

YOUR
**FINANCIAL
FUTURE**
IN 2022



— *Shah Gilani's* —
TOTAL WEALTH

Your Financial Future in 2022

These days, you could easily spend \$60–\$70 just to fill up your car. Inflation continues to threaten the global market as rates rise, and the quantitative easing imposed by the Fed has put no one at ease. The rivalry between China and Taiwan is heating up, with some fearing armed conflict. And then there's Omicron, which is running rampant around the world.

Happy New Year, indeed.

A dose of hope would do us all some good, so I'm here to provide you with some good news: 2022 is going to be a golden year of opportunity for us, and I'm going to tell you why.

I'm taking a look at what 2022 holds for us and our wallets, and let me be the first to tell you that the likes of rising inflation, rising debt in China, and rising confidence in the retail trader will all play directly into our hands.

A New Year of Inflation

Last year's inflation set the stage for 2022.

The rapid run-up in every measure of producer and consumer inflation in 2021 was only a prelude to what we're going to see this year. One reason – and it's a huge one – is the supply chain snarls and outright breakage the Fed said was causing the “transitory” shadow of inflation (that they expected to fade to nothing) is getting worse.

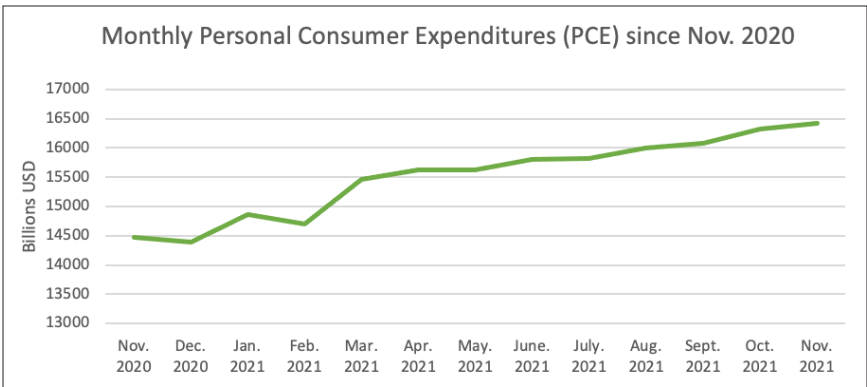
Omicron may not be as deadly as the Delta variant, but it's a hell of a lot more virulent – causing cities in China to shut down, factories to close, and supply chains to whip inflation up from a dust storm to a tornado; and of course, there are the rising wages, the ascent of labor and unions, the Great Resignation getting greater; on top of that, there are fewer workers demographically and an administration that's hell-bent on slathering voters with stimulus and spending galore.

I think 2022 is going to make 2021 look like the calm before the storm. That's going to be like rocket fuel for some companies that can increase prices, fatten their profit margins, and command the high ground on shelves and online. It's going to kill a lot of companies that will succumb to higher input costs they can't pass along, and they'll have to borrow more in a rising interest rate environment to stay afloat.

It isn't just about how much consumer prices or producer prices are rising, though they're both rising fast. It's not at all about numbers, though that's how we look at it through the analytics and critic's window. Underneath the numbers – down on the ground – people are going to hurt, go hungry, not be able to fill their gas tanks or heat their houses, not buy what their families need, and have to make choices Sophie would dread.

The numbers are ugly enough.

Annual CPI inflation at the November reading came in at 6.8% year over year (YOY), the highest reading since June 1982. That was the ninth consecutive month that inflation was above the Fed's 2% target. Excluding food and energy, it was up 4.9% in November, the highest since June 1991. And on top of that, personal consumer spending is rising.



The producer price index for final demand was up 9.6% for the year ending November 2021, the largest advance since 12-month data was first calculated in November 2010. Final goods for energy were up 43.8% YOY. Energy goods at the producer level accounted for 5% of total final demand spending. Producer prices for food, which is 5.6% of final demand spending, increased 11.7% YOY. Energy costs were the biggest gainers – up an annualized 33.3% vs. a 30% jump YOY at the October reading; gasoline came in at 58.1% vs. 49.6% at the October reading.

We're already paying more for basic necessities, and as 2022 progresses, there'll be less and less to buy due to supply chain issues and COVID shutdowns – and prices will soar for almost everything.

It's going to be a long, cold winter of our discontent. And the only thing springing up after winter will be prices – again.

Inflation is the sum of critical components, including:

- Supply and demand for everything in an economy...
- Supply chains that move all those goods and services...
- Jobs, wages, and unions...

- Government spending programs...
- Government social safety programs...
- Consumer expectations...
- Bond market bets...
- And more.

All of which are manifesting in changing interest rates.

Rates have been kept in check only as the Omicron spread threatens growth in the U.S. and around the world. They have fallen on market downdrafts as the usual flight-to-quality trade sets in. But once any dips look like they'll reverse, rates pop higher.

