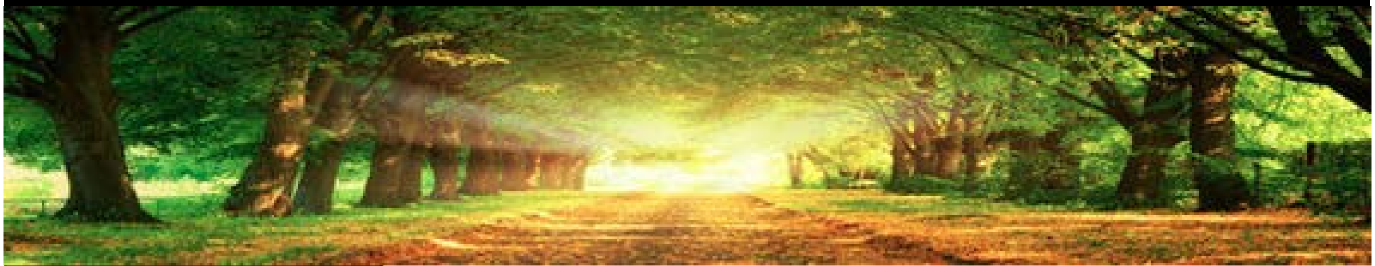
APRIL 25, 2017



Celestial Wealth Management

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Market Update

Following a February rally, the DOW gapped higher March 1st and hit an intraday high of 21,169. At that point, the Daily Sentiment figures via trade-futures.com for S&P 500 futures jumped to 92% bulls. All throughout March and into early April **The Dow Industrials** began tracing out a corrective move lower. In my opinion, this correction should mirror in time and depth the correction from April-June 2016 which was roughly 6%. The odds favor a further U.S. market correction lasting another month or so and ending around 20,000 on the DOW. If this correction unfolds as I suspect we could then make a move to new highs after completion.

The U.S. dollar Index made its high back on January 3rd. The dollar has been in a correction since that point that looks like it may have completed on March 27th. The correction unfolded in a textbook 3 wave manner, so the odds favor a resumption of the dollar uptrend that leads it above the January high over the next few months.

The U.S. Treasury bond market seems to be embarking on a multi-year interest rate rise. Remember, when rates rise, bond prices fall. The 10 year T-bond seems to have finished its initial rise off the July 8, 2016 low of a 1.36%, hitting a high of 2.63% on March 13th. Since that point, it appears a counter trend bond rally has been unfolding. Just as large speculators became more bearish than at any point since May 2012 the bond market began to rally. As I write this, the T-bond market yield has declined enough that this correction could either be complete or is close to it. In my opinion, upon completion, Treasury yields should again start moving higher. I find little reason to own bonds at these levels in a substantial portfolio position and would use this bounce to potentially lighten exposure even further.

The Gold and silver correction from last summer appears to have run its course. Gold and silver bottomed back in December at $1,122.98 and have rallied substantially to its current $1295 level. I continue to believe this is just the beginning of a much larger trend through 2018. This current rally in my opinion should head above last August levels toward $1,450 oz. before starting a period of consolidation.

In a move that is surprising to many, **Foreign stocks** have rebounded substantially since their U.S. election related correction, and are generally now trading higher than on election day.

Do Fundamentals or Sentiment Drive market returns?

