2020 OUTLOOK

After much thought and much reflection upon the last year, it is time to put our pen to paper and provide our readers with what we think is in store for 2020. Without looking back and without digging too far into what transpired in 2019, we will only say this, that it's the year the FED finally admitted that it is supporting global asset prices. We say this because Q4 2018 scared the heck out of them, scared them enough to do the biggest about face of all time, and yet still have the audacity to say that the new rate cuts were merely "mid cycle adjustments." What does Powell and the FRB take everyone for fools? Yes, they are, and we know there are a good majority blinded by the FED light, but our long-time readers know better. Our long-time readers know our mantra of "Qe4evR" and 2019 put the nail in any doubter's coffin. So, with that said we can move on to what we expect for 2020.

GEOPOLITICS

First off and considering the U.S. made a very decisive move by taking out a top Iranian official to start the year off, it's pretty easy to say, geopolitical tensions will be the top priority in 2020. Iran is no rag-tag operation, they have a lot of capabilities, but in reality, is it plausible they want to embark down this path with the U.S.? We believe they do not, unless it comes with a healthy dose of ally support on their part and who are their real allies? Remains to be scene but that doesn't mean Russia and China will stay out of this entirely. In fact, the risk of one or both of them coming into play is <u>very high</u>. All of this kind of reminds us of Strauss and Howe's Fourth Turning Book and their generational theory of recurring cycles. As much as we believe in this theory, what we don't generally know is the timing of it all. For us that it's an entirely more complicated situation requiring an absolute stellar understanding of current and past human nature and its propensity to suppress propaganda, its ability to logically deduce information and much harder, the innate dynamics of an already unpredictable species. However, what we will say is this, the rubber band of cohesiveness seems overstretched and quite often it's the most unassuming event that finally breaks the camel's back.

Will this new U.S. – Iranian conflict be the start of another global conflict? Only time will tell, but it's a large enough risk to say, this isn't going away any time soon and thus, expect the overall market and financial tone to be on edge. Which also means that rallies will be limited and downside action will be swift and unforgiving. Of course, we are referring to the Equity markets. As far as Fixed Income, obviously global conflict supports bond prices and yields should be well capped. However, if the U.S. government keeps on spending like it has, we expect the long end to take the brunt of any selling and the front to be well supported by never ending low interest rates. As far as other markets go, Oil will be well supported and considering the U.S. is now a net exporter, expect a greater propensity to higher prices, which equals more revenue, but also equals a larger tax on the basic consumer, so there is a limit the U.S. can go with this, but a long protracted flare up in the Middle East could see prices rise quite substantially irrespective for the potential of a worldwide economic slowdown. We would also expect Gold to outperform moving forward, and this premise is purely due to the fact that the central banks cannot take their foot of the counterfeiting, debasing pedal and thus, basic economics will support this.

CENTRAL BANKS

For our second theme for 2020 we can only concentrate on the policy of our global central banks in particular the Federal Reserve. After the FED tossed in the towel for all of 2019 and removed any of the little credibility that they had in terms of "normalizing" rates, its safe to say now that their hand is shown, they have shoved their chips "ALL IN!" As if we didn't already know and called their bluff long ago. What truly amazes us about this whole crazy thing is that everyone just accepts it. What are they accepting? Well it's pretty simple, that the monetary and financial systems have been both hijacked and rigged by these non-zero-sum players. Yardeni research put this chart out recently and it lends plenty of credence to our theory that the only fundamental property that matters is QE itself:

Given this clear its safe to say that central bank balance sheet expansion supports equity prices and since prior to 2008 it was heresy to speak of manipulation by the FED and of the “president’s working group” clear market manipulation, can we just state the obvious now? In fact, Steve Liesman of CNBC built a career on arguing with Rick Santelli about this manipulation…now they don’t even hide it. In fact, it’s in clear and plain site on the NY FED Repo page everyday now. You know those alleged overnight repos which allegedly settle every day and aren’t allegedly permanent. Well you can fool a cat once but that’s about it, when you continue to roll and roll and Repo, Reverse Repo to only offer the Repo again…well that’s permanent to me and oversubscribed at that. So, they once again will not fool anyone and when you monetize a T-Bill auction a few days after, well that is QE as well and that is certainly adding to the monetary base. So, the Central Bank will expand ad infinitum until all the wealth of the globe is concentrated in the hands of even fewer and fewer. We believe this was called Serfdom back in the day, but we shouldn’t say back in the day, because the peasant class is well entrenched in indentured servitude and debt bondage, I guess we can add a 2.0 after the word, that might just do it. Serfdom 2.0 there I went there and did it, please pay homage.

