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Gold Members' Monthly Teleconference

17th March 2020

A Very Strange St Patrick's Day

What we're covering today

- Theory
- The Road Ahead
- Looking into 2020
- The Shock
- How Far Down?
- Are We There Yet? Why Not…
- What I Am Doing

THEORY

We do investing, and investing is where I must start today.

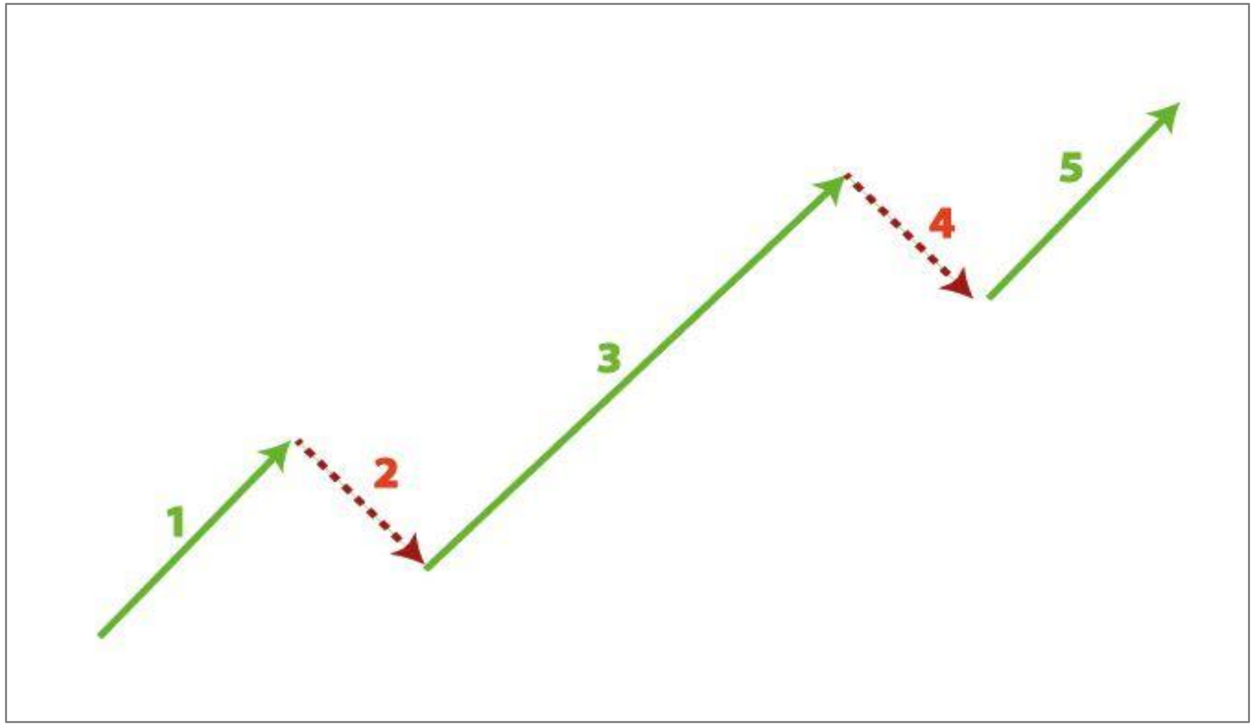
Back in 2018 I said:

"Many investors and analysts vastly over-complicate stock market analysis and dent likelihood of investing success…

Complexity Bias *– too many believe solutions need to be complex and over-look what I call "the bleeding obvious".*

Here is a template for an uptrend, simple but effective.

To be fair to those suffering Complexity Bias, you still have to apply this simple template in real time.



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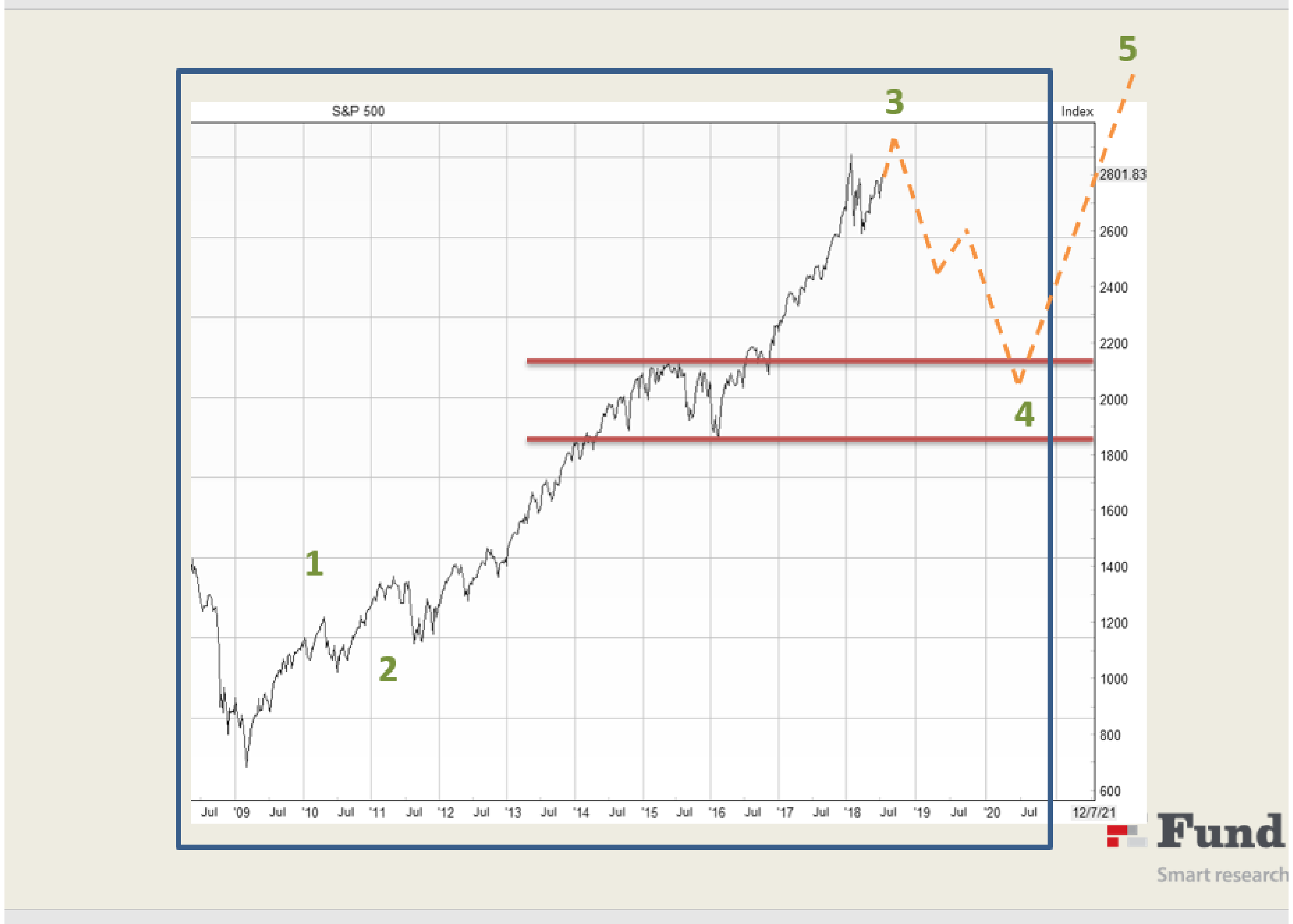
THE ROAD AHEAD (and my mistake)

My working assumption of what might happen next is not a prediction. It is one view of the future, based on a number of indicators, and serves three purposes:

- It is a benchmark for judging unfolding events
- If it does not unfold in this way, it forces me to keep adjusting my view of the road ahead
- It reminds me to stay focussed on my **risk management**