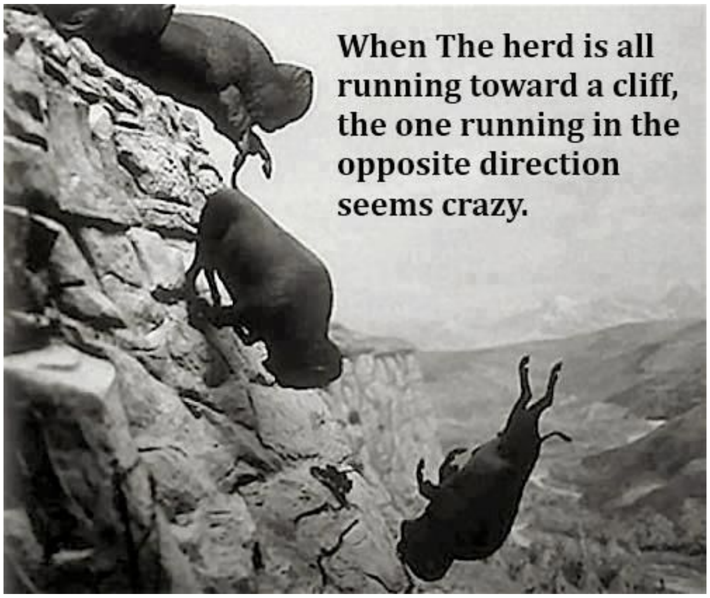
I think I have thought about this question more than any other investment related question since 2000. In college, I was taught many of the basics of finance. The “laws” of supply and demand, How currency values and interest rates “work”, and how lowering interest rates “stimulates demand”. In the years since my college education I have been able to see how many of those basic “theories” work in the real world. Theoretical beliefs of how something should act don’t always come true. In studying many different practitioners over the years I have come to the belief that fundamentals are the drivers of the market over the long term but the collective sentiment of market participants controls the moves of the market in the short term.

I fully believe the large amount of evidence often presented that valuations, interest rates, inflation rates, earnings growth and dividend yield are the primary drivers of asset performance over the long run. But, market performance often defies logic. What should happen, doesn’t. What is often expected doesn’t happen. I often hear in the financial media about how some news event “caused” a certain asset to move. Just because a certain news event accompanied a move doesn’t mean that it caused it. A better relationship may be that a news event was the catalyst setting in motion a move that was already set to occur. Correlation is not the same thing as causation.

If we are to believe that attacks such as the Syrian bombing cause assets to move in certain ways, then we must believe that more often than not, a certain move occurs. On the day the missiles hit the Syrian airbase, the stock market headed lower, and gold, silver, oil and the U.S. dollar headed higher. However, during the day they all reversed. Silver, gold, oil and the dollar reversed their entire move higher and the stock market reversed its losses. Did we reverse the attack? No, yet the markets did. It seems to me that often news of an asset move is only late recognition of forces that have already been at work and is surprising only to those unaware of the trend.

The market, which is driven by humans (or at least machines designed by humans), is prone to mass herding. You have heard me say it many times. It is our human nature to seek comfort and avoid pain. Similar to antelope who move along the plains in a large herd so does the market. It is much easier and I believe more consistent to look at news events as the catalysts for a move that was already underway driven by the sentiment changes within that asset. I think this can help explain two things….why the market often moves in different directions after similar news events occur and why so many investors succumb to the same investing mistakes over and over.

When building portfolios and allocating investments I think it is as important to look at the prevailing sentiment within an asset class as well as its long term fundamentals. If you can find investments with positive long term fundamentals and with either extremely negative short term sentiment or neutral sentiment that is improving I believe the odds of investment success may be much higher. Conversely reducing or eliminating investments in which sentiment is overly positive, complacent or neutral turning negative can be an additional key to a successful investment strategy.



Day after day, month after month, and year after year the market is worried about "something." There will most likely always be something to worry about. In a world full of uncertainty, it is that uncertainty that causes investors to seek comfort and move together in a herd. Since no one really "knows" what will happen next, they look to the people to the left and right of them for approval, and often follow blindly in a "herd".

