

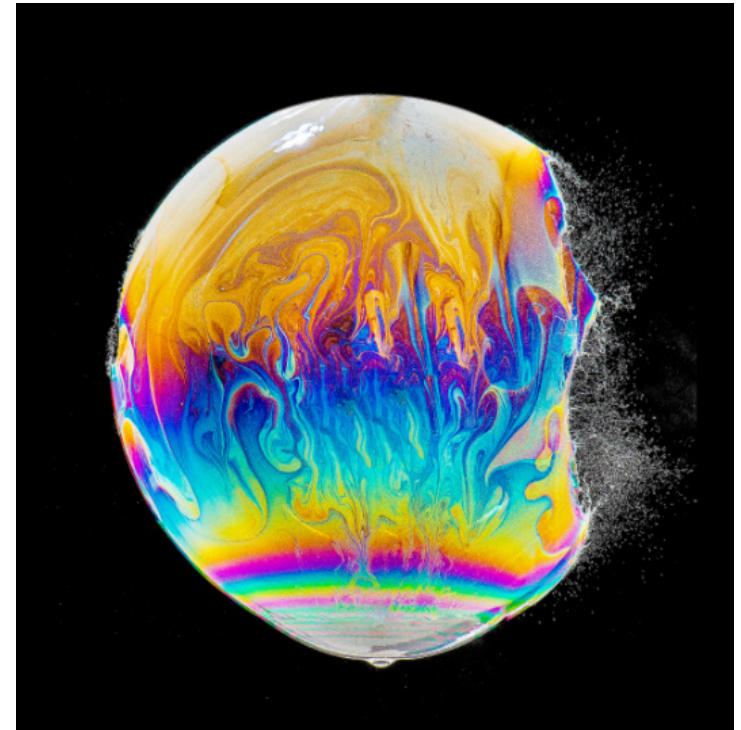
13 Dec 2017

A Tale of Two Bubbles:

One obvious to all and one invisible to all

Walter J. Zimmermann Jr.

ICAP Technical Analysis



www.williamhortonphotography.com

The economic or market commentary contained in this presentation is based on information that ICAP Technical Analysis, a division of ICAP Corporates, LLC ("ICAP") believes to be reliable, but has not been audited or verified by ICAP for accuracy or completeness. This commentary is provided to you for informational and educational purposes only, and is subject to change without notice. Principals and employees of ICAP and its affiliates may trade, for themselves, for ICAP or for customers, in the financial instruments or financial markets discussed in this presentation, taking positions similar to, or opposite to, the positions or market movements discussed in the presentation. Nothing in this presentation is intended to constitute a trade recommendation. The recipient of this presentation should take into account the recipient's individual objectives, financial resources and needs in deciding whether to use any of the information in the commentary. Futures, options and other derivatives trading involves substantial risk and is not suitable for all persons.

Google Trends Compare

bitcoin bubble Search term

stock market bubble Search term

+ Add comparison

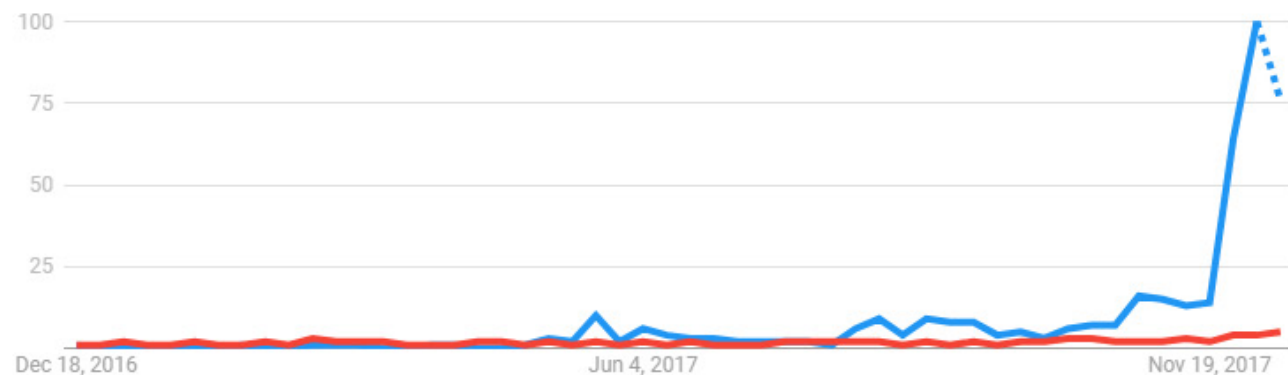
Worldwide Past 12 months All categories Web Search

Interest over time



Two Bubbles. Only One is Visible

- It does not get much more dramatic than this.
- How can we account for this extreme divergence?
- Allow me to invoke some basic principles of human nature.
- See next page.