<u>**In 2018**</u> I thought the road ahead would look like this:



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It went like this…

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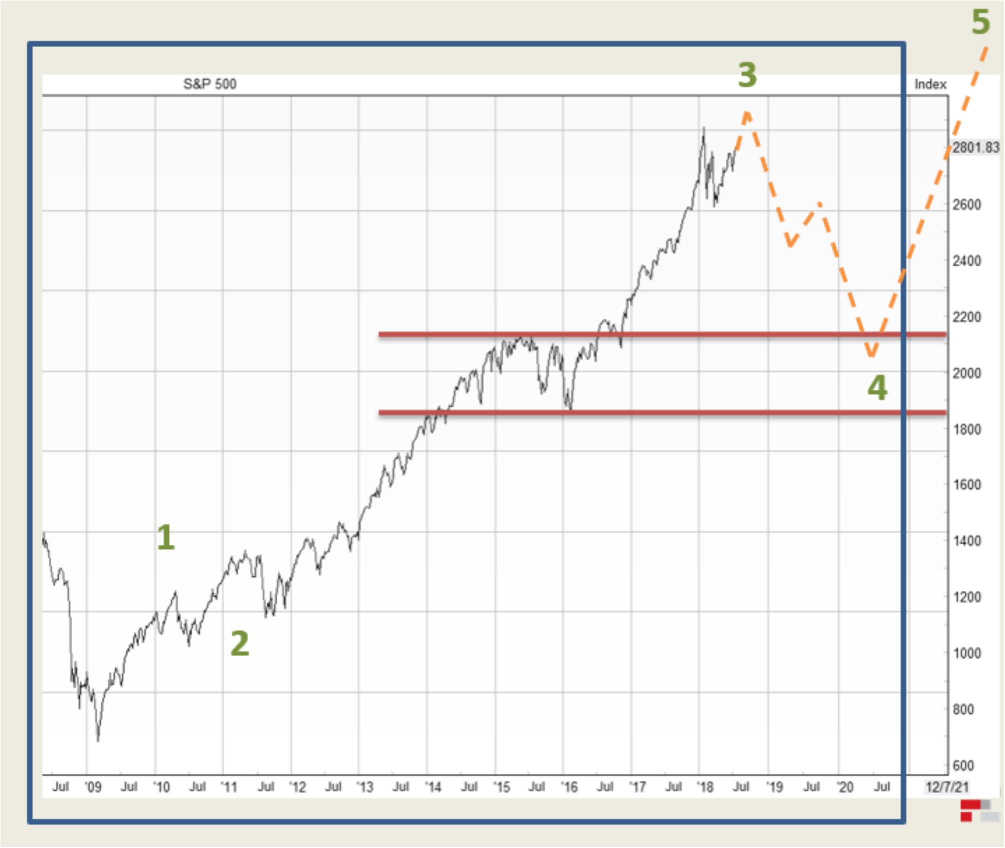
If you put those next to each other they look very similar.

July 2018



January 2020

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My mistake was expecting a sharper wave 4…

…followed by new/final high, perhaps in 2020/1.

In **November 2019** I asked ***"Did the bell just ring for the top?".***

Was wave 4 was behind us?

Were we now moving rapidly towards finale of the complete move since March 2009?

"US stock market… within 1% of another significant peak… falls of 25% to follow… ***Has the bell just been rung for the top?"***

I continued…

"Is it the end of the complete uptrend since March 2009 (falls 50%+). Or is it a lesser top?

Falls in excess of 50%, perhaps over years, or a mere 25% fall over months, after which will be another profitable upswing."

And concluded:

“My sense is that the US market could briefly touch another, final, high this side of the New Year, but that’s probably splitting hairs.”

Also on that day, in a separate blog I said there was a:

“very strong sense that right now the US stock market is running on empty. Pay attention. Guard up.”

That was **22nd November 2019**.

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“Global risks – you can’t Trump these” I said:

“major stock market fall concerns us. A fall of 50% or more, occurring over a number of years.

*Such a bear typically market requires a **shock** on top of inherent **vulnerability**.*

This shock plays a vital role because the positive state of mind of investors appears to change overnight.

Can you see the shock coming?

No. The shock, by definition, cannot be anticipated.”

We knew we already had the **vulnerability**, as I highlighted many times…

Debt and demographics – valuations – debt mountain, terrible quality – liquidity – computer trading – political risks/Trump

In that same blog I then listed "***Shocks in the wings***"

- *Cyber risks (Iran)*
- *Oil (Iran)*
- *Debt default (US corporate)*
- *Banking instability (Europe)*
- *Financial infrastructure (Repo market)*
- *Political instability (populism)*
- *Downturn (China)*
- *Climate "event"*

*"As these are **<u>shocks</u>**,*

by their nature the "what" and "when" are unknown.

The list is only limited by your imagination."

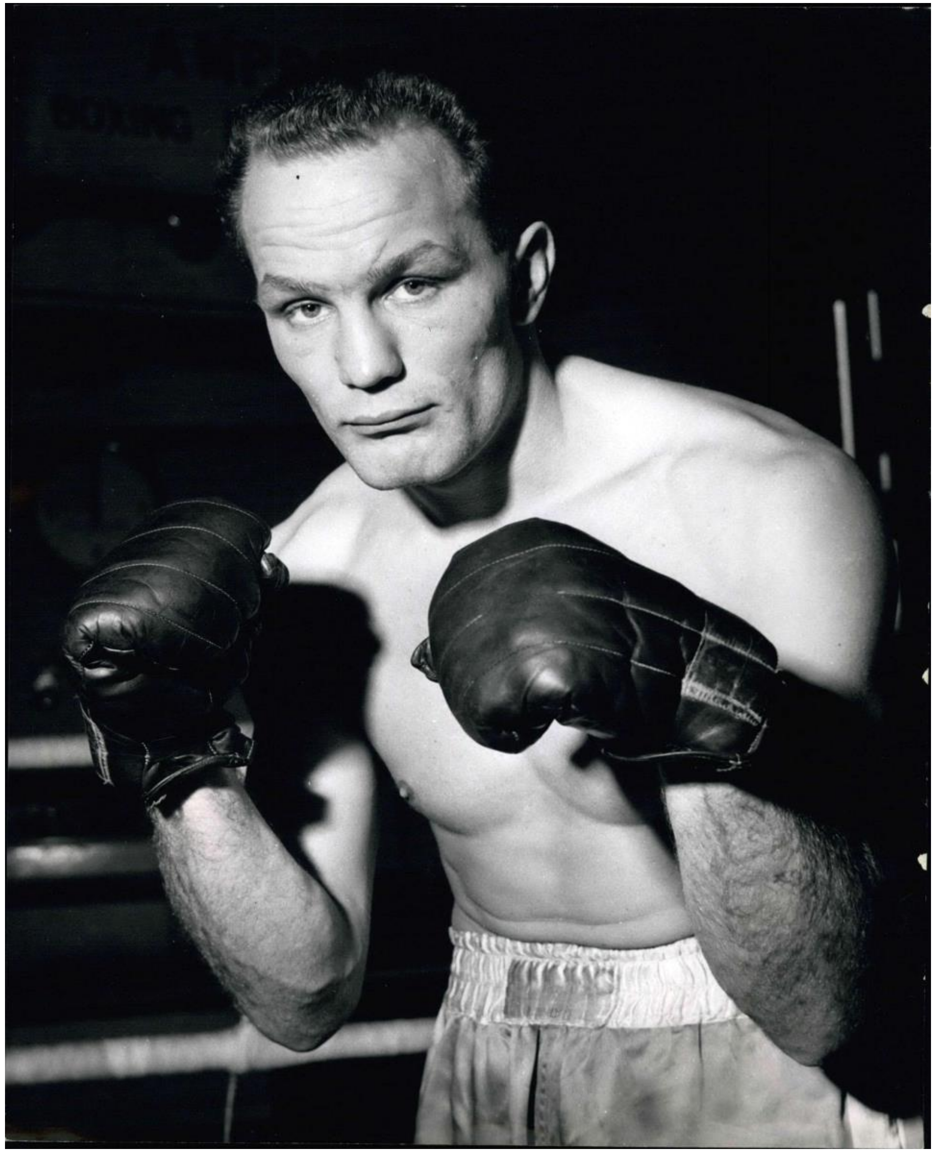
Whatever shock, the required action is always the same:

“The most important takeaway from glancing at this globally febrile environment, and the fragile financial infrastructure, is to ***tread carefully****, and you can do this in various ways:*

Have a ***higher*** *than usual* ***cash level,*** *have a* ***stop-loss*** *strategy, and* ***reduce your investments*** *to a more manageable number which is easier to monitor.”*

LOOKING INTO 2020

20th December, looking into 2020,
I used this guy to make my point:



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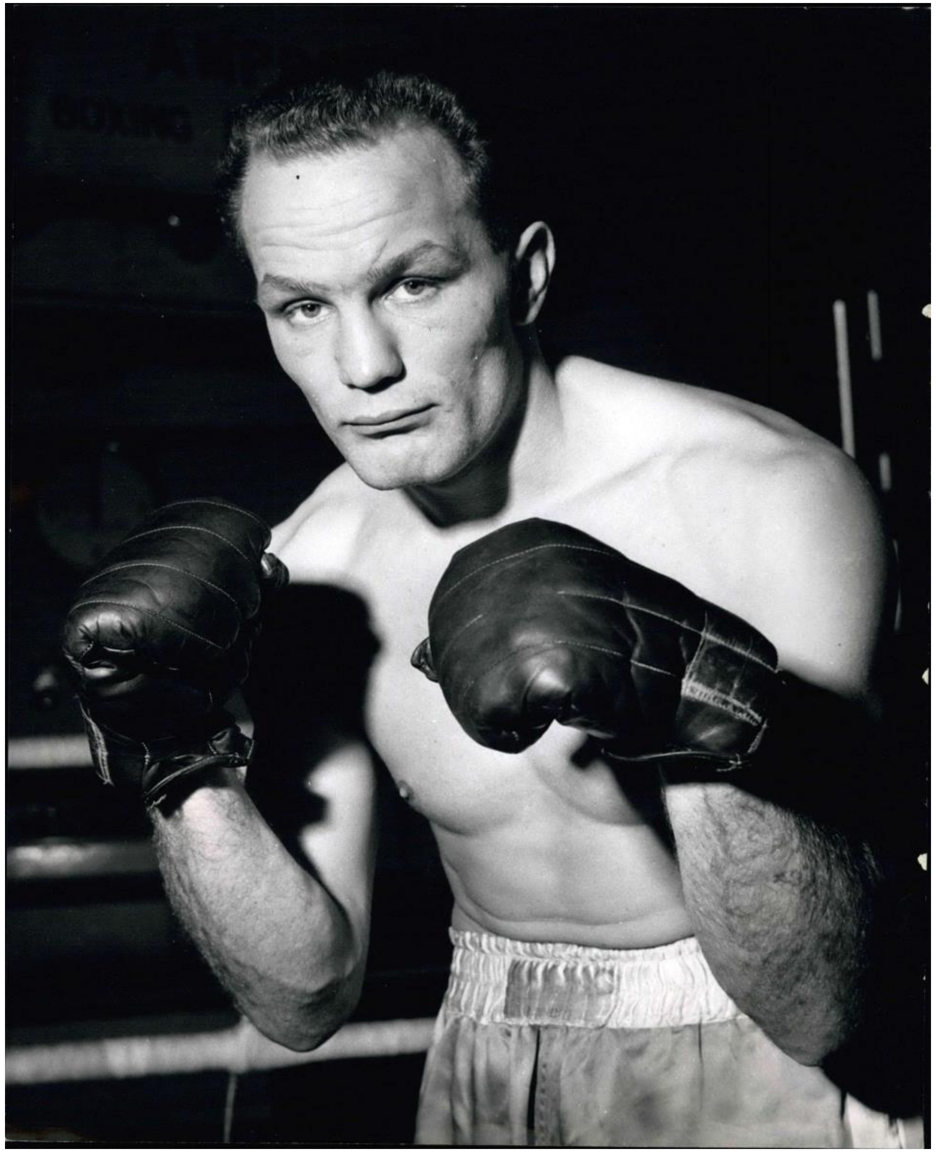
And this is a slight precis of my New Year resolution:

- Pay attention.
- Be ready to take some small hits too. *(applying a stop loss)*
- Keep your guard up!
- Be ready to make a big hit. *(on sharp falls, you gotta be brave and buy)*
- Don't get emotional or complacent.
- Have a plan – stay focussed - apply it.
- Pay attention.
- Repeat…

KEEP YOUR GUARD UP!



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In the last teleconference…

“there is a conundrum, and two competing issues:

- **The past,** volume of evidence of success
- **The future,** volume of evidence for problem”

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Turning to bonds, very under-estimated risks:

Louis-Vincent Gave proclaimed:

“greatest bubble any living investor has ever witnessed, dwarfing …the tech bubble of the 1990s and the mortgage bubble of the mid-2000s”

JP Morgan suggested ***“beak outlook”*** for ***“safe haven” bonds***.

Steve Blumenthal more bluntly said:

"there is the mother of all bubbles in the bond market".

He projects 70% falls in high yield bonds.

That was **19th February**, the teleconference.

THE SHOCK

Interim note on **26th February**, significant change underway:

"From last Friday the nature of the coronavirus changed and markets are reacting quickly to unfolding events."

It is a health shock that has occurred.

V. difficult because it is not a financial shock (solution=financial)…

Or a political shock (solution=bang heads together).

Rather it is a health shock with unique qualities, and limited understanding of the nature and scale.

That means huge uncertainty.

On **28th February**, I produced a much more detailed analysis:

"Further falls to fulfil a 30% correction would not be terrible – after all since 1999 there have been two periods with falls of at least 50%.

However…

…Since we published OKAP, I have highlighted that I might be being optimistic…

…the fall which occurred in Autumn 2018 could be the wave 4 for which we were waiting."

If so, it completely changes where we are right now.

It means…

*"…that the whole uptrend since March 2009 is over. If so… the **US stock market will fall 55%-80%,** calculated by using some basic but usually effective technical analysis. We should also expect it to take place across a small number of years".*

That was **28th February**, and since then there have been much sharper falls.

Here are the charts…

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And here is one for the UK

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Out of interest here I also show the two charts side by side.

Out of interest here I also show the two charts side by side.

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HOW FAR DOWN?

The is the question before ***"should I buy now?"***

There are various market-focussed indicators will provide important clues when an important bottom is at hand.

Firstly the virus itself…

More than 10 years ago…

“A repeat of 1918 is inevitable”

“If you are on shift that day, you won’t be going home”

China

11th January	1st death
22nd January	17 deaths, 550 infections
23rd January	Wuhan quarantine (41m people)
25th January	Chinese New Year cancelled
17th February	1,770 deaths, 70,548 infections
18th February	**DAILY INFECTION RATE STARTED FALLING**

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As shocks go, they do not come much worse.

Last Friday, **13th March**:

"No financial remedy for a non-financial shock
– only sticking plasters"

The great uncertainty is not financial support yes/no.

…It is the development of the virus.