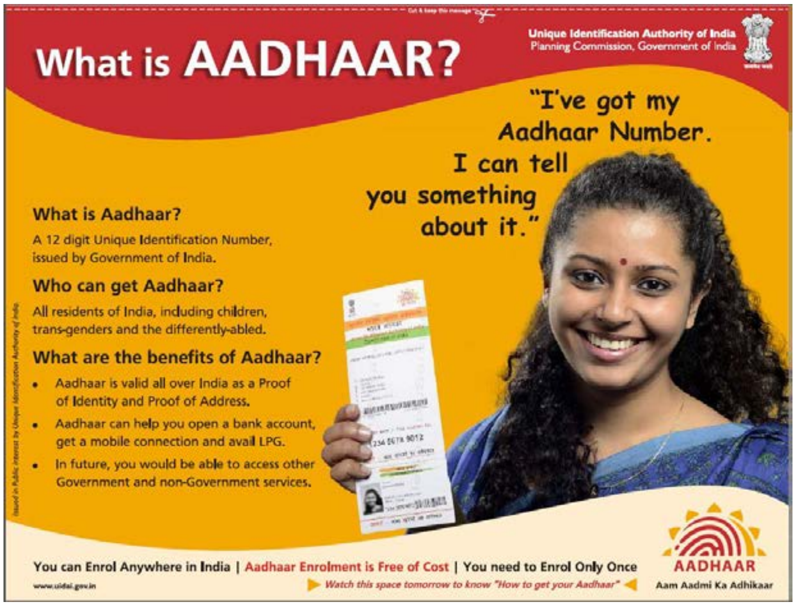
Now, we all know that when the herd changes direction, it takes quite a while for the individuals within that herd to recognize whether it is a major change or simply a minor change. The difference will determine whether the main direction of the herd is changing or if it is simply a pit-stop before the herd continues in the same direction. The herd drives the main direction of the trend due to sheer mass. However, as a trend moves toward exhaustion or is beginning to take-off the herd is often left behind. With 20-20 hindsight people often look back and remark how easy it was to see the euphoric, this time is different top, or the panic selling that creates the climax bottom. However, when in the moment it is hard to see past the windshield. This is when sentiment analysis and contrarian investment strategies can have their biggest impact on an investment portfolio.

India's Master Plan

I think by now you know where I stand on the emerging markets, the Monsoon region and India specifically. I have outlined over the last 18 months my primary reasons for thinking this area of the world is what China was roughly 25 years ago. If you missed the newsletters focused on this region shoot me an email and I will forward them to you. I wanted to take a few minutes and dive deeper into some additional research that Raoul Pal, my LinkedIn friend and founder of Real Vision TV did on this topic. I must admit I was completely unaware of this information and I suspect most Western investors are unaware as well. That could create the opportunity….so let's dive in.

It is very rare that a country embarks on a huge technological upgrade that could transform the way the country operates. It's even more rare when that upgrade leaves the rest of the world behind. That is what has happened over in India but few in the west have heard about it**. India has built the world's first national digital infrastructure and potentially has built something as important as the railroad or interstate highways.** **It is called Aadhaar.**

Prior to 2009, India had a huge problem. With so many people living in rural areas, nearly half of its population didn't have any form of identification. If you were not born in a hospital you didn't receive a birth certificate. In rural areas it was quite common to have a child without the aid of a hospital. Unfortunately, without a birth certificate you were born into and most likely stayed in poverty. You don't receive access to a bank account, drivers license, insurance or many other features of modern life.



