of independent thinking. The crowd feels comfortable and safe with company. We don’t.



Source: *The Economist*

In *WATMTU* December 4, 2016, we showed the preceding cover of the December 3, 2016, issue of *The Economist* entitled, “**The mighty dollar**” and posed the question: “**Should contrarians take note?**” The DXY peaked less than three weeks later and has declined 13.05% since then.

In *WILTW* December 21, 2017, we wrote an article headlined “**Big tech is a huge short waiting to happen. The key question for investors: when to pull the plug**”, in which we wrote: “As history has shown repeatedly, there comes a certain point when power becomes so concentrated, so economically, politically, and culturally disruptive that a backlash is inevitable. America’s tech behemoths have been marching fearlessly in this direction for years—upending communities, sectors, and political systems. And time and again, they have denied responsibility while aggressively manipulating Industrial-Age law to make sure governments cannot slow their monopolistic ascension.”

As was the case with the U.S. dollar, **there is no bigger crowded trade in the world than the U.S. tech-behemoths.** The chart of nearly every mega-cap

U.S. tech stock has formed a massive parabolic pattern. History shows that this pattern almost always occurs at the end of a large and sustained uptrend. As we have noted previously, the reversal from a parabolic move can be just as fast to the downside.



Source: *The Economist*

We continue to be intrigued by the powerful contrarian signal from *The Economist* cover of May 6, 2017: “**The world’s most valuable resource**”, shown above. Of the six tech companies shown on the cover, **Tesla, Inc. (TSLA) shares reached a high several weeks later, on June 26, 2017**. This was followed by a slightly higher-high on September 19, 2017, that formed a bearish double-top. As shown in Chart 1, TSLA shares have broken-down sharply from a year-long top.

For over a year, Uber has been mired in one misfortune after another. As a result, **Uber’s estimated market value has collapsed**. And, Facebook’s Cambridge Analytica scandal—which erased as much \$100 billion from its market value—could ultimately prove to be just the beginning of a long and sustained decline in its shares.

This begs the next question: will the rapidly accelerating global backlash against the U.S. tech-titans finally threaten “Amazon’s empire”? It has been a little over one year since Amazon graced the cover of the March 25, 2017, issue of *The Economist*, but now, Trump is launching a counter-attack that could materially slow the empire’s growth.



Source: The Economist

On March 29th, the president tweeted: “I have stated my concerns with Amazon long before the Election. Unlike others, they pay little or no taxes to state & local governments, use our Postal System as their Delivery Boy (causing tremendous loss to the U.S.), and are putting many thousands of retailers out of business!”

Even former Walmart U.S. CEO, Bill Simon—no stranger to criticisms about predatory behavior—joined the fray by encouraging government intervention to slow-down the Amazon juggernaut: **"It's destroying jobs and it's destroying value in the [retail] sector."**

April 1, 2018

CHART 1: Tesla, Inc. (TSLA) – Daily. As noted in the chart, the RSI momentum measure formed a divergence during 2017 when it registered lower-highs while the share price registered higher-highs. **A lengthy bearish momentum-divergence such as this almost always occurs at a major turning-point.**



Source: StockCharts.com

April 1, 2018

CHART 2: Facebook, Inc. (FB) – Daily. As noted in the chart below, and similar to TSLA shares shown in Chart 1, the RSI momentum measure for FB shares has also formed a lengthy bearish-divergence. This action, combined with the sharp breakdown in the price, warns that **FB shares have likely registered an important top.**



Source: StockCharts.com

April 1, 2018

CHART 3: Alphabet, Inc. – Class C (GOOG) – Daily. Alphabet shares may have registered a double-top in January and March. As noted in the chart (red arrows), the \$980 to \$990 area has been a pivotal level for GOOG shares for nearly a year. A decisive breach of this area would be an important clue that GOOG shares have registered an important top.



Source: StockCharts.com

April 1, 2018

CHART 4: Netflix, Inc. – Daily. NFLX shares have advanced four-fold since the early 2016 bottom. The recent technical formation begs the question: are the shares now in the process of forming a “head-and-shoulders” top?



Source: StockCharts.com

Contributors

Kiril Sokoloff

Publisher

Chairman & Founder

Arvind Sachdeva, CFA

Senior Managing Director—Global Market Strategy

Jay Sellick, CFA

Senior Managing Director

Lei Yang, CFA

Senior Managing Director—Asia

Dora Pang

Associate Research Analyst—China

Anurag Bansal

*Managing Director—East Asia/
Central Asia*

Sourabh Choudhary

Research Analyst

Shashank Saxena

Research Analyst



13D GLOBAL
STRATEGY
& RESEARCH

GLOBAL 13D STAFF
WWW.13D.COM
13D-RESEARCH@13D.COM

13D Global Strategy & Research,
6115, Estate Smith Bay, Box 2/Suite 333,
St. Thomas, USVI 00802-1304.
Telephone: (340) 775-3330 X-304.

©2018 13D Global Strategy & Research. This Publication is protected by U.S. and International Copyright laws. All rights reserved. No license is granted to the user except for the user's personal use and only one printed version is allowed. No part of this Publication or its contents, may be copied, downloaded, stored in a retrieval system, further transmitted, or otherwise reproduced, stored, disseminated, transferred, or used, in any form or by any means, except as permitted under the 13D Global Strategy & Research Services Agreement or with prior written permission. This publication is proprietary and limited to the sole use of 13D Global Strategy & Research clients. Each reproduction of any part of this Publication or its contents must contain notice of 13D's copyright. Pursuant to U.S. Copyright law, damages for liability of infringing a copyright may amount to \$30,000 per infringement and, in the case of willful infringement; the amount may be up to \$150,000 per infringement, in addition to the recovery of costs and attorneys' fees. There is a risk in trading markets. We are not Investment Advisors. Our reports are based upon information gathered from various sources believed to be reliable but are not guaranteed as to accuracy or completeness. The information in this report is not intended to be, and shall not constitute, an offer to sell or a solicitation of an offer to buy any security or investment product or service. The information in this report is subject to change without notice, and 13D Global Strategy & Research assumes no responsibility to update the information contained in this report. The publisher and/or its individual officers, employees, or members of their families might, from time to time, have a position in the securities mentioned and may purchase or sell these securities in the future. The publisher and/or its individual officers, employees, or members of their families might, from time to time, have financial interests with affiliates of companies whose securities have been discussed in this publication. Subscription information: 13D Global Strategy & Research, 6115 Estate Smith Bay, Box 2/Suite 333, St. Thomas, USVI 00802-1304. Telephone: (340) 775-3330 X-304.