Top Ten Main Points

1. Most investors entirely missed the Bitcoin rally. Certainly everyone on Wall Street missed it.
2. However this rally was not simply overlooked. Wall Street has been denouncing Bitcoin since day one. Why is that? Bitcoin is clearly a big threat to the status quo of banking and finance.
3. In a 5th Dec 2013 ‘Observations’ piece I tackled the top ten critiques of Bitcoin. It was clear was that all ten were simply lame excuses for the the status quo.
4. What about the criticism that Bitcoin is a bubble?
5. As I have noted many times, we live in the ‘Golden Age of the Speculative Bubble.’ In less than twenty years we have had bubbles in internet stocks, commodities, real estate, credit, bonds - both junk and treasuries, and now arguably in blue chip stocks.
6. If we were to eliminate all these classes of investment because they had bubbles, what would be left for investors? Nothing would remain.
7. Meanwhile everyone is long the stock market. All measures of bullish sentiment have been hitting new all time highs. And as the previous page attests, no one sees any downside risk.
8. I can see only one possible conclusion. If you attack a market and it roars higher, then it must necessarily be a bubble. Yes, you missed the move. But you were not wrong to miss the move. The market is wrong.
9. However if one gets “all in” the long side of a market that is showing all the hallmarks of a bubble, then it cannot be a bubble. You are not wrong to be long. “It will be different this time.”
10. And Robert Schiller, who should know better, has twisted himself into a double pretzel trying to explain why it will be different this time, and why his own CAPE indicator is no longer relevant. Speaking of Schiller’s CAPE Fearless, see next page.

Impulsive	Wave Degree	Corrective
“I” “II”	Grand Supercycle	“A” “B”
I II	Supercycle	A B
<I> <II>	Cycle	<A>
-I- -II-	Primary	-A- -B-
(I) (II)	Intermediate	(A) (B)
“1” “2”	Minor	“a” “b”
1 2	Minute	a b
-1- -2-	Minuette	-a- -b-
(1) (2)	Sub-minuette	(a) (b)
[1] [2]	Micro	[a] [b]