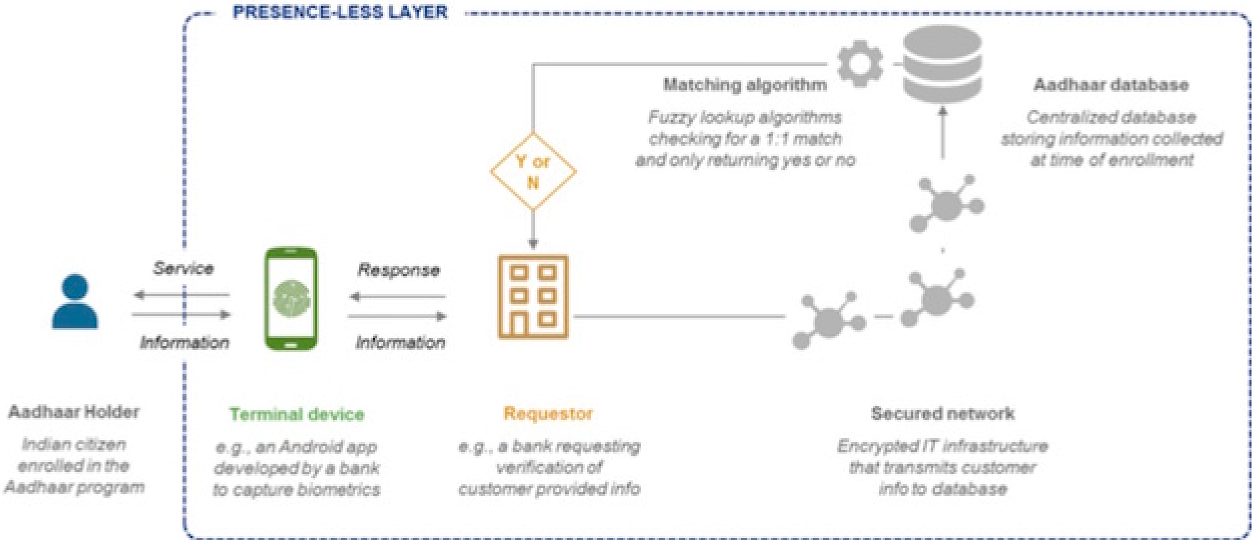
The first step in this technological infrastructure plan was to identify who lives in their country. India created a biometric databased based on a 12-digit digital identity, authenticated by finger prints and retina scans. As of 2016, 1.1 billion people now have a digital identity card. India accounts for roughly 17% of the world's population so this was no small undertaking.

The second step, once the biometric database was created was to get everyone into the banking system. The government allowed eleven Payment Banks to be created which could accept deposits but could not loan money. In order to motivate people to open accounts they linked the bank accounts to social welfare benefits. Can you imagine if you had to have a bank account in the U.S. in order to receive food stamps or welfare payments? It would be much easier to track what you spend government benefits on. Within three years, more than 270 million bank accounts were opened and $10 billion in deposits flowed in! If you had your biometric identity you could open an account without paperwork! Wow, what a novel idea. In addition, with your Aadhaar biometric card you could instantly open a mobile phone account. That is one reason why the old "flip phones" took off in 2009 and exploded from 40% of the population to 79%. Remember, when you could trade in your old "flip phone" for like $10-$20 when you received your first iPhone? Well, many of those phones ended up in India.

The next phase will most likely be smart phone adoption. Currently, only 28% of the population has a smart phone, but growth rates are roughly 70% a year! This my friends is where the mobile growth is. In July last year, The Unique Identification Authority of India, which administers Aadhaar secured a meeting with executives at Google, Microsoft, Samsung and Indian smartphone manufacturer Micromax to talk about developing Aadhaar compliant devices. Qualcomm is working with the government to integrate the required features such as iris authentication. Apple singled out India last summer as its top priority. Microsoft also just announced a simplistic version of Skype that works on unstable 2G networks. When the biggest companies in the world are focusing their growth on Aadhaar it pays to take notice.

The world heard in December this past year when India outlawed large denominated cash bills. There was a backlash in the West, but, what I and many others didn't notice was that they also launched BHIM (Bharat Interface for Money) which is a digital payments platform. There is an explosion building in e-Wallets over there but the really cool thing is that payments can now be made without phones! Payments can be made with a fingerprint and your Aadhaar number….and because biometrics can work on a 2G network it can reach the most remote parts of India. The agricultural economy still employs 60% of Indians and is roughly 17% of GDP. Farmers now can make payments and accept payments, have bank accounts, credit and crop insurance. This is truly huge.

