

BSERVATIONS
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21 Jan 2016
Magazine Cover Story Syndrome
Dilma versus Angela

The Magazine Cover Story Syndrome: Dilma versus Angela



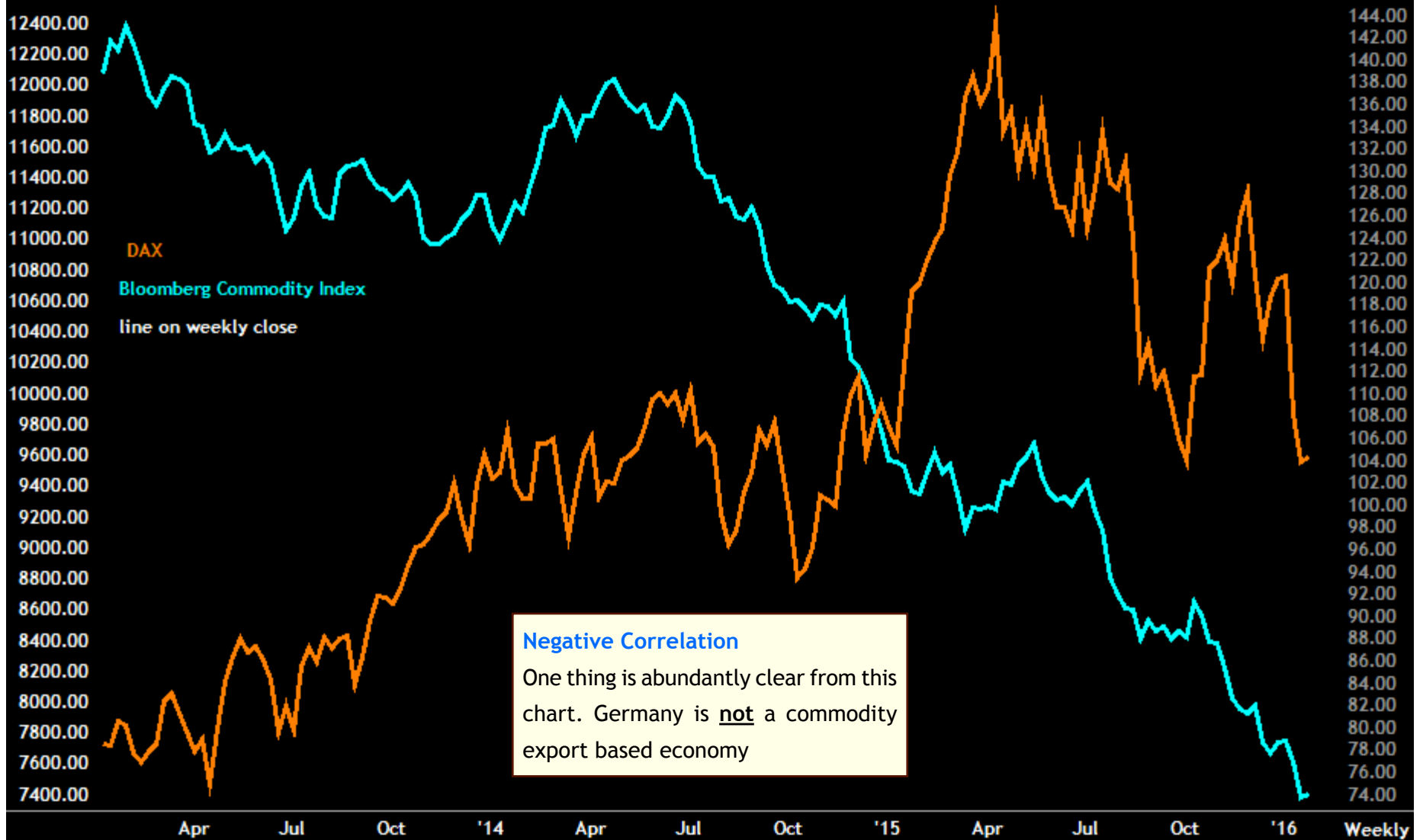
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Dilma Versus Angela and the Magazine Cover Story Syndrome