With inflation running hot, the Fed will have no choice but to end its bond buying and eventually raise rates – if for no other reason than shepherding their credibility.

And rising rates, in turn, will spur rising prices and costs on inputs and inventorying goods to rise. That translation to consumer inflation will prompt consumers and workers to demand raises.

Each component of that broad-based scenario is in play for the first time since the '70s.

We will see many of the component pieces of inflation explode – and some implode – this year and in the process, move and shake markets, as well as hundreds of specific stocks.

And that's where our opportunities lie.

As I noted above, rising rates spur rising prices, making global commodities the place to be in 2022. Stocks of mining companies have been hit by Omicron woes and the fear that global growth will come to a standstill amidst lockdowns and production halts.

Analysts are already talking about a possible recession in 2022, which – combined with inflation – spells stagflation.

All those fears across all industries – minerals, farming, energy, you name it – have set up incredible buy-the-dip opportunities in those commodity sectors and downstream subsectors.

On account of inflation already knocking hard on consumers and households, we can also count on some companies winning as inflation increases their profit margins. I'm talking about companies with indispensable products or services that can easily pass along higher prices – so much so that they'll expand their profit margins. I'm talking about companies that are the source or fountainhead of other products we can't do without.

Think about companies in the energy field, natural resources, banking, semiconductors, tech, cybersecurity, cloud, and pharma – these are the core sectors able to ride the inflation nation to victory.

And I'll be tracking all of them this year. Here are a few examples that you may want to buy into today.

In energy...

- The Williams Companies Inc. (NYSE:WMB)...
- Cheniere Energy Inc. (NYSE:LNG)...
- And Chevron Corp. (NYSE:CVX).

In natural resources...

- Rio Tinto Group (NYSE:RIO)...
- And BHP Group Ltd. (NYSE:BHP).

Banks can pass along higher costs of money easily and always do. Everyone understands the cost of money is mirrored in rising interest rates, which are themselves inflated to combat inflation.

Plus, as rates rise – as the yield curve steepens – banks' net interest margins fatten.

So among banks, I like...

- Wells Fargo & Co. (NYSE:WFC)...
- The Goldman Sachs Group Inc. (NYSE:GS)...
- And Morgan Stanley (NYSE:MS).

In tech, we can't do without...

- Amazon.com Inc. (Nasdaq:AMZN)...
- Workday Inc. (Nasdaq:WDAY)...
- And salesforce.com Inc. (NYSE:CRM).

We also need chipmakers like...

- Advanced Micro Devices Inc. (Nasdaq:AMD)...
- NVIDIA Corp. (Nasdaq:NVDA)...
- And Applied Materials Inc. (Nasdaq:AMAT).

These will all be winners...

As will cloud behemoths and data storage companies like...

- Microsoft Corp. (Nasdaq:MSFT)...
- Palo Alto Networks Inc. (Nasdaq:PANW)...
- CrowdStrike Holdings Inc. (Nasdaq:CRWD)...
- And Snap Inc. (NYSE:SNAP).

Then there's Big Pharma, with indispensable companies like...

- Pfizer Inc. (NYSE:PFE)...
- Eli Lilly and Co. (NYSE:LLY)...
- And Johnson & Johnson (NYSE:JNJ).

All of which will be able to reflect rising inflation in their bottom lines.

When China Sneezes... the World Catches Cold

I think 2022 will be the year China implodes from its mountain of debt. The Red Dragon hasn't had a depression or Great Recession or even a meaningful slowdown in four decades, going on five, and has grown to unfathomable heights on debt – and worse by far, leveraged debt.

China's corporate debt exceeds \$27 trillion. Foreign debt exceeds \$2.4 trillion. Now, debt is fine as long as you have GDP growth to back it up. The problem with China is that its debt is growing faster than its GDP.

At \$14.72 trillion in 2020, China's GDP has been growing at an average rate of just under 11% a year over the past 11 years vs. the national debt at \$9.76 trillion in 2020, growing over 11% a year over the last 11 years. That's just national debt, as in outstanding treasury obligations.

Total public debt exceeds 300% of GDP – over \$44.16 trillion.

Now, add that to the national debt, and you see how high that mountain is...

It's \$58.8 TRILLION and counting.

And now, China's growth is slowing... maybe, to a stop. The country could see a recession and negative GDP growth possibly by late 2022...

Which will cause problems for all of us. Besides being a massive debtor, it's been a creditor to the world.

It finances U.S. debt – buying and holding government treasuries valued at \$1.065 trillion, which is 3.68% of the \$28.9 trillion in U.S. national debt as of October 2021...

And China bankrolls Belt and Road Initiatives (BRI) – worldwide infrastructure projects in 138 countries to be exact.