Finally, last year, India introduced something called India Stack. I think this is what America has talked about ever since Y2K! It is a series of secure, connected systems that allows people to share digital medical records, employment records, tax filings and digital signing of documents and it is all accessed through Aadhaar! Now with Stack and Aadhaar all that is needed to transfer money, open a bank account or transfer money is a finger print or retina scan. (I guess this could make fingers and eyes more valuable to the unscrupulous but that is for another newsletter)



India has been a cash society but by banning most of cash and forcing people into a digitized society they will be able to tax EVERYONE in a democratized way. Their old, antiquated institutions, horrible infrastructure and corruption could be replaced with a remarkably smooth, efficient commerce system that increases tax revenue to pay for upgrades to roads, bridges, airports, healthcare and shipping. Productivity could increase immensely. As I have said previously, foreign investment into India has begun to rebound. I feel some of the best opportunities for growth over the next decade could be investment into the infrastructure of India and the companies that will supply the devices needed to conduct the new digital lifestyle. Again, because virtually no one I know has any idea what this is the question of, Am I late to the game, does not apply. Investing in new, transformative technology can be scary. Even more so, in areas of the world where you know less. Investing in the Monsoon Region and in India is not without its own set of risks. If you would like to learn more, just let me know.

Investment Ideas

- **Rather than trying to "beat the market", focus on beating inflation and the rate on cash. Plan for safety and liquidity while seeking positive returns.**
- Equity valuations are very rich but masked due to the distortion of the Treasury curve. Volatility is returning to the markets and I think long/short managers are best positioned to capture this volatility by owning companies with strong businesses, barriers to entry, and good valuations and selling short weaker companies with high debt loads that have risen sharply with the broad market rally. I think this strategy of <u>hedged equity may have the potential to produce attractive risk-adjusted returns</u> if and when investors begin to question the valuations of companies. Stock investing involves risk including loss of principal. No strategy ensures success or protects against a loss. Long positions may decline as short positions rise, thereby accelerating potential losses to the investor.

- Monsoon country investments. Attempting to take advantage of demographic, educational and investment possibilities in the countries surrounding the old spice routes of the Indian Ocean. International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.

- In 2013, the Affordable Care Act began implementation. There will be many winners and losers in the healthcare industry as a result of the biggest change in the healthcare industry's history and what the new administration decides to do with it. With the largest portion of the U.S. population entering their golden years, healthcare needs will become even more important. Long/short Healthcare seems to be a very attractive way to invest in a sector with lots of potential and lots of potential pitfalls. Investing in a specific sector involves additional risk and will be subject to greater volatility than investing more broadly.

- A potential U.S. infrastructure upgrade cycle may be around the corner. Moving from our current grade of D+ to B would require an investment of $3.6 trillion by 2020.

- Supply problems remain high across the energy asset class. While there isn't a current shortage of energy on the planet, it is taking more and more energy and capital to discover, drill, transport and refine it. Long term Demand should continue to grow globally, particularly in China, India, and other developing countries.

- Potential food shortages due to inclement weather and higher demand from the emerging Asian middle class could result in a boon to agricultural land and potash fertilizer companies. International and emerging market investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors.

- The rise of E-Commerce has coincided with an increased desire for efficient warehouse distribution real estate. As e-commerce moves toward even faster delivery, positioning of distribution becomes even more important.

- Precious metals mining companies have been extremely beaten down over the past four years but have begun rising. Mining is an industry that spans hundreds of years. Companies that mine for commodities are often highly cyclical, meaning they have sustained moves both up and down. When investing in the mining space it is important to be a contrarian. Ideally, you would want to accumulate miners when sentiment is poor around them and sell them when sentiment is positive. Historically this has been a good strategy.

  No strategy ensures success or protects against a loss.

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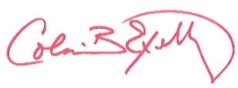
Regards,



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