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"Most we can expect is a series of ***sticking plasters*** *over wounds in financial markets and the banking system – keeping the patient alive until the (unknown) point when the virus is under control."*

"Decision-making with such limited visibility, and the possibility of such extreme outcomes, means the only obviously rational response is to ***sit on the side-lines****, until there is some clarity."*

Returning to the question ***"how far down?"***

There are various indicators to help with that question.

Elliott Wave Theory also gives a sense of the journey.

In OKAP I said:

"A stock market correction typically takes one of two forms:

- *Deep and fast*
- *Prolonged, and probably not as deep"*

And then continued…

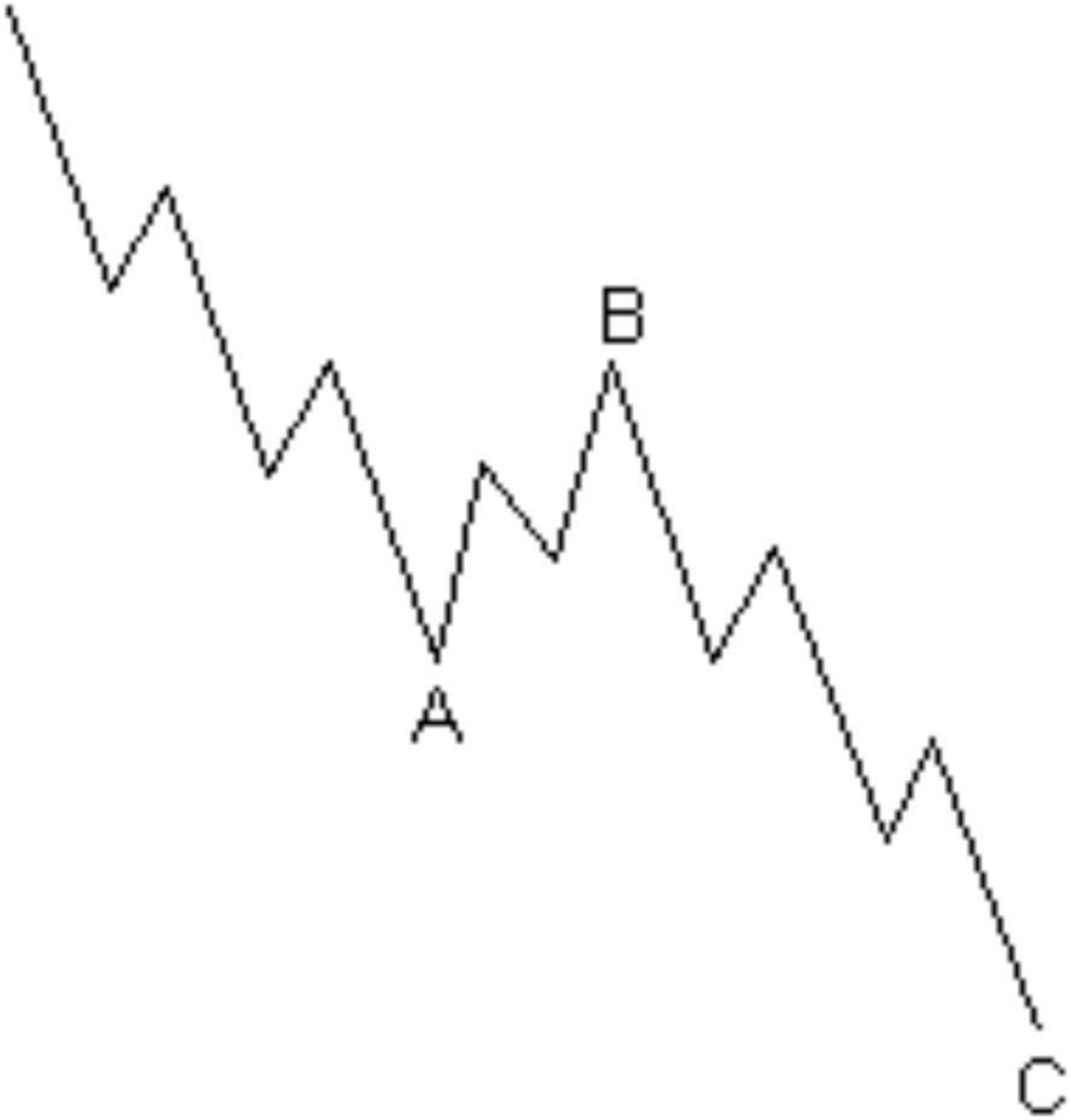
"lack of liquidity in key markets (bonds) plus the short-termism (in bonds and equities), combined with automated selling by computers and robots, will ensure rapid and steep falls in this correction…

The role of computers is vastly greater now – but it is not clear that the markets ability to cope is any greater.

In 2008 many investment grade bond funds came close to suspending dealing. Now liquidity inherently worse.

The implications are clear. Many investors won't be able to sell what they want. So investors will sell what they can.

A nasty spiral, and rapid contagion."


B
A
C

Correction shape so far

There are 11 different types of corrections or bear markets, and sometimes these combine to make an even more complex picture.

So in case we question our sanity, we look to other indicators. Non-confirmation, or market internals or fracturing.

Looking for support lines for an index is also very helpful.

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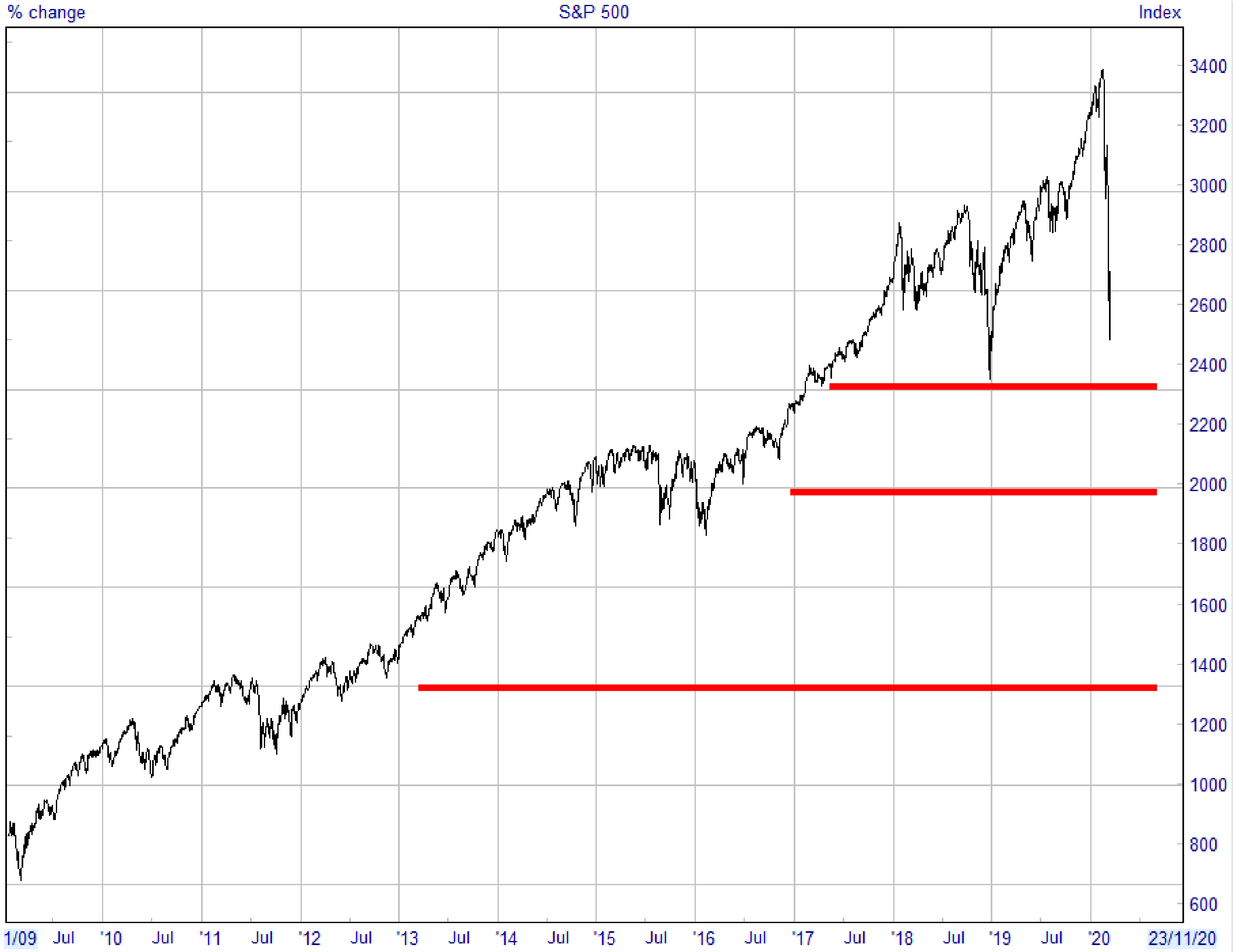