China supports all this by borrowing from domestic sources – primarily, its big, state-owned banks and its sovereign wealth fund.

It also borrows from what's called the Silk Road Fund to lend to BRI countries at low interest rates to finance projects built with Chinese know-how, managers, and – in many cases – Chinese workers. BRI, sometimes referred to as the New Silk Road, launched in 2013 by President XI Jinping, lent \$47 billion in 2020 alone. Estimates are they've already lent \$200 billion. Morgan Stanley says that number will be \$1.2–\$1.3 trillion by 2027. That global credit has been a function of domestic debt issuance, leveraged against wealth management products. The credit is issued by brokerages and backed by banks and local governments who are – in turn – backed by the government and banks' balance sheets and off-balance-sheet accounting.

Some of the countries in China's BRI have borrowed as much as 20% of their GDP from China to build up their infrastructure. If we see another global recession, many of these countries are going to have to extend and pretend they'll be able to pay China back or default and tell the Chinese where they can stick it.

China's state-owned banks are already sitting on hundreds of billions – probably, trillions – of dollars worth of bad debts and nonperforming loans, especially in the \$60 trillion property sector. And they keep extending terms on those debts so they don't have to take the write-offs and hits to capital.

This is exactly what the biggest U.S. banks did in subprime to not declare insolvency in 2008.

If you don't remember, all the big U.S. banks that ended up having to get bailed out back then were financing subprime speculation by holding trillions of dollars worth of subprime "assets" in off-balance-sheet vehicles. To evade capital reporting requirements, they set up structured investment vehicles (SIVs) and special purpose vehicles (SPVs). Chinese banks are doing the same to hide bad loans and look to all the world as if they're not only solvent but well capitalized and growing their loan books.

Lehman Brothers was king of this in the investment bank world. They also created an accounting gimmick by creating "Repo 105." Lehman would classify a short-term loan (a repo) as a sale and use the cash proceeds from the "sale" to reduce its liabilities.

All these tricks the Chinese learned from American banks and Wall Street are employed with gusto in China.

Underneath the banking surface, there's a staggering quantity of leveraged debt, off-balance-sheet lending, wealth management products, and hundreds of billions – probably, trillions – of dollars of local government funding vehicles.

The property problem is where we see the direct impact of overextended leveraged debt unable to be repaid. Evergrande, Fantasia, China Properties Group, Modern Land China, Sinic Holdings, and Kaisa Group have all technically "defaulted" on debt contracts. But they've been short lifelines like **Bear Stearns** was.

The big U.S. banks were given breaks, including how they calculated reserves. Chinese banks are getting the same "regulatory help" because they were all too big to fail, just like what's happening here.

Still, that doesn't stop a "Lehman moment" or a crash and a Great Recession. Because "if it keeps on raining, the levee's gonna break."

Most commercial banks are state-owned and lend freely to state-owned, controlled, or favored local projects, companies, other local governments, and industries. This happens even though default risk is high on lots of loans. It's the government's "extend-and-pretend" help plan, which happens in the junk-bond world when corporations only survive on account of being able to keep issuing high-yield junk bonds that high-yield investors want. Because everyone knows it's all a house of dominoes, and if they let the wrong house fall, it will cascade on every other leveraged house, and they'll all fall in on each other.

Those banks hold more than an admitted \$540.70 billion in bad loans as of 2020. The numbers for all of 2021 aren't in yet. They're also holding just over \$1 trillion of so-called "special mention loans," otherwise known as "distressed." The true amount of distressed debt as bad loans could be considerably higher.

A popular way in China to get bad loans off books is to package them and sell them to investors. Probably 70% of these "investments" were sold at inflated prices based on the way bundles were structured, and that's just the way they learned to structure them from Wall Street. On many bad bank loans packaged and sold, the bank is still a guarantor. This means banks are more leveraged to bad loans than is even calculable.

And that's just banks. Beyond banks is the shadow banking industry that occurs through nontraditional institutions like brokerages, trusts, and local government lenders through wealth management products.

In 2020, the shadow banking industry was estimated to have a "value" of \$13 trillion.

But it could be much higher than that. China's opaque account disallows us from seeing into their system in full.

More COVID-19 closedowns and debt relief programs will delay the day of reckoning, but all the delays and short-term relief can't last forever. Pandemic relief consists of extending loan maturities, recalculating payment amounts, and pretending when things get past lockdowns, everyone will pick up where they left off and make enough money to get back on track and pay down their debts. Already, more closures have impacted supply chains, impeding production, which requires more "extend-and-pretend" gaming.

The world's seen this before. The last time was the subprime implosion of all the leveraged debt accumulated in that build-up. The scale here may dwarf that. We don't know. No one knows what we can't see, but everyone knows it's out there and that the levee's going to break.

