Put into perspective

Ahead of the mainstream

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Written by
Bruno J. Schneller, CAIA & Miranda Ademaj

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"In every undertaking, the more humans try to be demi-gods, the more they become half-monsters."
– Nassim Nicholas Taleb
Hedge funds see Trump victory as positive for returns: Chart

Survey: Hedge fund managers have the best work-life balance in finance

People who work in hedge funds have the best work-life balance in the finance industry, according to a new survey. Around four-fifths of hedge fund managers reported their work-life balance being either great or satisfactory, according to a report from salary-benchmarking site Emolument.com. Hedge fund managers are usually the clients of banks and so are more “flexible in their working arrangements, being in a less pressurised client-driven environment compared to their sell-side counterparts,” according to the study, which surveyed 1,360 professionals.

Clients are key to both work-life balance and pay. Advisors on client-intensive mergers and acquisitions have the worst work-life balance, despite the high pay. Meanwhile middle and back office staff in banks earn a fraction of the client-facing employees and still lack a decent work-life balance. “They are more often blamed and rarely congratulated by their front office teams, on top of which they tend to work long hours, tidying up transactions and troubleshoot long after traders have gone home,” Emolument said.

How pension plans can build the case for hedge funds

At the beginning, allocating to hedge funds seemed smart and easy. Allocations to a diversifying and non-correlated set of elite investors that could protect against market turmoil and improve long-term performance would be helpful to asset owners and retirement plan sponsors. The high fees would be justified by the performance benefits.

When the thesis faltered — funds underperforming vs. what is now seven years of low yields and rising equity markets, and fees paid exceeding value delivered — allocators demanded quick answers. These answers came as a flood of disparate information. Hedge fund managers provided justifications, access and sometimes even increased transparency; consultants offered models and other funds that have done better; technology vendors offered sophisticated analytical tools.

Buried under a pile of paper and under attack from boards, pension staffers tasked with overseeing hedge fund allocations are wondering where to go from here.

The fact is that, in most cases, there still are good justifications for allocating to hedge funds, but these allocations need to be understood and monitored properly. Hedged assets will generally not outperform a rising equity market with low volatility. Dislocated markets, bear markets, inefficient markets are where hedge funds tend to do best, and these have not been the overall conditions during the slow and fragile recovery starting in 2009. Even so, many funds have outperformed. Unfortunately, unless pension fund officials were shrewd (or lucky) enough to find a set of outperformers, chances are their overall exposure to hedge funds has caused a drag on the portfolio.

There is also reason to believe that walking away from hedge funds now would be like abandoning a hedge because it was too expensive right before the bottom falls out. It is reasonable to expect that global rates will begin to rise in the next year or so, and that equity markets (generally overvalued from a price-to-earnings perspective) should correct. In this case, hedge funds might offer exactly the performance and protection that justified the initial allocation.
Where the above justification for hedge funds is the forest, the volume of information coming from hedge funds and the demands for information coming from plan sponsors are the trees. Maintaining a long-term investment perspective requires cutting through the wood to keep sight of the strategic objective, including:

- What was the original reason for deploying assets to a specific hedge fund manager? Is that reason still sound?
- Has the manager stayed true to its investment process or has it drifted over time? Do you have the core information and tools to assess drift?
- If hedge fund allocation is designed to protect against adverse market conditions, have you tested the hedge fund in models of adversity? Do you have the necessary tools and resources to do this? If you reduce or eliminate this allocation how will you replace it with other investments to achieve the same strategy?
- In assessing underperformance, has the manager performed in line with expectations for the prevailing conditions, or has the manager made bad decisions?
- What operational and reputational threats does your manager pose? Do you have an ability to assess these? Hint: Beware of hubris and following the crowd.

Strategic long-term investment clarity is the first step. Accessing and analyzing complete information becomes a critical execution tool. Cutting through reams of information to distill these questions and perform good analysis should provide some clarity on which managers to hold, which to redeem and the long-term value of the hedge fund program overall.

Pensions & Investments

More robust portfolio with liquid alternatives

According to Morningstar, the average US equity manager, has underperformed the S&P 500 Index over the past one, three and five years. Given investors natural tendency to chase what’s working, and ditch what’s not, "the death of active management" is becoming a popular consensus sentiment.

Before writing off active management and jumping on the index fund bandwagon, investors would be well served to pause and reflect. Might this be a cyclical phenomenon? If so, when have we seen this in the past? And most importantly, how did it play out last time? Spoiler alert: yes, this is cyclical; yes, we have seen this in the past; no, it didn’t turn out so hot for overvalued indices overweighted in overvalued large caps.

Ed Chancellor’s Capital Account provides some historical perspective. For memory-challenged-investors, the book offers a wonderful review of the decade leading up to the tech bubble, via a collection of essays from Marathon Asset Management.