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Negative divergence – best bottom indicator

We use momentum as part of our "attack", to select funds.

Momentum measures can also give us very important clues when a downtrend is losing steam.

I compare the stock market index to the MACD

(MACD = Moving Average Convergence Divergence)

How we use the MACD

Don’t worry too much about the structure of the MACD.

Our focus is on a new market low (typically 30% falls or more) not being confirmed by a new low in the MACD line.

Here is an example:

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ARE WE THERE YET? WHY NOT…

Elliott Wave – support lines – negative divergence.

Let's look at behavioural indications of why we **<u>not</u>** yet seen bottom.

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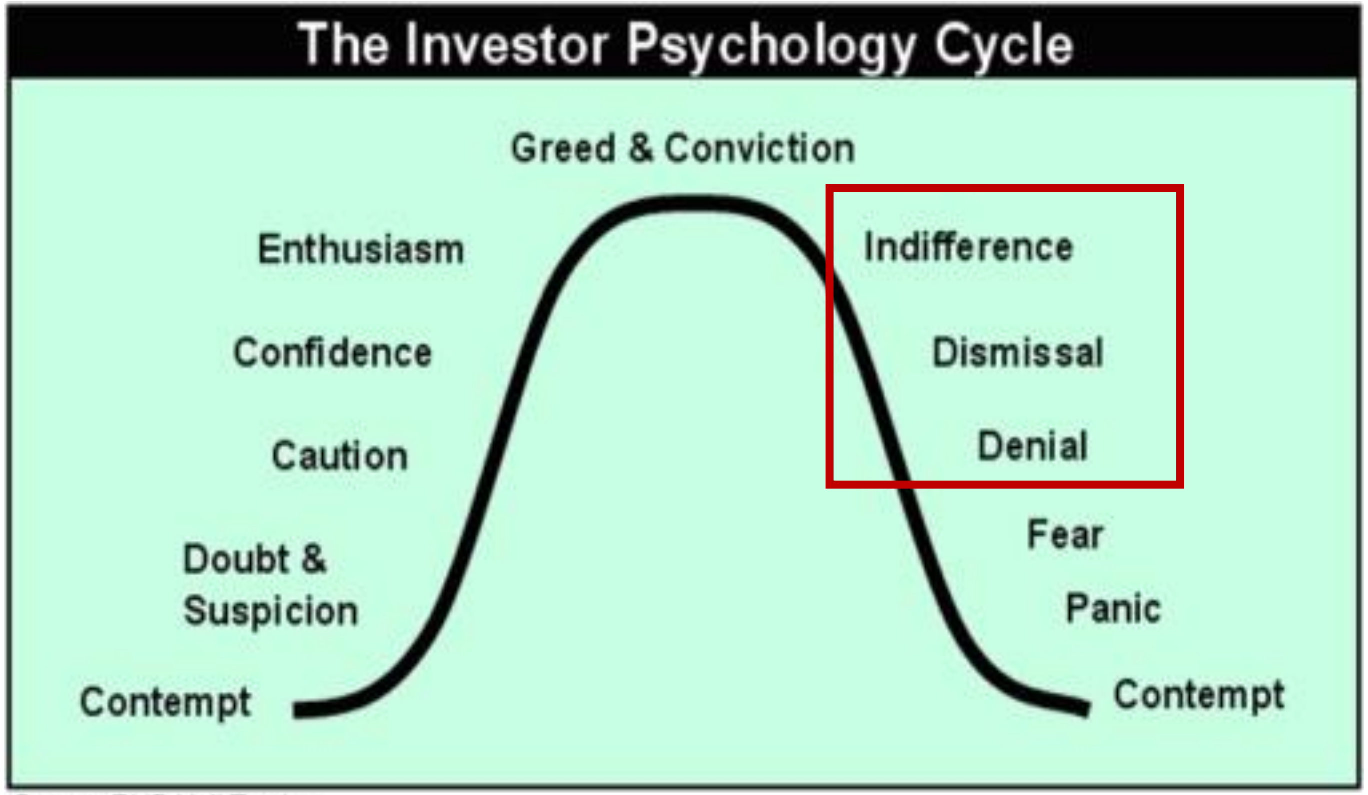
State of mind of investors as the market downturn builds.

The behaviour we observe now?



Source: RMB Unit Trusts

“Bottom? Not in sight. Not close” *(blog last Friday)*

The first few days of sharp falls were driven by big global hedge funds – the smart money.

Retail investors not selling. 2018 no. of bears 34.6% - 2011 it was 46.3% - currently it is 22.9%. nowhere near bottom.

Vanguard ETF tracking the S&P 500 index attracted $4.2 BILLION so far this month.

Retail investors are actually ***accelerating*** their buying of the US stock market!

Same madness in UK. Telegraph headline “***DIY investors are bargain hunting as markets fall***”.

One broker enjoyed highest new customers in one day. Big buying of ETF tracking FTSE 100.

The bottom?

When there is despair, and all these buyers are panicking to get out.

It will be very uncomfortable to buy at that point – but it will be a fantastic opportunity

