ATLAS
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May 2017 Investment Newsletter

Market Outlook

1. Bonus advice from the world's largest hedge fund manager

An investor's approach to investing in relationships

How do market professionals approach relationships? If you breathe, eat and sleep financial markets you have to expect some or all of those investment concepts to seep through into your personal life. Perhaps we start thinking of relationships in terms of supply and demand dynamics: we say things like "(wo)men like me are in short *supply*". Maybe we can recall with amusement people who "overvalue" themselves. Maybe it gets downright cynical where we start classifying people as "assets" or "liabilities".

Suppose you stumble on a gem. Perhaps you were in a crowded room and someone raising a question caught your attention. What was it about her? Maybe it's the way she sounded so thoughtful when asking the question; maybe it's the way her smile glistened with goodness and optimism, that reminded you that life is worth living for.

When is the point that you start investing emotionally into a relationship? We put an investment into people assuming that they will do the same. Sometimes we feel such a strong connection that we jump into these relationships with both feet and no thought and oftentimes this leads to a relationship fizzling out just as quickly as it started, which can result in heartache and hurt.

So love gurus will tell us it is smarter not to get too emotionally invested, to tread lightly, else you will get burnt(!)…. but I would say that's like putting paper trading. If it cannot hurt you it cannot make you happy either. If you put in nothing you will lose nothing, but you will gain nothing either.

We need to take a start-up approach to emotional investment. There will be a lot of failures, but the right one will return a thousand fold.

So after much fruitless thoughts on the bottomless pit of emotional investment, I returned back to my passion and tuned into Ray Dalio's recent interviews with Business Insider. He is one of the most successful investors of the last decade and I strongly encourage you to view the interviews. Here is a legend whose motivation is about leaving a legacy and is not trying to talk up his positions. Ray Dalio, whose Bridgewater Associates managed about $103 billion in assets, when asked where the markets are now, has this to say:

⇒ we are right in the middle of a cycle
⇒ the market is priced right
⇒ we are in a nice temporary equilibrium
⇒ not worried over the next year or two

Ray also made a notable statement in his interview, saying that investors going forward can expect returns to be low. Perhaps "in the vicinity of 3% – 4%" in coming years. Bond returns are low, and all assets are priced off the bond returns. Now one man's returns is another man's obligation (debt), and with so much debt in the world, the burden has to be kept low, and so we are going to have low rates and low returns for some time.

Maybe Ray can be a love guru as well. He shared how he learned to invest:

- He had made mistakes. He had winners and losers. We should learn and reflect on our mistakes. Reflecting on those mistakes can give us gems.
- From having an attitude of ‘I know’ to ‘how do I know’.
- Open mindedness.
- Humbleness and fear mixed with aggressiveness.

This then shall be my approach to both investing in markets and in relationships.

2. Any action from Mr. Trump is a bonus

It’s been said that the Trump-inspired rally is getting ahead of itself. “Traders are seeing positives where the best that can be said is that something bad hasn’t happened -- like in North Korea -- and are glossing over high valuations in the U.S. and the risk *President Donald Trump won’t deliver on his economic pledges soon*” according to a JPMorgan strategist.

Regular readers will know I believe the trend is already in place before the US elections. The recent rally began when Japan and China relaxed their monetary policies in early 2016, when the markets were in a funk and everyone was puking their guts out.

I think a more realistic scenario is that that Mr. Trump will not be able to do anything radical. Actually, it should be pretty obvious by now and it is all public information. Mr Trump is acting like… a normal president, sans the tweets. And thus if he could actually enact some of his bold plans, it would be considered a bonus to the market.

In other words, the market should be reflecting this in already. Ray Dalio also does not think we are going to have a radical change in the economy because of Mr. Trump.

The first 100 days of Mr. Trump’s presidency has come and gone. Getting hundreds of nominations confirmed by the Senate, especially with the less experienced team Trump is fielding, makes substantive progress difficult in these early days; Trump still only has 25 of 58 senior government positions confirmed to date. The good news is that it is heartening that we have a clearer picture of Trump administration’s direction for the next four years and that groundwork is laid for systematically driving policy legislation through, with a majority Republican House and Senate.

The bad news (and we know it all along) is that Mr. Trump scores 1/10 on his own 100-day pledge. Let’s highlight a few:

- Tax cuts: the plan was hastily unveiled but not passed. Mr. Trump revealed a tax-cut blueprint in an attempt get a tick in his column before the 100-day mark. Although light on detail, the plan is to reduce the business tax rate from 35 per cent to 15 per cent, double the tax-free threshold for couples to $24,000 and simplify the process for filing tax returns. Regardless, Mr. Trump’s plan is still only a blueprint and is yet to go before the Congress

- 1 trillion in infrastructure investment: Mr. Trump promised to invest $US1 trillion in infrastructure over 10 years via public-private partnerships and tax incentives. This program was not mentioned yet.

- boost military: This was discussed but not passed. Mr. Trump wants to "rebuild" the US military via a significant boost in investment.

In conclusion, it is fair to say that Mr. Trump was not able to get what he wants done, and the market knew it and the market did not tank. I would say the surprise here is to the upside: Mr. Trump can surprise us with passing market-positive pieces of legislature.

3. Any action from North Korea is a bonus

I wouldn't call a conflict a war if a conflict is one-sided.

Compare the strength of US Army with North Korea. The US is far and away the world's superpower and controls all of the oceans. It has the most powerful Navy in the world. The US defense budget for 2015 was $600 billion. N Korea's defense budget is approximately $6 billion. That's a 100 to 1. There was a famous movie scene where the martial artist *Ip Man* (who was the master of Bruce Lee) took on 10 men and won. With all due respect to *Ip Man*, I don't think he could take on 100 men and win, and with all due respect to Kim, he is, shall we say, not quite cut from the same cloth as *Ip Man*.

Also, we also have to consider China's army. China recently launched its second aircraft carrier. Right now it is actually N Korea versus Rest of the World, not USA versus 'N Korea and China'. Therefore China and USA are aligned if it comes to a conflict.

So what can N Korea do? There are two options available to them: The first option is to attack American citizens in South Korea (and vicinity), including kidnapping and extracting them to North Korea. A second option, and a more significant counter, would be to use its concentration of artillery along the border with South Korea to initiate bombardment on Seoul. The casualties and damage from such a move could become extreme, even in a short period of time. Trading Seoul for N Korea's nuclear program is not an option.

According to George Friedman's analysis, the N Koreans appear to have an effective counter in that their artillery is dangerous and targets South Korea's capital and largest city. Destroying the nuclear facilities while Seoul is devastated would raise questions about American military capability that would resonate.

But if N Korea ever initiates something significant, it will spell the end for them. For example, it would be suicidal for N Korea to initiate a missile attack — such an assault would invite US/ Chinese forces to attack N Korea, and they will prevail, which will pave the way for permanent peace in the region. Permanent peace means a booming stock market—so buy any dips resulting directly from N Korea. Also, I find it somewhat counter-intuitive that the Japanese yen's recent strengthen is tied to safe-haven flows relating to the N Korea situation. Perhaps the yen's strength is due to general risk aversion or other factors. Japanese could easily be collateral damage in a N Korean conflict, and the yen could drop like a like rock in such a scenario.

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