The implosion of debt markets in China will be met with relief efforts by the government. Some efforts are already in place and have been piled on. This is only adding to leverage, of course, but they will be insufficient for foreign creditors who will have to write down loans because of foreign/domestic regulations. The size of write-offs will spook markets, especially equity markets starting in China which will start to falter and then spread around the world.

Get Ready to Play

While it's going to be bad for many markets, it's going to be great for investors who are ready to play the implosion – first in China, then globally, then the rebound.

Chinese tech stocks, which have already been pounded by new regulations and the government's prying eyes and paranoia, will be the first place to load up.

Then, there's betting on Chinese banks tanking, as well as companies with easy-to-trade ADRs, which will create a sea of opportunity for us.

While the obvious way to play the downfall of U.S.-listed Chinese stocks is to buy puts on them, puts are already expensive as investors are eyeballing prospects for a potential meltdown. Of course, puts make sense when you want a one-way bet where if you're right, you can win big, and if you're wrong, you know your risk. Puts will be worth paying up for.

But there's another, cheaper way to play the downfall of Chinese stocks. And that's by shorting them and at the same time, buying calls on those short positions. That's called a synthetic put.

If puts are going to get more expensive, it stands to reason that calls will get cheap for the same reason. By shorting the stocks and buying calls, you get the downside profitability exposure 100%, and buying calls limits your risk against the stocks going higher and against you. That's how a lot of pros play opportunities like this.

The contagion effect on this will be ugly and swift. The way to play that is by buying calls on inverse ETFs that go up in value when markets go down. Since global markets have been rallying, inverse ETFs have been getting beaten up, and call options on them are cheap. Now's the time to start looking at some cheap plays and setting up your positions.

When everything hits the wall, there will be more ways to make money on U.S. stocks with exposure to China falling. You can make the same kinds of plays on them – buy puts and create synthetic puts.

Finally, the drop will be quick and possibly broad, which means there'll be a rounding bottom – not a COVID-like rebound to the moon. That rounding bottom will be the time to buy back into great companies that have taken it on the chin.

I think 2022 will be the year China pukes all over the world, something like what the U.S. did in 2008.

A New Market Paradigm

I've said it before, and I'll say it again: Retail is now the tail wagging the dog.

In 2022, trading will be dominated by retail – more so than 2021 – because of the number of accounts and the amount of money wielded by this retail army.

The onset of the pandemic saw retail traders and investors flood into the market to compensate for lost jobs, plunging retirement plans, or outright work-from-home boredom. More than 10 million new brokerage accounts were ultimately opened up in 2020, says data analytics firm JD Power in a study of the rush into the market.

The stage had been set for their mass entry back in 2019 when commission-free trading took root thanks to disruptor Robinhood. After Robinhood saw a flood of new accounts opened, the rest of the industry followed suit, and it became a race to the bottom.

Brokerages vied for new accounts by offering commission-free trading and low-cost options. They would eventually also offer some free options trading, fractional shares, and other free perks to converting customers.

On peak trading days in 2020, individual traders' share of total trading volume doubled to an average of 20% of trading, up from 10% of trading volume in 2019, according to market-making behemoth Citadel, the order-buying firm that trades the retail orders brokerages front.

The impetus after the COVID-19 crash to buy was primarily based on a “buy-the-dip” narrative that had proven itself with a perfect record since 2009.

But it wasn't until January 2021 when the realization of retail's power was headline news.

Back in 2006, GameStop was the largest game retailer in the U.S. and the world. Its stock was trading at \$60, but by August 2020, it was down to \$3 as institutional shorting of a perceived brick-and-mortar loser looked like the company's end. With some early trader influence because of a monumentally large short of float ratio, shares got to \$17.25.

That's when Redditors executed the first concerted retail short squeeze in history, driving GME to \$483.

The GameStop attack on shorts cost institutions – mostly, hedge funds – \$6 billion and caused institutional traders to question the future of shorting. But 2020 was just the beginning...

In January 2021, approximately six million people downloaded trading apps, and the rush of retail continued throughout 2021. In the first quarter of 2021, Schwab added 3.2 million new accounts, and Fidelity added 4.1 million new accounts. For the full year of 2021, Fidelity added 5.778 million new accounts, Robinhood added 10.8 million new accounts, and Schwab added an amazing 18.282 million new accounts.

The power of retail isn't just in the number of accounts now – it's in the assets under management (AUM) moving in and out of trades and investments. Schwab, the largest, now has \$7.6 trillion in AUM, Fidelity has \$4.288 trillion, Bank of America Merrill Lynch has \$3.693 trillion, and Robinhood has \$0.81 trillion.

The average account size at Robinhood is now \$3,500. At E-Trade, it's \$100,000. At Charles Schwab, it's \$240,000. As markets rise, all that money appreciates in all those accounts, and there's more capital to trade with and more investments to make.