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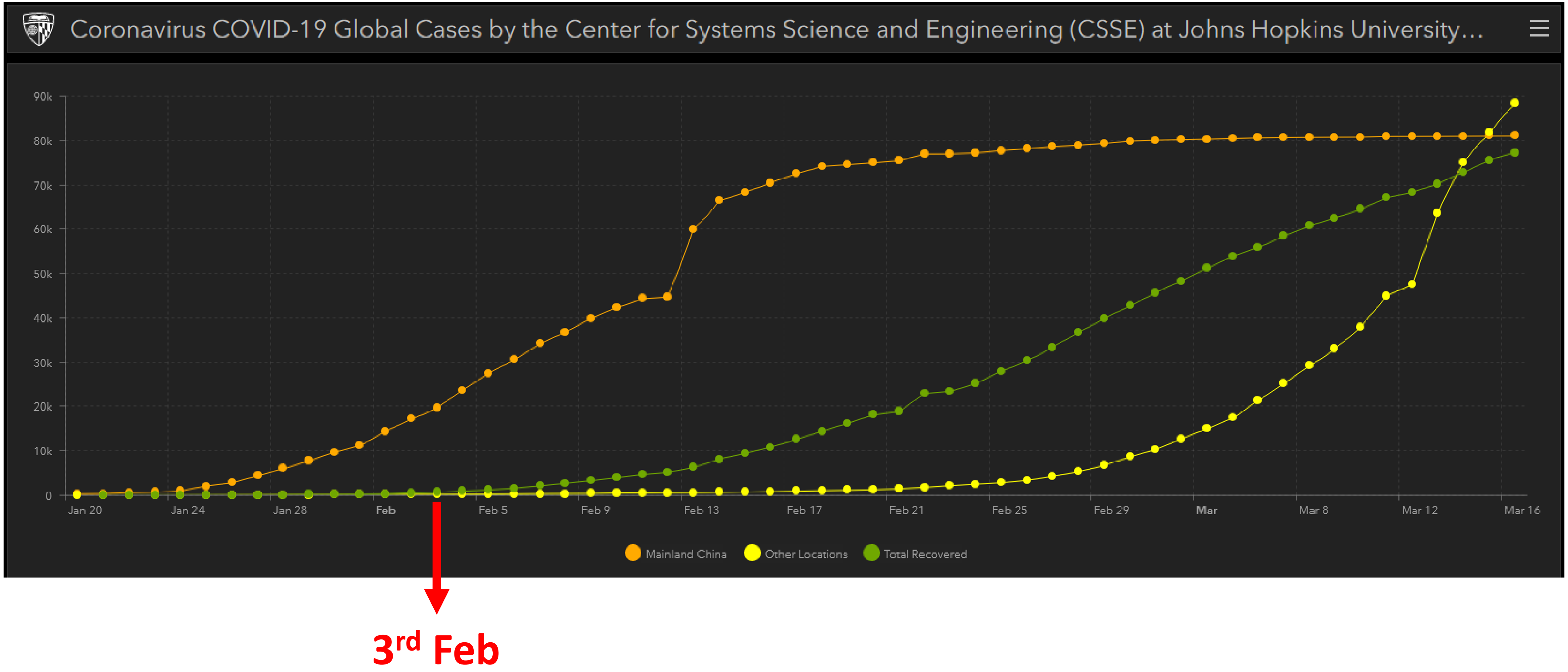
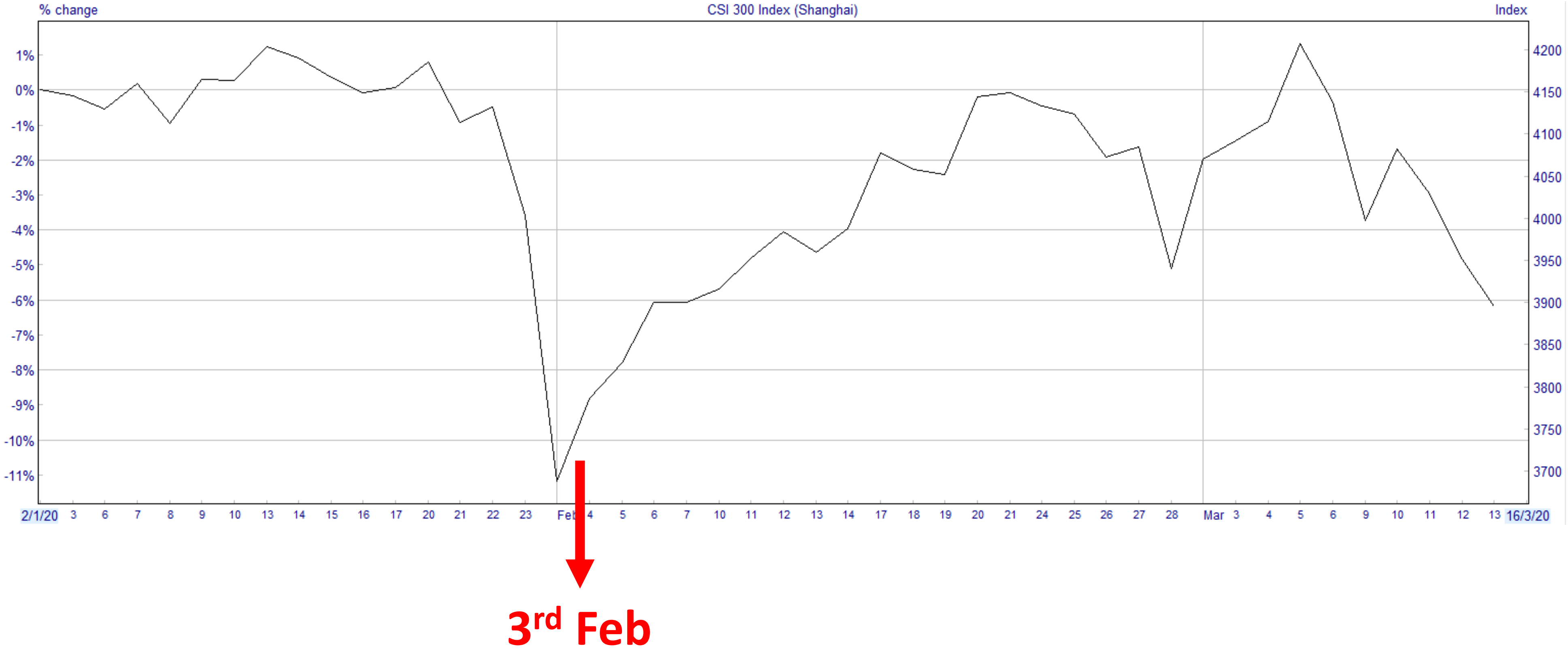
COVID-19 case tracking from Johns Hopkins University (since 20th Jan)