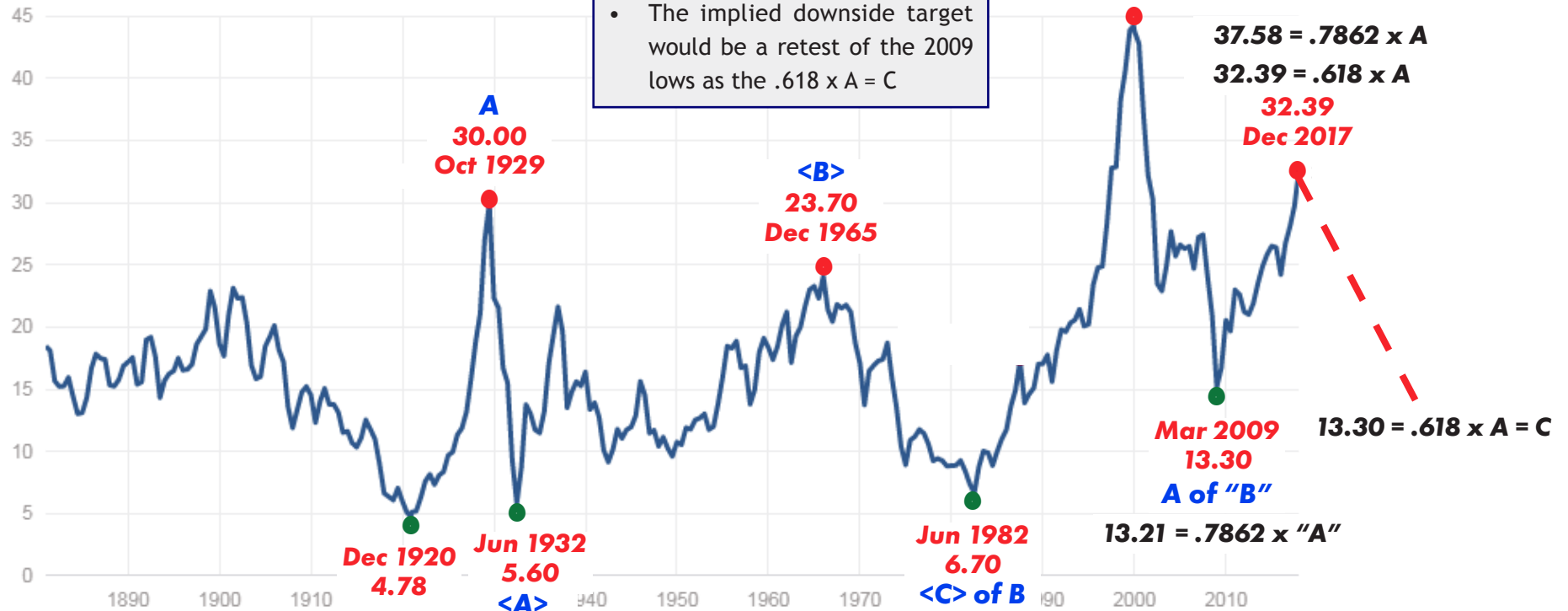
Shiller PE Ratio

A = C in %
gain = 42.00

C of "A"
44.19
Dec 1999

Downside Risk from 32.39

- What if this ratio is peaking here at the .618 retracement?
- The implied downside target would be a retest of the 2009 lows as the $.618 \times A = C$



$.618 \times <A> =$
 $<C> = 8.70$

[Chart](#) | [Table](#) | [FAQ](#)

Current Shiller PE Ratio: 32.39 +0.06 (0.20%)

10:30 am EST, Wed Dec 13

BSERVATIONS

Walter Zimmermann wz@icap-ta.com

A Tale of Two Bubbles

13 Dec 2017

(FB + AMZN + AAPL + NFLX + GOOG) / 5 - monthly chart

Heart of the Bull: the big picture

- This 'FAANG' average reached up into the lower edge of pivotal long term resistance on 27 - 28 Nov 2017
- See the next page weekly chart for a closer look.



Other Recent and Relevant Reports

- My last two Bitcoin reports were dated 28 Nov and 02 Dec 17
- My Elliott wave conclusion is that a 45,000 area peak is indicated as long as 13,000 holds
- My most recent analysis of the Nasdaq is in my year ahead outlook for energy prices, released just yesterday.
- My Elliott wave conclusion posits the high risk of a bubble peak near 7035.00
- From a peak near 7035.00 a break below 6095.00 would generate a long term sell signal.

BSERVATIONS

Walter Zimmermann wz@icap-ta.com

A Tale of Two Bubbles

13 Dec 2017

(FB + AMZN + AAPL + NFLX + GOOG) / 5 - weekly chart

Heart of the Bull: the proposed final C wave up

- Based on this weekly chart the textbook perfect final top tick target would be 594.00
- See next page for a closer look at the proposed final wave <V> up from the 465.74 low.



(FB + AMZN + AAPL + NFLX + GOOG) /5 - daily chart

Heart of the Bull: the proposed final <V> of C wave up

- Based on this daily chart the textbook perfect final top tick target would be the 571.00 area.
- Would expect the final top tick to occur at or very near the passing of the tax cut plan.
- So the bear case is a “buy the rumor, sell the news”
- See next page for a look at the alternate bear case.



OBSERVATIONS

Walter Zimmermann wz@icap-ta.com

A Tale of Two Bubbles
13 Dec 2017

(FB + AMZN + AAPL + NFLX + GOOG) / 5 - daily chart

Heart of the Bull: the proposed final <V> of C wave up

- In the bear case the FAANG average has already peaked out at 565.30.
- Remember from page 5 that there has been a case for a 565.24 final top tick since the January 2016 lows.
- From here I would peg a decisive break below 487.00 as confirmation that the final highs are in.

