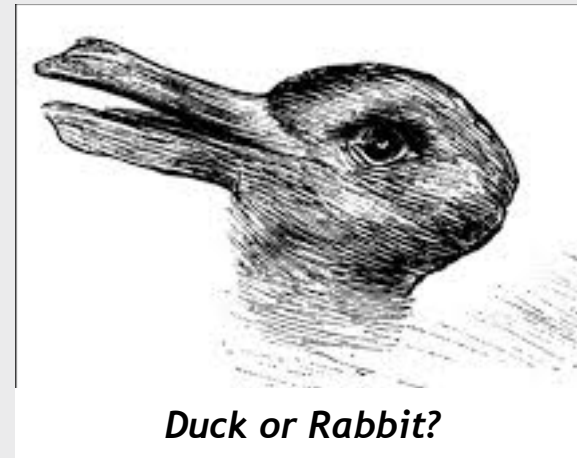


11 July 2018

Two Opposite Trajectories?
Hopes versus Fears

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Duck or Rabbit?

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Two Relevant Proverbs

- From ancient Tibet: As a thing is viewed, so it appears.
- And from ancient India: The world is as you are.

The younger and more western centric cultures have a greater trust in the ability of human beings to effortlessly apprehend an objective reality that exists independent of any subjective bias. This trust in an easy objectivity can be seen as the direct result of a world view that places an objective, material reality as primary and a subjective, consciousness based reality as secondary.

In sharp contrast, the much older and eastern centric cultures hold that it takes a great deal of work to free one's perception of all levels of subjective bias. Indeed this world view rates the belief in an objective reality wholly independent of consciousness as a bias. In economics and finance, and from the 1990's, the gap between these two world views has slowly been filled in with the findings of behavioral economics.

In behavioral economics human perceptions and actions are riddled with deeply imbedded subjective biases that prevent an accurate perception of the true economic and financial reality. And it is important to keep in mind that behavioral economics does not mark just another theory. This field has been built up through a long and careful accumulation of scientific studies. The results to date are truly impressive. For a great overview of findings I strongly suggest viewing the Wikipedia page "List of Cognitive Biases"

Hope versus Fear

The bottom line finding of behavioral economics is that the markets are a minefield of hopes and fears. This recognition has given rise to a category of technical tools based on collective market sentiment. Once everyone has gotten bullish a deep retreat then becomes inevitable. And once everyone gets bearish a major rebound becomes inevitable. Alternating waves of rising hopes and then growing fears completely and consistently overwhelm any underlying financial reality. Tools like Elliott wave analysis are capable of accurately quantifying where exactly any market is on a scale from unsustainable bullish euphoria to unsustainable bearish fears.

For those unfamiliar with this dynamic, the news can be truly and entirely mystifying. For a textbook example I present the next page.

Better versus Much Worse

- At left on the next page I reprint the special cover page for the 7th to 13th July issue of *'The Economist'* magazine.
- At right on the next page I reprint the the actual cover page for the 7th to 13th July issue of *'The Economist'* magazine.

Talk about conflicting perspectives! The brain tilts attempting to find the common ground between these two pages. I think the proper term is cognitive dissonance. Cognitive dissonance is the mental and emotional distress that results from attempting to hold two or more contradictory belief or values at the same time.



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The Economist **open future**

175 reasons to be optimistic

Join the discussion at Economist.com/openfuture

The Economist

Our annual supplement: **The World If**
How India fails its women
A guide to disarming North Korea
Where BATs fight FAANGs

JULY 7TH - 13TH 2018

The rift

‘175 Reasons to Be Optimistic’

Let us try to unwrap the cognitive dissonance created by the content of the previous page. And let us begin with a question. To whom might we send a letter titled 175 reasons to be optimistic? Certainly not an optimistic acquittance.

To go through the trouble of making a list of 175 reasons to be hopeful we would clearly have in mind someone suffering from bouts of deep depression. And maybe even someone struggling with suicidal tendencies. In fact, if *‘The Economist’* has correctly gauged the collective mood that this cover was designed to address, I would go so far as to label this cover a sell signal for the equity markets and a clear warning that yet another financial crisis is on the horizon. If it takes 175 reasons to reassure the markets, then the world must be in very deep trouble indeed.

‘The rift’

This is certainly the message of the graphic that has the world suffering an apocalyptic cracking apart. This is a graphic that screams disaster dead ahead. This is a graphic that urges us to run for cover, as it is far too late for the global situation to be repaired. This is a graphic that renders the 175 reasons to be optimistic as Pollyannaish in the extreme.

If the news really follows the trend...

To the extent that ‘the news follows the trend’ and thereby expresses the collective mood, what might these back to back covers say about the future? What insights might we be able to glean?

Opposites but not really?

Have two more diametrically opposed pages ever been placed back to back? Simply stated, a world cracking apart at the seams cannot be stitched back together with 175 reasons to be optimistic. ‘Reasons to be optimistic’ versus ‘the collapse of the world order’ at first feels reminiscent of the famously short movie *‘Bambi versus Godzilla.’* But maybe we need to dig a bit deeper.

What about the magazine cover story syndrome? This is the phenomena where, by the time an issue makes it to cover story, it has already been discounted in the markets. In other words, cover story as contrarian Indicator. This dynamic seems not helpful here. We have two covers with two completely different stories. Or do we? Might there be a deeper message here that not even the editors of *‘The Economist’* are aware of?

As detailed in previous reports and webcasts, my longer term time cycles suggest a deep and profound financial crisis starting this year, and maturing into an all out rout by 2021 - 2022. But then a much better world to follow. Serious chaos on tap, with unimaginable disruptions. However with the end result being a much healthier, more balanced, and sustainable global economy.

Perhaps we must all endure a period of extreme turmoil in order for the 175 reasons to be optimistic to take root and thrive. This is what my intuition tells me. Is this then my turn to be Pollyannaish? It has been my experience that a deep intuition feels entirely different than a bout of mindless and irrational optimism.