Retail trading in 2021 led to record-high trading volume in stocks and options. At multiple times in 2021, retail trading accounted for a third of all market trading according to Credit Suisse – that's up from 25% on peak days in 2020. Bloomberg calculated that retail accounted for 23% of all 2021 trading – twice that of 2019.

Now that retail knows its power, it will increase its collective influence in 2022 on several fronts. Sometimes, they know what they're doing. Sometimes, by their sheer weight they influence market function without knowing it.

But those who understand what that weight influences will be able to front some retail moves and quickly get on board as their momentum train runs. According to Bloomberg Intelligence, the massive collective capital of retail is now equivalent to “all hedge funds and mutual funds combined.”

In 2022, the rising success of apps like Robinhood will lead to more apps – more “sites” specifically geared toward retail. There will be new companies coming to market to cater to retail. Sites and apps will report the numbers retail traders will want to hear about.

They will want to influence companies with buying and selling power to move shares – with metrics geared toward trading strategies centered on the whole market, sectors, or specific companies. There will be apps that tell retail traders what other retail traders are buying and selling so they can pile into whatever momentum is happening. There will be existing sites that will gear toward retail, brokerages that will benefit by what retail does and what they do for retail, and all the exchanges will benefit by increased volume.

The majority of retail traders are completely new and primarily buy and sell stocks but also aggressively speculate in options. They're willing to take larger risks because they have more personal freedom to experiment. They invest based on personal affinity and are often value based when they aren't purely chasing a trend, narrative, social media, chat room, or influencer-inspired play.

They are less likely to use traditional market data and lean more on social media and the technologies they grew up with and trust. That will impact data and analytics firms that traditionally cater to institutions. I think 2022 will see shifts here too.

The difference-making fundamental paradigm of retail is they trade their own money. They were once a small, shut-out lot – but not anymore.

With brokerages offering no minimums on accounts, commission-free trading, fractional shares, and retail-oriented apps, 2022 will see more Robinhoods come to market – with more trading and retail impact.

That influence will impact ESG allocation and the rise of those investments.

It will impact gamma's effect on market makers' positions in options, which – if understood – can lead to understanding what the market's going to do. This is especially true at month's end, more so at quarter's end, and especially on options expiration dates.

Payment for order flow (PFOF) could be impacted – not in a big way but enough to impact some brokerages. There will be opportunities there on several fronts. There will be greater promotion of financial literacy this year and opportunities there for all of us.

Crypto Is a Sinking Ship

It's all good until it isn't with cryptos. And 2021 was good! But just because 2021 was an up year doesn't mean there's momentum going into 2022.

There's nowhere more freakishly crazy in terms of “YOLO mentality” than in crypto chasing. A Pew Research survey conducted last summer found 16% of U.S. adults have personally invested in, traded, or otherwise used at least one cryptocurrency. It's estimated that 43% of U.S. men between 18–29 say they have invested in, traded, or used a form of cryptocurrency.

Institutions and hedge funds have been pouring money into cryptos too. *Forbes* reported in August that U.S. family offices, hedge funds, and traditional money managers placed some \$17 billion into crypto assets in the first half of 2021. Globally, Coinbase reported in April 2021 that of the \$335 billion in crypto trades the company did in the first quarter, \$215 billion came from institutional investors. And it's estimated that nearly one-third of hedge fund managers plan to add crypto to their portfolios in 2022. The reason they gave was the potential for appreciation.

But, Houston, we have a problem.

Whether it's the young crowd attracted to crypto, older investors hoping to hit it big, or institutions jumping into the cryptocurrency craze, almost no one cites the benefits of any crypto, coin, token, or even the blockchain behind it. All the participants are speculators looking to ride cryptos to the moon. In other words, crypto trading and investing are being done on purely speculative grounds.

Why is that a problem? Because what goes up must come down.

There's no intrinsic value in an asset – if you can even call them that – and no “utility.” When was the last time you bought something with a token – other than a subway ride?

Bitcoin (BTC) is the perfect example. It's in something of a class by itself. For several reasons, it's considered the real-deal, OG crypto.

Why? Because it was first? Because it's been adopted by a country as its currency?

Or is it because people are blind or stupid enough to believe it is something new under the sun?

Bitcoin doesn't in any way legitimize the space and has nothing to do with other cryptos other than to “legitimize” them in the eyes of traders or investors.

Everyone knows it's really about blockchain – we all get that. But what most crypto investors don't get is if the underlying blockchain isn't attached to anything of tangible value – like smart contracts, royalty chains, or titles to real assets – it's blockchain for the sake of distributing a crypto fiat.

It's worth what it is because people believe it's worth that much.

Cryptos are assets – they're intangibility tokens that measure how speculative belief in them is.

