ATLAS
ASSET MANAGEMENT PTE. LTD.

April 2017 Investment Newsletter

The Beauty and the Beast in current markets

1. Will the last petal fall?

I caught a fairy tale recently and was reminded of a woman who gained a significant amount of intelligence over the years due to her love of books, which have also provided her with an active imagination and an open mind. She is very confident and outspoken in her opinions. Despite all this, she does not have very many friends. Her smarts and being a free-thinking attitude make her stand out from her fellow townspeople who regard her as a little odd.

She is Janet Yellen. She is front and central to every investor's thoughts, and her actions will affect all assets; for example, US equities.

Something strange is going on in US equities. The first quarter of 2017 has gone by without the VIX Index (a measure of market risk, or the 'fear gauge') closing above 15. In fact, since the financial crisis, there has never been a quarter where the VIX Index has consistently traded below 15 (see chart 1). The closest we have is the second quarter of 2014 where the VIX roughly started from a high of 17 and steadily descended to around 10. In a typical year, we would have the VIX crossing 20 a few times, the normal ebb and flow of investor sentiment driving the market in the short term. Is there a structural shift in the volatility regime? I do not know, but it will be a record of sorts if the VIX does not cross 20 at all for the year.

Chart 1: The VIX Index (investor fear gauge) from 2009 to 2017. In recent months we are seeing the lowest levels for VIX since the financial crisis.

No doubt the past many periods have been a ‘buy the dip’ market as we continue to be in the midst of a bull cycle. The bull cycle is considered aged, into its 8th year if we consider March 2009 as the start of the bull cycle. Just as in the fairy tale, we are coming to the end of the period where the last rose petal will soon fall, and when that happens the fit will hit the shan. Back in the real world however, there is really no special reason why bull markets must have a specific length; every cycle is unique and we should examine the underlying circumstances for ourselves. (Indeed if financial markets are so predictably cyclical then wouldn’t everyone be insanely rich by now.)

So will be there be a happily ever after? As intelligent investors, we hope for the best and plan for the worst, so we should have an exit strategy in mind should things turn sour. The issue with low volatility is that it entices people buy in ever increasing bigger sizes to maintain their profit targets. In so doing risk taking is being ramped up, and when volatility returns it will return suddenly, like a thief in the night, and we will do well not to lose our shirts.

2. The Beast

I think Mr. Trump must be on to something, because by portraying himself as hideous, we would see that behind that exterior is a beautiful soul. This follows the classic pattern of romantic fiction, in which the men initially appear to be cold and cruel, but who turn out to be soft and loving (for example, "Pride and Prejudice"). In fact, you might as well throw 50 Shades of Grey into the mix.

If there's any positive development in the markets, it is the feeling that the Trump effect is fast fading from moving markets short term. Mr. Trump abandoned his healthcare bill after it became clear it had no chance of passage and hence it was pulled before anyone could vote on it. This put the rest of his agenda (such as tax cuts and increased infrastructure spending) at risk as the tax savings from a new health care bill will now not be available. Overall the markets have reacted to this with equanimity.

To this end many investors find themselves becoming political science majors as politics seem to be jerking markets around. Bridgewater Associates, the $160 billion hedge fund, has published a really insightful paper on populist leaders and I urge the bookworm out there to read it.

It's quite fashionable to critique Trump, because frankly, it's also quite fun to ridicule him. After all, does he not remind you of someone? His staged (or real?) personality is somewhat primal and has a habit of animalistic behavior, with serious social regressions like growling and roaring when angry.

However, I tend to agree with George Friedman's analysis that at the end of the day, despite the seeming failures it has been a normal month for the president. He wrote, "One of the arguments I have been making about President Donald Trump is that he is neither the devil nor the messiah. In spite of the passions that he has generated on all sides, Trump is merely the president of the United States, and the president is not particularly powerful. What he wants to do is far less important than what he can do." President Donald Trump's ability to make changes depends on whether his support rises or falls. For most of the things he wants to do, he needs Congress to go along.

In short, some of the his ideas will go through congress and some will not. Not all his ideas will be beneficial; some will be good, some will be bad, and most will have unintended consequences. I guess we have to look through the presidency, trust that the system is working somewhat and focus on *earnings* and the *economy* itself. And what do we have here?

"In our mind, this has been driven more by economics and earnings, and less by the Trump phenomenon," said Citigroup in a Bloomberg interview. The fact is that earnings growth is not vaporizing at the moment is perhaps why dip buying has prevented any major selloffs in the market. S&P 500 Index earnings have actually been pretty good, on track for 10 percent growth in the March quarter, according to Bloomberg.

Economic data also continues to be resilient, in forward looking business and sentiment surveys, and in backward looking data sets. Central bankers (like Yellen) continue to be sensitive and are mindful not to tighten prematurely.