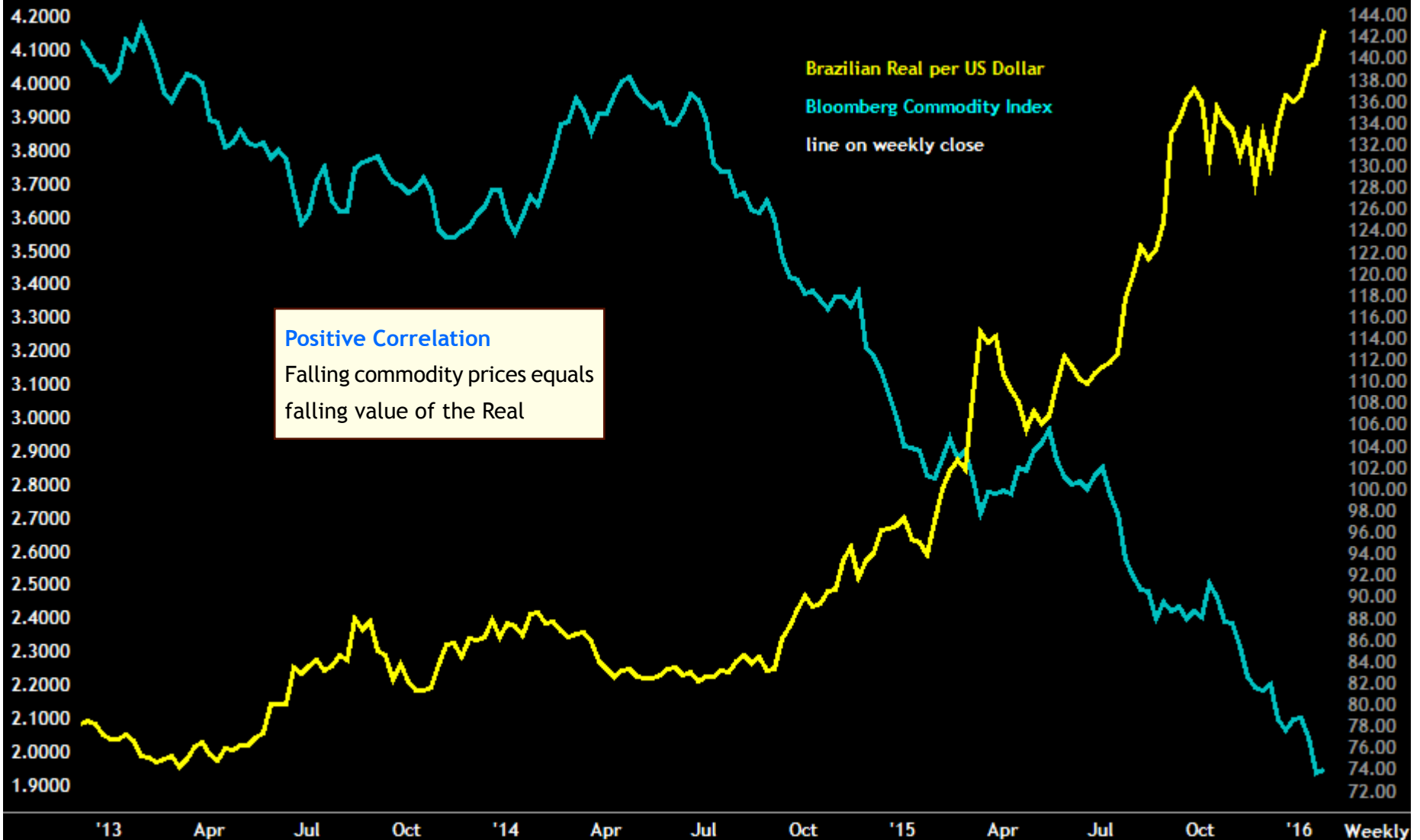
1. For an in-depth examination of the dynamics of what I call the 'Magazine Cover Story Syndrome' see pages 39 to 109 of the tutorial "Why Technical Analysis?"
2. In brief, any time a politician, athlete, business executive, or entertainment icon makes it to the cover story of a magazine their career has likely peaked and is already in decline.
3. Conversely, in the extremely rare case that someone is vilified on a cover page, their career has likely already suffered through the worst case scenario and is bottoming out.
4. The dynamic here combines herding behavior, lagging indicators, the 'wheel of fortune, and the ancient proverb 'what everyone knows is already discounted.'
5. Those just cited pages 39 to 109 are replete with examples of this dynamic at work.
6. In fact my advice to clients has been that if 'Time' or 'Fortune' ever calls and wants to make you person of the year, hang up the phone and run for cover because your career has just peaked.
7. The latest test of this dynamic is the contra-distinction between the 'Dilma in Disgrace' cover story from the 'Economist' and the 'Angela in Ascendency' cover story from 'Time'
8. The broadest implication is the contrarian value of 'long Brazil - short Germany' perspective.
9. The most narrow interpretation is that Dilma is over-sold and Angela is over-bought.
10. The following pages offer a few charts that point in this direction.