After leaping from \$11,000 in 2020 to \$64,789 in April of last year – a whopping 477% rise – it tumbled 55% over two months. Then came another rally, leading to that November 2021 peak I mentioned earlier. And now, it's tumbled again. That's short-term cyclicity in one respect and volatility in another.

But either way, this pattern shows Bitcoin's ruinous potential in 2022. Bitcoin may fall... far – either to its \$41,000 support, to its more important support at \$29,000, or further still. If its supports are broken, Bitcoin could undo all its gains from the past two years and drop below \$11,000.

And when it comes to the other altcoins out there, they're even more of a joke when it comes to their tied value – even the highly bought ones are a laughingstock.

Doge is a joke on Bitcoin. Shiba is a joke on Doge...

How can the whole edifice not be a joke if the cryptos most chased are known jokes and jokes about jokes?

The end of some cryptos is coming, and it's going to be the ruination of many so-called investors and players in the space.

I don't mean to say that some coins won't "win."

Those winners will be the cryptos actually tied to tangible goods and services, contracts, or anything real (and I don't mean real as in "fiat" real). The winners in the speculation game will be those traders smart enough to take their profits on the way up and those who short coins on the slippery slope down.

I think 2022 will be monumental for cryptos. They will likely crash – maybe, all of them... maybe, all at once. That's because their volatility is increasing (price swings up and down) the same way amplitude in a sine wave increases. And at the same time, their cyclicity is decreasing (how long it takes coins to rise and recede in accumulation and distribution periods) as side-to-side oscillation compresses in a sine wave function. Greater volatility over shorter holding periods will trigger stops, forced liquidations, and shorting when the crowd chasing coins realizes they're prone to wipeouts.

And 2022's first test of Bitcoin will be whether it falls further – down to \$41,000, where there's some support or whether it tests the crucial support around \$29,000. If it breaks that support, it could go down to \$11,000 or \$10,000.

Given the dicey nature of some of the biggest cryptos and the fact that they mostly follow BTC, 2022 is guaranteed to be volatile. Guaranteed!

What's happening with interest rates, Omicron, the economy growing or slowing, international growth, and – maybe, most importantly – the U.S. stock market is what's going to make or break cryptos in 2022. And of course, there's the threat of regulation.

The danger cryptos pose isn't just to speculators in the space or investors who say the volatility is just part of the profile of these burgeoning instruments that are like any other new, cutting-edge technology – hard to understand and price.

It could be the stock market selling off that triggers a crypto crash or the other way around. While a stock market rout would hit cryptos in a raging contagion fire – fully attendant with cross-margined positions getting called in at the same time – it's more likely a massive crypto crash will bring down the stock market.

There is common ownership of cryptos alongside a lot of the same stocks in the form of meme stocks and narrative stocks, as well as momentum stocks in the market.

The concentration of positioning in a tight group of crypto names and a tight concentration in crowd-favorite stocks will prove catastrophic when either side of the boat loaded with the same ammunition lists to the same side and takes on water...

And traders get margin calls on wicked down days. This would cause forced selling on crypto exchanges and in brokerage accounts at Robinhood and other traditional discount brokerages that now cater to crypto traders. We'll see retail speculators spit out stocks and cryptos as fast as they can.

And then, there's the leverage.

Leverage is accomplished through speculative tools. Binance, the largest crypto exchange as of 2021, has \$42 billion of derivatives volume.

Bitcoin futures have seen open interest near \$30 billion. But proof positive that BTC is volatile – open interest fell to \$12 billion in a matter of weeks.

In June 2021, more crypto derivatives were traded in a day than actual coins, and that remains true today. Binance, the largest exchange globally by far and unregulated for the most part, offers 100X leverage on actual coin trading and in some derivatives.

Crypto derivatives include options and futures traded on the CME, nondeliverable forwards, and futures with no physical settlement. Goldman Sachs started trading these in April. Leveraged tokens offer bull or bear bets with fixed leverage ratios and can be traded on exchanges like Huobi, Deribit, and FTX, along with Binance.

There's the grayscale Bitcoin Trust and exchange-traded Bitcoin Tracker in Europe. Both track the price and can be traded like a futures contract. There are also bespoke derivatives contracts backed by banks and hedge funds and exchange-traded notes launched on Eurex, the European derivatives exchange.

The price of cryptos falls due to volatility, cyclicalities, and when "new" traders – late in the short history of coins – holding at high prices start dumping. Because of this, support will be breached and profit taking will be followed by selling. Then, when next-level support areas are breached, shorting will put the nail in the coffin for some cryptos.

A severe plunge will create the usual cross-market contagion and could kill the stock market rally.

But knowing this is going to happen is going to be a moneymaking phenomenon – the likes of which we haven't seen since the big short, when a handful of traders who understood the leverage in subprime made billions on the financial crisis. We know what to do and how to play the fallout in this case.