CSI 300 (Shanghai) over the same period



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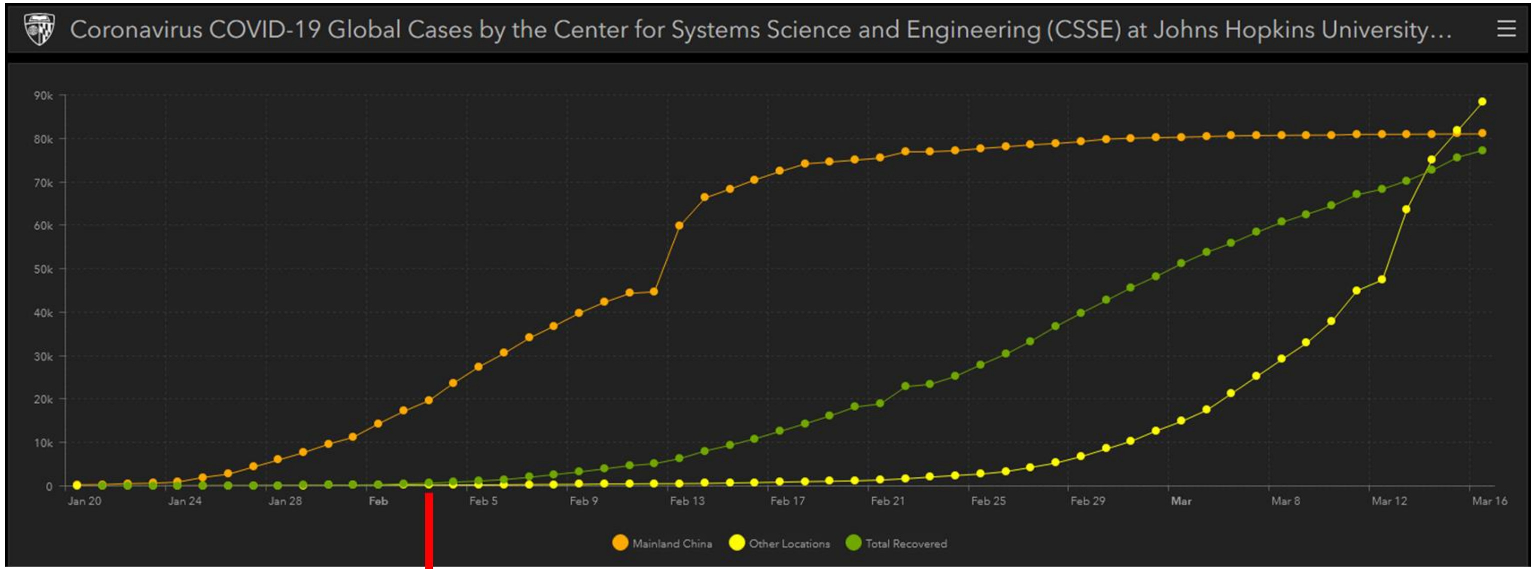
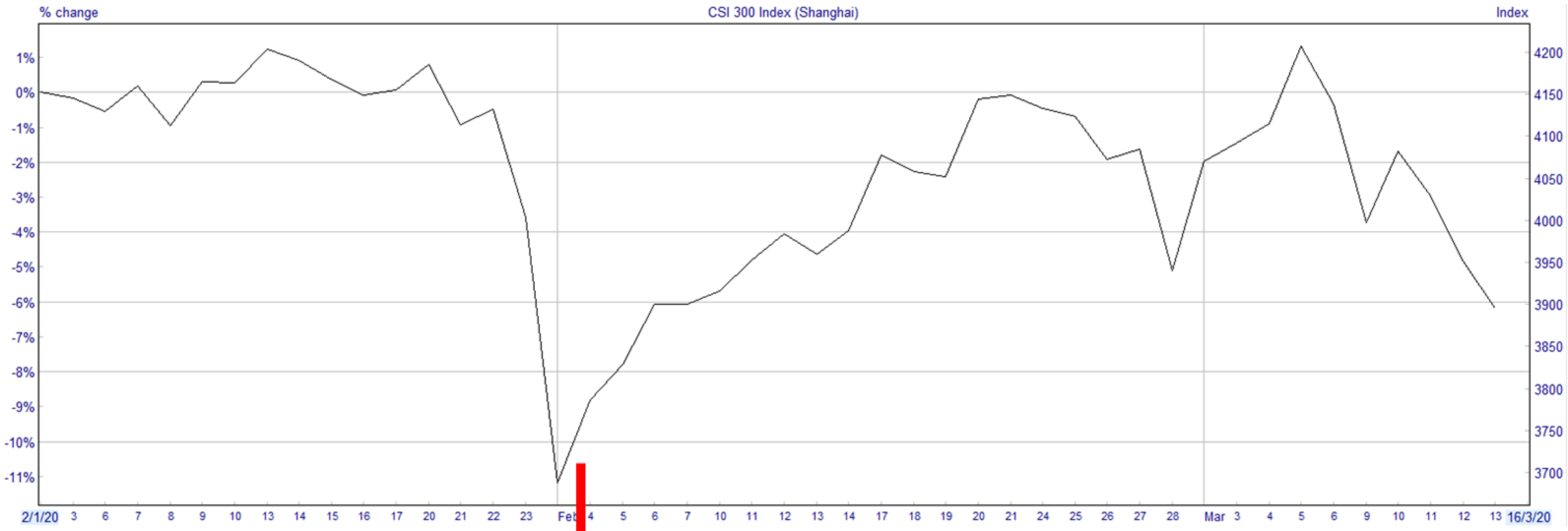
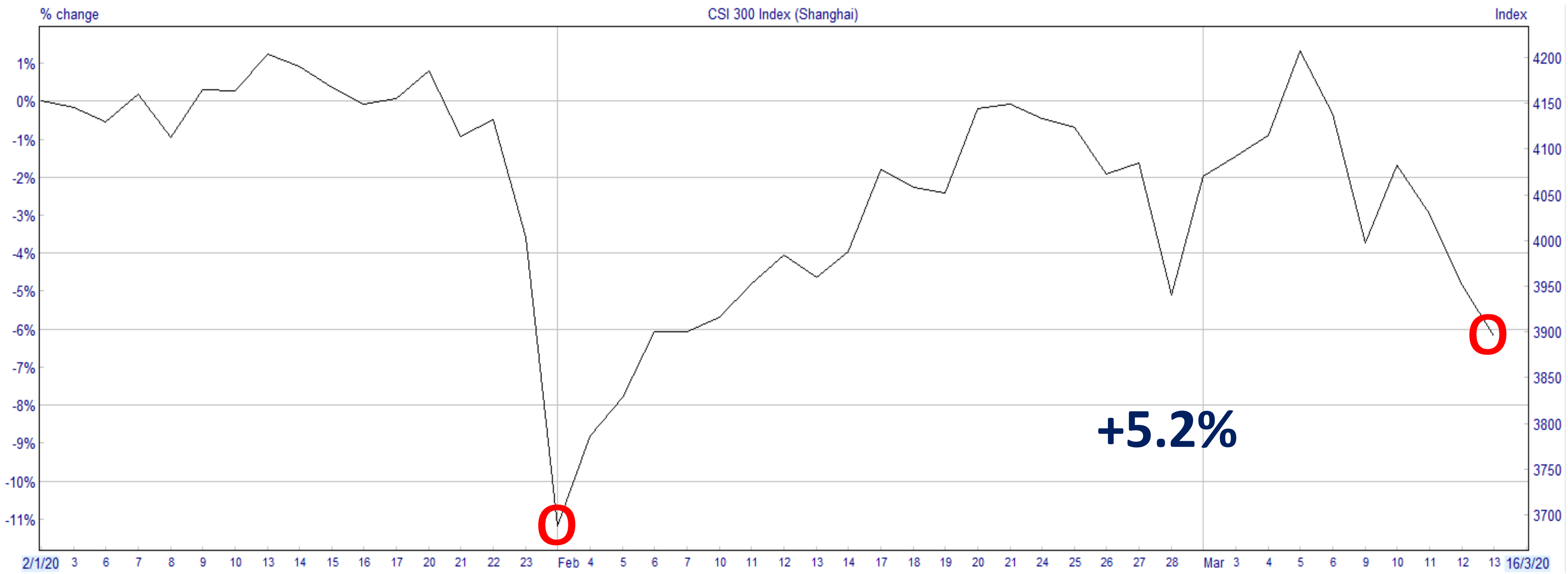
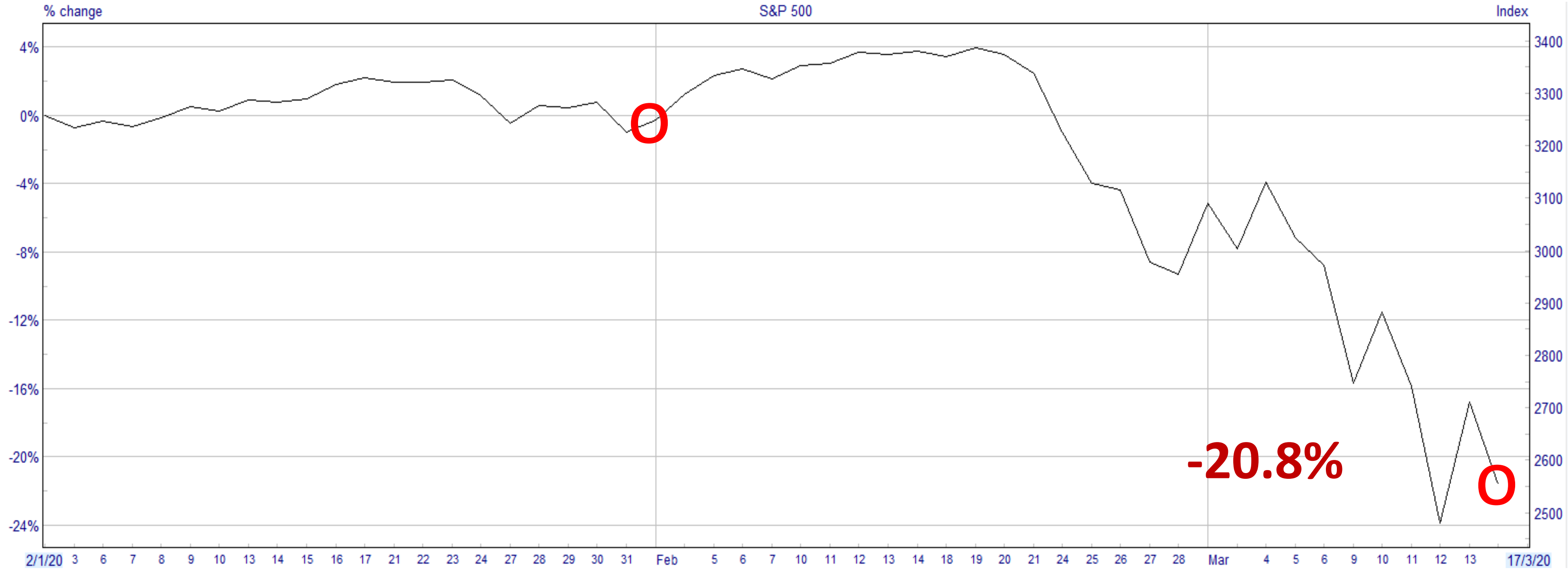