3. Do not put all your eggs in one basket

The stock market is a humbling place, where even astute investors make many mistakes. We should treat all stories of people who become multi-millionaires on a single stock as fairy tales. True wealth is built slowly and steadily, with a well thought-out portfolio and sound risk management.


Chart 2: Valeant's share price history.

Take for example, Valeant Pharmaceuticals International, a beleaguered drug company, that may go down in history as a stock that tarnished the reputation of a number of prominent investors. They rode Valeant's shares all the way from $262 to $11, an astonishing 96% decline (see Chart 2). An investor has lost $4 billion alone from just this position, and surely this must be one of the largest losses in history. One lesson to be drawn here is that big concentrated bets can be very dangerous.

Another interesting stock is China Huishan Dairy Holdings (6863 HK). Its shares were trading in a stable range for some time and then boom, it dropped 85% in less than 90 minutes, wiping out $4 billion in market value. It was a remarkable turn of events for the milk producer, and while details are still murky, issues will probably revolve around weak corporate governance and the dangers of over-leverage, etc. Well, no use crying over spilled milk.


Chart 3: China Huishan's share price history.

Disclosures and Disclaimers

We are making this presentation available to you because we believe that you have sufficient knowledge, experience and/or professional advice to understand and make your own independent evaluation of the risks and rewards of the investments and/or other matters discussed herein and your own independent decision whether to implement the same. Each of the illustration in this presentation is up to the date indicated therein, unless otherwise specified.

This presentation has been prepared by ATLAS ASSET MANAGEMENT Pte Ltd. and is provided to you for the purpose of personal use and information only and should not be construed as an offer or a solicitation of an offer to purchase, subscribe, sell or redeem any investments. It is further not intended to provide the sole basis for any evaluation of the investments or any other matter discussed herein. This presentation is not a prospectus as defined in the Securities and Futures Act, Chapter 289 of Singapore ("SFA"). Accordingly, statutory liability under the SFA in relation to the content of prospectuses would not apply.

The information contained herein is intended for general circulation. It does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The investments discussed in this presentation may not be suitable for all investors. Advice should be sought from a financial adviser regarding the suitability of the investment products mentioned herein, taking into account your specific objectives, financial situation and particular needs before you make any commitment to purchase any such investment products.

ATLAS ASSET MANAGEMENT Pte Ltd. and its affiliates do not provide tax advice and nothing herein should be construed as such. Accordingly, you should seek advice based on your particular circumstance from an independent tax advisor. Neither ATLAS ASSET MANAGEMENT Pte Ltd. nor any affiliate, nor any of its respective officers, directors, partners, or employees accept any liability whatsoever for any direct or consequential loss arising from any use of or reliance upon this presentation or its contents, or for any omission. Past performance does not guarantee or predict future performance. The information herein is not intended to predict actual result, which may differ substantially from those reflected. None of the information takes into account the impact of taxation. It assumes that income is re-invested. Investment products may be subject to investment risks, involving, but not limited to, market and currency exchange risks, fluctuations in value and possible loss of principal invested. Unless expressly stated, products are not guaranteed by ATLAS ASSET MANAGEMENT Pte Ltd. or its affiliates or any government entity. ATLAS ASSET MANAGEMENT Pte Ltd. and its affiliates, their officers, directors, partners and/or employees may from time to time have an interest in the investment products mentioned herein and we may hold long or short positions for our own account or those of our clients.

The information contained herein has been obtained from sources that ATLAS ASSET MANAGEMENT Pte Ltd. believes are reliable but we do not represent or warrant that it is accurate or complete. The views herein are generally those of ATLAS ASSET MANAGEMENT Pte Ltd. and are subject to change without notice, and ATLAS ASSET MANAGEMENT Pte Ltd. has no obligation to update its views or the information herein. Some or all the security suggestions contained herein do not represent the views of ATLAS ASSET MANAGEMENT Pte Ltd. as they are not covered by a member of the ATLAS ASSET MANAGEMENT Pte Ltd. analyst team. Such recommendations are based on the actual view of one or several major brokerage houses. ATLAS ASSET MANAGEMENT Pte Ltd. or its affiliates may act upon or use material in this presentation prior to publication.

This presentation is confidential and may not be reproduced or disclosed (in whole or in part) to any other person without our prior written permission. The manner of distribution of this presentation and the availability of the products and services may be restricted by law or regulation in certain countries and persons who come into possession of this presentation are required to inform themselves of and observe such restrictions. The contents of this presentation have not been reviewed by any regulatory authority in Singapore or any other jurisdictions. If you have any doubt about any of the contents of this presentation, you should obtain independent professional advice.