I'm a put option buyer for sure, but when things get scary, the price of puts goes through the roof – as they will for companies that mine coins, make the equipment favored by miners, power them, and store their servers.

So I prefer to short losers early in a given cycle – while their prices are high and just starting to fall... right about when puts are getting bid up. And to protect yourself from any bounces – since your short position is truly an exposed flank – you buy cheap call options, which will get cheaper as the underlying stock prices fall. That married position – a short stock and a long call – is a synthetic put.

As cryptos fall, synthetic puts on the weakest crypto miners and companies will be winning positions. Exchanges will suffer from volume shrinkage and should be played.

So should some of the institutional players in the crypto space like the following...

- MicroStrategy Inc. (NasdaqGS:MSTR)...
- Galaxy Digital Holdings Ltd. (OTCMKTS:BRPHF)...
- Voyager Digital Ltd. (OTCMKTS:VYGVF)...
- Coinbase Global Inc. (NasdaqGS:COIN)...
- And Riot Blockchain Inc. (NasdaqCM:RIOT).

Strangling Business – New Regulatory Moves

Last year was full of seemingly benign regulatory news. But don't let your guard down. A handful of regulatory rejiggering moves were anything but benign and will start impacting a host of companies, sectors, and lives in 2022. But it's not regulation that's already happened that's going to rock 2022. It's new regulatory waves that will really rock sectors and the markets.

America's biggest names in tech, cryptocurrency, decentralized finance, commission-free trading, the gig economy, and work-from-home lifestyles are all on the chopping block in one form or another.

The commander in chief of the new regulatory army is President Joe Biden, the country's regulatory leader, big-company basher, union sympathizer, illegal immigrant and labor advocate, would-be spender of trillions of dollars of redistributed wealth in the name of vote-buying infrastructure projects, and woke social engineering crusading.

The chief's in-house aide-de-camp is former Columbia University law professor Tim Wu, now special assistant to the president for technology and competition policy at the National Economic Council. Mr. Wu's portfolio was mapped out in his 2018 book, ***The Curse of Bigness: Antitrust in the New Gilded Age***, which calls for early 20th-century style antitrust breakup campaigns.

From the Department of Justice, the president expects Senate approval of nominee Jonathan Kanter for the role of Assistant Attorney General for the Antitrust Division. Kanter, who previously worked as an antitrust lawyer at the FTC, went out the revolving Washington door to **Paul, Weiss, Rifkind, Wharton & Garrison LLP**, where he lawyered on behalf of big corporations to sue even bigger corporations on antitrust grounds.

But when his firm notified him of conflicts he would have when they were engaged by some of the biggest companies in America, including Amazon and Apple, he founded Kanter Law Group to go after some companies his old firm began representing. Now, he wants back inside D.C. to break up the companies he'll later call clients in his private practice.

Mr. Biden's other big gun, Lina Kahn, was voted onto the five-member commission that runs the FTC, then elevated by the president to chairwoman in a surprise move that upset Republicans and big businesses. Ms. Kahn, the 32-year-old former Columbia Law School professor, best known for her 2017 Yale Law School paper entitled "Amazon's Antitrust Paradox," rallies regularly against the likes of Amazon, Google, and Meta – calling for new regulations to curb big company "abuses of power."

These regulatory heavyweights are already weighing in on Big Tech and other targets.

Congress and the SEC grabbed headlines highlighting how Facebook's engagement-based algorithms affect teenage girls' negative views of their bodies and facilitate the viral spread of "harmful content" on the company's platforms when Frances Haugen, the former product manager for **Meta Platforms Inc.**, turned internal documents over to media outlets.

One of the documents leaked was a 2019 report wherein an employee reported on "hate speech, divisive political speech, and misinformation on Facebook and the family of apps [that] are affecting societies around the world" – likely in reference to the organizing of a genocide in Myanmar using Meta's platforms. There is compelling evidence that the company's product mechanics, such as virality, recommendations, and optimizing for engagement, are a significant part of why these types of speech flourish on the platform.

Other social media platforms, like YouTube, TikTok, and **Snap Inc.** (NYSE:SNAP) have also been asked to address these issues in congressional committees, testifying how they keep their users safe.

Meanwhile, **Amazon.com Inc.** (Nasdaq:AMZN), **Alphabet Inc.** (Nasdaq:GOOG) (aka Google), and **Apple Inc.** (Nasdaq:AAPL) are all under investigation or "examination" by various U.S. regulatory bodies as well as European and Australian watchdogs.

But it's not just Big Tech that these regulatory soldiers are attacking.

After the SEC announced that the legality of payment for order flow (PFOF), the pillar that makes popular trading apps like Robinhood free, was up for debate, Congress started its own investigation. Some find the meme stock phenomenon and the "gamification" of investing to be concerning, especially since these apps can use PFOF for their own personal gain.