As for the markets what does this mean, well it means one thing in this regard, **LONG EVERYTHING**, because the reality is and like the great Milton Friedman said "Inflation is always and everywhere a monetary phenomenon in the sense that it is and can be produced only by a more rapid increase in the quantity of money than in output.” For you, non-economic types, more money chasing less and less goods and services, period… what this also means is that, and this is something I have seen nobody in the economic world talk about, that is this high-powered QE is limited by the inverse square law. Now for you non-Newtonian Physic types, this is any physical law stating that a specified physical quantity or intensity is inversely proportional to the square of the distance from the source of that physical quantity. In simple terms think of it this way, the further away from the source, the less the intensity of the output, it's a distance thing...How we relate this to the QE mechanism is that only the first in line, reaps the greatest rewards, and who are those first in line, well the big Investment Banks and Funds, everything else is economic value residual, or scraps lets call them. Scraps of debased money buying less and less and very economically sensitive to any rise in price.

The FED can claim inflation is sub 2% but we all know the reality of such fictitious claims. We all know that in order to afford the things we need, homes, insurance, education, food, energy, etc. its all much more expensive. Why is it expensive because the fiat fractional reserve system is inherently designed to inflate and debase the currency and its why we can't buy a decent middle-class home for $30k today like we could in the 70's.

TWO-TIERED ECONOMY

This leads us to our third thing on our outlook list and that is the recognition of the two-tiered economy. In the movie Wall Street (1987) Bud Fox when talking about greed to his boss, Gordon Gekko posits this question,

> *"Tell me, Gordon, when does it all end, huh? How many yachts can you water-ski behind? How much is enough?"*

Gordon Gekko then inferring to his young protégé's lack of understanding upon the subject said the following,

> *"It's not a question of enough, pal.* ***It's a Zero-Sum game*** *– somebody wins, somebody loses. Money itself isn't lost or made; it's simply transferred – from one perception to another. Like magic. This painting here? I bought it ten years ago for sixty thousand dollars. I could sell it today for six hundred.* ***The illusion has become real, and the more real it becomes, the more desperately they want it****. Capitalism at its finest."* (Black Emphasis mine)

Gordon further followed this up with these emphatic truths,

> *"The richest one percent of this country owns half our country's wealth, five trillion dollars. One third of that comes from hard work, two thirds comes from inheritance, interest on interest accumulating to widows and idiot sons – and what I do, stock and real estate speculation. It's bullshit. You got ninety percent of the American public out there with little or no net worth. I create nothing. I own. We make the*

rules, pal. The news, war, peace, famine, upheaval, the price per paper clip. We pick that rabbit out of the hat while everybody sits out there wondering how the hell we did it. Now, you're not naive enough to think we're living in a democracy, are you, Buddy? It's the free market. And you're a part of it. You've got that killer instinct. Stick around, pal, I've still got a lot to teach you."

Now granted that was 1987 fast forward today where the top **1% own 55.7%** of the entire country's wealth, more than the upper and upper middle class combined! Also, you can look at it this way, the **top 10% own 93% of all stocks and mutual funds**. Here is a great chart from Zerohedge:

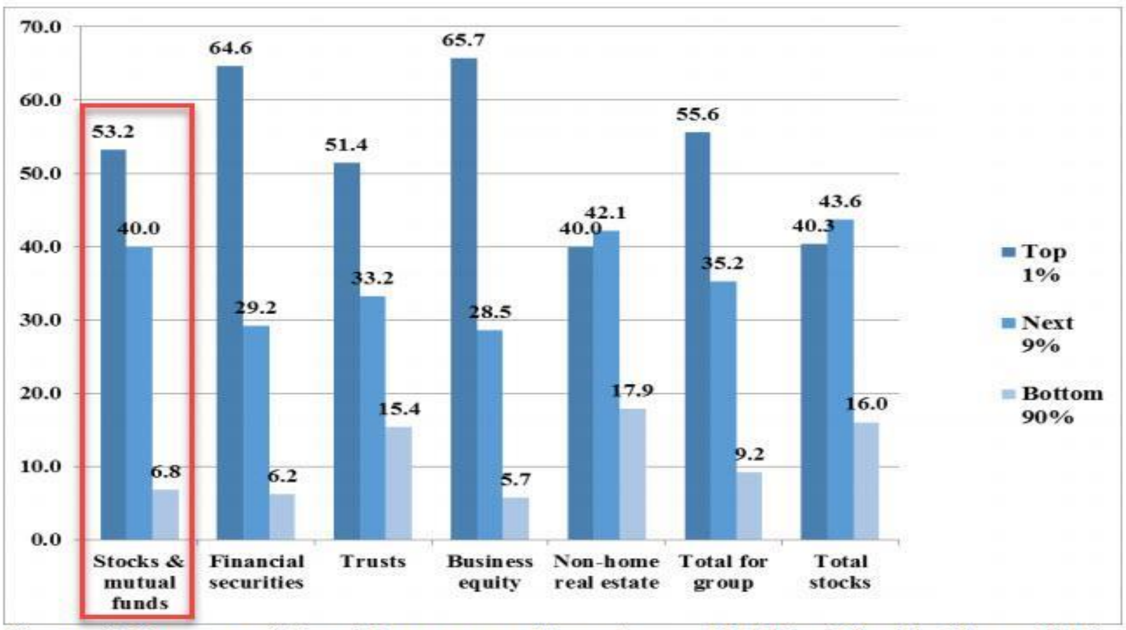
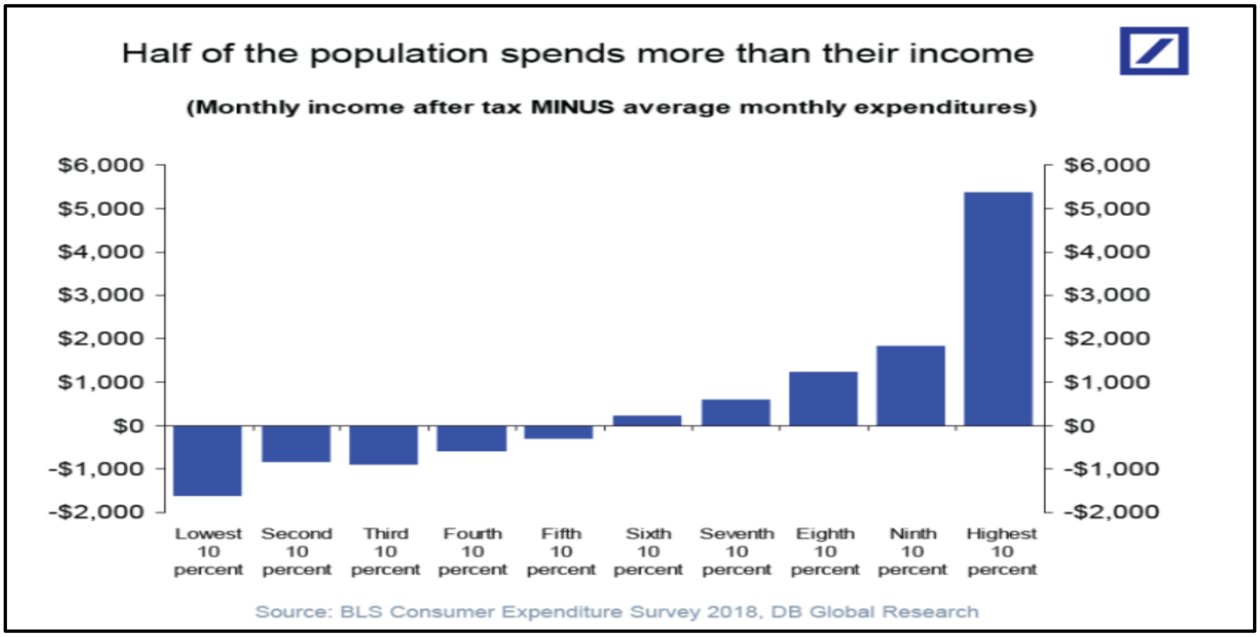


Figure 8. Percent of Total Investment Type Assets Held by Wealth Class, 2016

See dear reader what QE does is it concentrates wealth because in the world of finance there are the holders of assets and there are the renters of assets, i.e. liability payers and its obvious who holds the power. So, with all this in mind we will continue to be cognizant of the Populist movements around the world and even our own socialist movement here, because the weight of it all is proving to be too much. Its why the gilet jaunes continue to protest in France, its why AOC and Bernie continue to whine on about UBI because the reality is, the disparity continues to get worse and for a society to remain civil, well this just can't go on forever, eventually the torch and pitchforks arise. Here is another great chart from Deutsche Bank on this very issue:

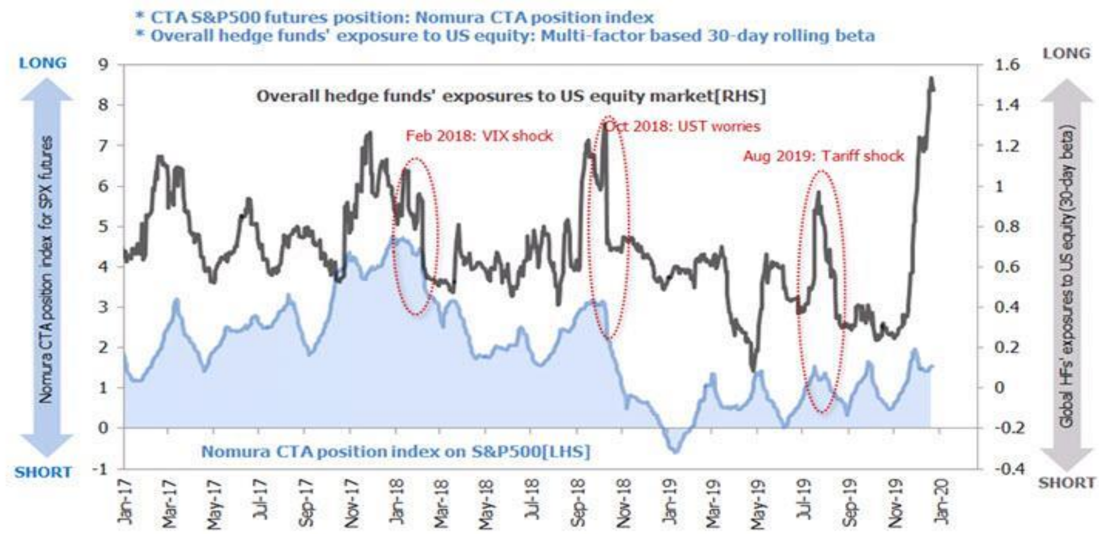


ONE WAY TRADE

Our final observation of the year is the fact that **"risk on"** has been a one-way trade for 2019. The equity markets saw a massive run up in what can only be attributed is a lot of capital chasing too few investments. This concentration of wealth, or should we say **"RISK"** is clearly put on display in this chart here:

Fig. 9: Overall hedge funds' net exposure to US equities (30-day beta) and CTAs' net positions on S&P 500 futures

Hedge funds' overall net exposure to US equity "exploding"



Source: HFR, Nomura

Now is past prologue, often times it is and when things get this extreme, well the wise generally take notice and so have we. With the headwinds that we outlined prior and with this overall fund sentiment being this historically extreme we can't help but suggest **better locations for longs lie ahead**. Now we know that central banks will continue to support and we know that unless one of the items we highlighted prior take precedent, that indeed **"irrational exuberance"** can last a long, long time. So, we understand that the current equity location, outright sucks, let's not sugar coat it but this chart continues to be in the back of our minds, it's one of our favorites we made this year:

Why does this chart matter? Because as long as the liquidity pipelines are flowing, well we know where the 1% will hide and this chart makes that distinction very clear. However, the big question for investors then becomes, is it worth missing another round of 30% plus gains? Maybe, but it all depends on your time lines and risk profiles, but you know now what the market is driven by so it's up to you to decide. What investors and traders should be on the look out for is a breakdown in corresponding equity moving averages. Magnelibra likes to watch the 50 period moving averages and will gauge any breakdown's veracity by which they react to these levels. We never want to get to technical as the technical picture changes rapidly but we would just like to make you aware of what we are currently looking out for. So, with that said we know the one-way trade has been obvious and the tech heavy Nasdaq was the clear standout for 2019, will the markets continue to **concentrate risk**, or will they diversify elsewhere. You know the old saying "the trend is your friend" and until that is broken, the music still plays.

Cheers everyone and good luck in 2020!

Finally, we will decidedly end our notes with our reaffirmation of the growing need for alternative strategies. We would like to think that our alternative view on markets is consistent with our preference for alternative risk and alpha driven strategies. Alternatives offer the investor a unique opportunity at non correlated returns and overall risk diversification. We believe combining traditional strategies with an alternative solution gives an investor a well-rounded approach to managing their long term portfolio. With the growing concentration of risk involved in passive index funds, with newly created artificial intelligence led investing and overall market illiquidity in times of market stress, alternatives can offset some of these risks.

It is our goal to keep you abreast of all the growing market risks as well as keep you aligned with potential alternative strategies to combat such risks. We hope you stay the course with us, ask more questions and become accustomed to looking at the markets from the same scope we do. Feel free to point out any inconsistencies, any questions that relate to the topics we talk about or even suggest certain markets that you may want more color upon.

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