Bottoming Action (Dilma) Versus Peaking Action (Angela)

- The juxtaposition of these two cover stories does not equal a 'Buy Brazil, Sell Germany' signal
- Neither does it signal an immediate 'Buy the Real - Short the Euro-fx'
- What these contrasting cover stories suggest to me is that the 'Angela in Ascendency' story is as unsustainable as the 'Dilma in Disgrace' - that both these trends have largely run their course.
- They suggest that the days of Angela Merkel floating above the clouds - as depicted on the 'Time' magazine cover are over. Time to fall back to Earth.
- And they suggest that, as noted in an 02 July 2013 Observations piece, Dilma Rousseff has been a punching bag for the bear market in commodities - a bear market that is nearing its conclusion.
- Fact: Brazil is a commodity export based economy. Fact: commodities are in the final year of an 8 year long commodity price decline into a 15 year commodity cycle low.
- So from this perspective let us look at a few charts.







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0.8817

Euro-fx monthly





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Brazilian Real per US Dollar - monthly

The Bear Case for the Real

My bearcase for the Real is a 12% loss in value from here at 4.16 to the 4.65 area.
Contrast this with the just cited case for a 31% loss in the Euro-fx
See next page.

from .8490 in 1995 "A" = "C" = 4.6825
<I> = <V> = 4.6160



DAX monthly

The Case for a .618 retracement in the DAX

As detailed in previous reports the bear case for the DAX is a completed “ABC” from the .47 low of 1948 to the 12,390.75 high of 2015. This suggests, at minimum, the risk of a drop to the 4735.00 area. As a .618 retracement off the peak that would mark a 50% loss in value from here. See next page.



Brazilian Bovespa - monthly



The Case for a .618 retracement in the Bovespa

The .618 retracement in the Bovespa is down at the 29,000 area for a 24% loss in value from here. The bottom line is that, compared to the DAX, the Bovespa already has a huge head start to the downside.

Dilma Rousseff

- Dilma's career upside is tied to commodity prices.
- And commodity prices are tied to the 15 year cycle.
- And as extensively detailed in many previous reports, that 15 year cycle is due to bottom this year.
- And then that cycle points up into 2024, plus or minus.

Angela Merkel

- Angela has tied her career upside to the intractable and quickly worsening refugee crisis.
- Angela's career is also deeply tied to the thug Putin.
- Angela's career upside is also tied to the failed economic experiment that is the Euro-zone.
- Her career upside is also threatened by the still high risk of countries defecting from the Euro-zone, and from countries within the Euro-zone splintering.
- And regarding the risk of a global recession, Germany is the 3rd largest export economy in the world after China and the USA. Brazil down at #22 is far less vulnerable.
- Regarding demographic trends Brazil has a young and growing population while Germany has an old, shrinking, and rapidly ageing population.

Who would you rather be?

So would you rather be the President of Brazil or the Chancellor of Germany?
May I suggest that the magazine covers have it upside down, as usual.