And big business is under a microscope too. The U.S. Department of Labor has been told to look into unionizing activity and see if impediments have been thrown up by Amazon managers or executives.

President Biden has been pushing the Occupational Safety and Health Administration (OSHA) to create and enforce an “Emergency Temporary Standard” regarding COVID-19 – in the process, creating a set of national laws implementing workplace controls, targeting personal health records, and training employees on current national emergency standards.

Regulators and enforcers from the Internal Revenue Service and OSHA are being told to examine work-from-home (WFH) rules and regulations to ensure WFH wage earners comply with multistate tax law and wage/hour issues for nonexempt employees, including how they track hours and workers’ compensation payments.

In short, the long arm of regulation is being extended like never before. This, among other things, will freak out investors who see frontal assaults on many of their successful company holdings as a reason to sell before worst-case scenarios come to pass.

But Big Tech companies aren’t going to let regulators roll over them without a fight. In fact, they’ve been funding their defense for decades. This year, anticipating the regulatory army’s marching orders, they’ve been ramping up lobbying efforts.

According to the Center for Responsive Politics, Meta is on track to beat its previous record of \$19.7 million spent on lobbying in 2020, but we won’t have a final tally for 2021 for some time.

Amazon has spent \$15.3 million in the last 12 months, but they’re expected to have ramped up and may enter 2022 having spent more than the \$18.7 million. Google and Apple are spending more too.

Cryptocurrency companies, including Coinbase, are spending millions of dollars on hiring 24 top Washington lobbyists, including Teana Baker-Taylor from Chamber of Digital Commerce; Marc Lampkin, managing partner of Brownstein Hyatt Farber Schreck LLP; and Patrick McCarty, law professor and lobbyist founder and president of McCarty Financial LLC.

No company and no industry is going to take a regulatory frontal assault lying down. They're all gearing up for a fight.

But that doesn't mean all investors can read the room.

Don't Follow the Crowd

Investors who aren't on board with what these companies are up against and how they can defend themselves or even bend and shape eventual regulation to their benefit are already selling stock in companies like Meta, Amazon, and Robinhood.

That's a mistake.

We're not waiting to watch wars waged. We have a good idea who's going to win what. That's why in 2022, I'm calling who the winners and losers are going to be and how to play them.

Meta, for one, is bearing the brunt of the backlash from multiple attacks and is already on sale. In light of the recent scandal, the rebrand from Facebook to Meta is still the biggest social media company in the world. It isn't going to succumb to the slings and arrows of regulation – it's a bargain here and now.

FB has a gigantic subscriber base – the biggest audience in the world – because it commands about one-fifth of the world's population on its platforms. That's not going to change.

FB's assets, including Instagram, WhatsApp, Onavo, Beluga, and the future Metaverse are separately worth more than the sum of their parts. Even if the company's broken up by antitrust crusaders, it will be worth even more. That's just one reason to buy FB – I mean Meta – while it's on sale.

Robinhood Markets Inc. (Nasdaq:HOOD) is way, way down below its IPO price. Since congressmen and women don't read, especially not the gargantuan bills they pass into law or reports they cite when they craft those monster laws, it's highly unlikely any of them read the SEC's report on the "meme stock phenomenon" and the short squeezes that drove the likes of GameStop and AMC to the moon. I did, and there's absolutely nothing in there that would ever lead Congress or any other regulator to undermine Robinhood. On the contrary, Robinhood is currently on sale.

PayPal Holdings Inc. (Nasdaq:PYPL), which has also taken a hit over fears new regulations in the payment space will impact its revenues, is a screaming buy. PYPL is in the line of fire of several regulatory bodies. Still, they've got work-arounds already in motion to circumvent issues they may face over DeFi businesses they're spearheading and its money-moving businesses.

But let's not forget to talk about one positive turn from this administration: pot regulation. Or rather, deregulation. A couple of Republican senators are floating legislation to decriminalize marijuana at the federal level. And that's where the trouble is for pot companies and pot stocks. Decriminalizing pot and letting the states regulate it like they regulate and tax liquor is a long-overdue change. And it's the only good regulation that's coming because it's deregulation.

So let's party with **Green Thumb Industries Inc.** (OTC:GTBIF). This company distributes and sells various cannabis products for medical use and adult use in the U.S.

It sells cannabis flowers as well as processed and packaged products, including concentrates, edibles, topical applications, and other cannabis products under names like Rhythm, Dogwalkers, The Feel Collection, and other popular brand names.

What makes GTBIF a deregulation play isn't just its future potential. This company is already profitable. Over the trailing 12 months, it earned \$827 million in revenue and a sweet \$75 million in net income – meaning GTBIF has a profit margin of 9.08% and an operating margin north of 25.12%.

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