3rd Feb



3rd Feb





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THE BIG PICTURE

US since 1974

*"…that the whole uptrend since March 2009 is over. If so… the **US stock market will fall 55%-80%,** calculated by using some basic but usually effective technical analysis. We should also expect it to take place across a small number of years".*

That was **28th February**

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% change
S&P 500
Index
3600
3200
2800
2400
2000
1800
1600
1400
1200
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600
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200
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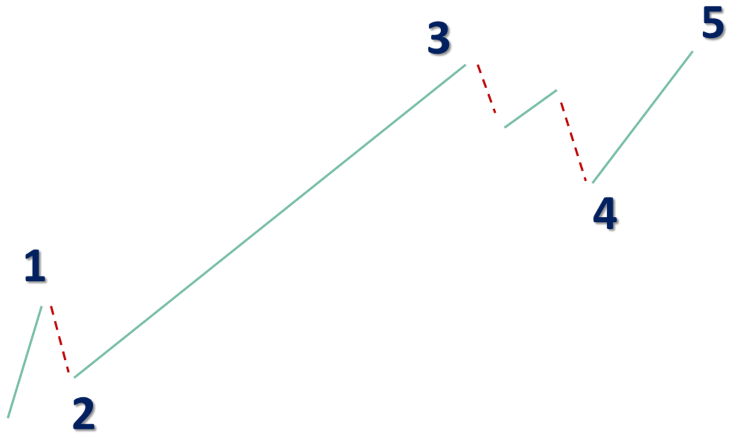

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% change
S&P 500
Index
3600
3200
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1600
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'80
'90
'00
'10
16/7/20
1
2
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5

WHAT I AM DOING?

Risk of market closures!

- **25% in UK small cap, stop loss applied.**
- **25% drip into UK small cap over 12 months - continues**

Shopping list: Asia, China, EM Value, UK smaller

Q&A

We’ve had a lot of questions this week (not a surprise). We’ve grouped them broadly as follows:

- Selling and stop-losses
- Buying/what to buy
- Bonds
- Income

Oliver asks:

I'm at the point where some of the funds are down 10 to 25%. I'm wondering whether there's a stage so far past the stop loss that I should just hold on and wait for the scheduled review?

What are your thoughts on this?

Selling and stop-losses

Joe asks:

Sitting on the Merian Gold and Silver Fund from the January/ July Bonkers portfolio feels very uncomfortable-It lost 29% over the last 3 weeks.

Should we apply stop loss to Bonkers fund choice or just let it ride the 6 months and then switch?

Or is there a case for switching to the March choice?

Selling and stop-losses

Richard asks:

What do we do if we are already fully invested?

And Mike asks:

Is it too late to sell if you did not fully implement stop losses earlier in the current downturn?

Selling and stop-losses

Derek asks:

(1) Market moves inter and intra day appear irrational. Given the majority of trades are not from individual investors, to what extent do you think movements are due to manipulation/shorting?

(2) Whilst gearing improves IT profits, does it worsen losses during falls? Some ITs seem to have been more volatile and have fallen further than funds.

Alex asks:

Perhaps wrongly I took a buy & hold view on Shell & GVC as well as paying for information on biotech catalysts that didn't go to plan. The results of each are losses beyond 50% is 3 cases & a feeling that years of patience is probably better than realising those losses.

Questor in the Telegraph has suggested BH Global, which tends to rise as wider markets fall. Would it be folly to hope that something like that would be a worthwhile offset to other losses?

Also, given the bleak outlook for bonds, is even the pick of bond funds, M&G Global Macro Bond (which has been going up lately) a sell before it gets dragged into the bond mess?

Buying/what to buy

Philip asks:

Big buying opportunity opening up but what to buy? Everything is being massacred.

Saw someone suggesting Coca Cola, Procter and Gamble and Walmart.

Buying/what to buy

Eric asks:

1) *Should we be using ETFs that short the market?*
2) *I know Brian is not a fan of Gold and I have never heard his comments on bitcoin. With fiat looking like train at full speed on it's way to the buffers should we have a small amount in these areas? Isn't it possible that gold and/or bitcoin is going to explode up at some point.*

Jason asks:

Buying/what to buy

Market falls are presenting some phenomenal equities to buy.

I'm thinking travel companies, and in particular cruise companies i.e. RCL, NCL and CCL. We're now talking doubling or trebling your money for a normal recovery. This cannot be overlooked?

Are there funds that hold focus on having travel companies in their portfolio

In terms of WWBD (What Would Brian Do?), I bet you're not overlooking the significant opportunity equities are presenting?

Tony asks:

Having looked at some of the UK smallcap funds I had until recently been invested in, I noticed their falls were less than the index. When it comes to reinvesting eventually, is there not an argument for reinvesting in index trackers as they are "cheaper" than those other funds? (in other words the trackers would rise higher than the funds I mentioned to get to where we were before).

What parameter settings do you have when using a MACD indicator.

Peter asks:

I have realised about a 20% lose on held investments, but now question whether I should crystallise this loss in view of stock markets NOT showing any form of recovery for at least 1-2 months?

With this in mind I would re-enter the market in a months' time by drip feeding on a monthly basis with the view that I have saved a month of losses!!

Buying/what to buy

Hari asks:

My current portfolio is 70% in cash and remaining 30% in Vintage funds like Fundsmith and Lindsell Train Global & UK.

Is it prudent now to move 100% in Cash and wait for Buying opportunities at lower prices?

Mike asks:

On the basis of probabilities is there more to be gained by starting to drip feed in now, given the market is now some 30% down, than there is to loose by holding off for further falls and then missing any significant rebounds, or has too much damage been done for a swift recovery?

Buying/what to buy

Steve asks:

Should I start investing in funds now or wait a while?

What should I look out for as a trigger to start investing?

Some uk shares bounced up on Friday, so are we due an immediate recovery?

Buying/what to buy

Jason asks:

1) How can we best spot the bottom, or near the bottom?

2) What's the easiest way to identify the funds that have fallen furthest since mid February? Hargreaves Lansdown certainly don't provide a good tool!

3) Given the current market conditions, could we move to a bi-weekly web-conference? A month is an incredibly long time to wait in the current market!

4) Would you consider investing in individual stocks that have fallen a LONG way and surely must rebound at some point, e.g. Carnival (CCL), Easyjet, Whitbread?

Eric and Stuart ask:

Something else on bonds and this time at the corporate level, aren't these going to be a massive problem, aren't heavily indebted companies now not ever going to be able to pay back those debts?

Certainly not in the energy space, airline & holiday space and entertainment & leisure space.

Tim asks:

I'm aware of your view on bonds, do you think gilts are as risky too?

Thank you for giving up your time.

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