Here are a few excerpts for all you closet indexers out there:

The periods over the last few years when the indices have outperformed active managers have largely been due to distortions created by the indices themselves, rather than to the alleged superiority of index investments. In fact, the combination of blind capital and arguably flawed index construction is to a great extent responsible for the current problems of the bear market.

By facilitating the TMT bubble and other recent bubbles, indexation has also led to a gross misallocation of resources across economies. Passive investing, in our view, is dumb investing. Shares are bought as companies increase their weighting in the index and are sold when the weighting is reduced.

The consolidation of the asset management industry has exacerbated the problems caused by indexation. This has produced a proliferation of large investment firms, commonly managing more than $100 billion in funds. Since they are obliged more or less to own
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shares relative to their size in the index, these firms have become indistinguishable from passive investors. During the later stages of the bull market, the growth of passive funds and closet-tracking fund management firms . . . created an artificially high demand for certain stocks relative to their supply. As a result, these funds benefited from the bubble they created in certain stocks.

A direct consequence of these distortions was the growing obsession of fund managers and the clients with tracking error. As it became more difficult to beat distorted indices, active managers decided not to take too much active risk relative to the benchmark. With more and more money invested in this way, a Ponzi scheme developed. This led to the ultimate disaster for passive investors. In the twelve months after March 2000, the largest, supposedly least risk, and widely owned shares collapsed relative to the market. The ten largest companies, which then accounted for some 27% of the index, underperformed the market by a staggering 23.5%.

Once passive investing starts to distort the pricing mechanism, the ultimate result is the underperformance of the original beneficiaries of that distortion. The future performance of any investment practice is significantly altered once it has been widely imitated. This is what happened to index investing.

A common question put to professional investors during the bubble was, "why do I need an active manager when the index can be bought for a nickel?" Some three years later, the answer is clear. We are once again, beginning to hear that question today. And once again, we think the answer will be clear "some years" later. Passive investors typically look brilliant in the late stages of a bull market. They are looking awfully smart today, particularly relative to more disciplined investors who are inclined to avoid the overvalued businesses driving most of the market’s gains. The proliferation of index funds drove the 90’s tech bubble and ultimately, it’s collapse. If you thought that was painful, wait until you get a glimpse of the hangover around the corner from the Blind Capital piling into ETFs.

Broyhill Asset Management

Differences in hedge fund performance widen gap in portfolio manager pay

What today’s top hedge fund manager can teach you about focus

At some point, we’ve all become completely absorbed in an activity and lost track of time. Psychologists refer to this process of complete focus and concentration as being in a “state of flow.” Beyond the obvious benefits in improving productivity, a recent Inc. Magazine article pointed to a Harvard study that found the ability to focus and keep our minds from wandering is also related to overall happiness.

Two simple strategies will improve your level of focus. One is 10 minutes a day of meditation, which Ray Dalio, the founder of the world’s largest hedge fund, said is central to his success. If meditation summons up images of sixties’ hippies, another option is 60-second sessions of controlled breathing, the subject of a recent article in the New York Times.

Advisor Perspectives

What fraction of smart beta is dumb beta?

Though many smart beta ETFs do provide valuable exposure to idiosyncratic factors, many others mostly re-shuffle exposures to basic dumb factors.

- Traditional, or dumb, market and sector betas account for over 92% of variance for most US equity smart beta ETFs.
- Smart beta, unexplained by the traditional market and sector betas, accounts for under 8% of variance for most US equity smart beta ETFs.

AlphaBetaWorks
Drawdown containment is a crucial priority in a low return world

Gain Needed to Break Even After a Loss

Most investors sticking with hedge funds

A majority of institutional investors intend to maintain their current level of investment in hedge funds over the next three years. Of the 63 investors interviewed, 69% said they do not intend to change their hedge fund allocations, showed the results of a survey conducted by Greenwich Associates for Ernst & Young Global. Of the remainder, 18% said they will increase their hedge fund investments over the next three years and 13% said they will decrease investments.

By region, 70% of executives of North American institutions said they will stick to their current hedge fund allocation, 10% said they will increase and 20% said they intend to reduce the size of their portfolios. Of European and Asia-Pacific region investors surveyed, 23% plan to pump up their hedge fund investments, just 9% will decrease the size of their portfolios and 68% will stick to the status quo over the next three years, according to the report, "Will adapting to today's evolving demands help you stand out tomorrow: 2016 Global Hedge Fund and Investor Survey."

Column: When hedge funds are paid to be too big

A newly published study demonstrates that when it comes to hedge fund size the sweet spot for manager compensation is considerably higher than the sweet spot for shareholder returns. "My empirical results indicate that the optimal size for managers’ compensation differs substantially from the optimal size for fund performance. In other words, the standard compensation contract does not solve the conflict of interest between fund investors and fund managers in the hedge fund industry," Chengdong Yin of Purdue University writes in the Journal of Finance.

At the heart of the issue are diseconomies of scale, an ugly term which simply describes situations in which a given arrangement of resources gets less efficient the larger it grows. For hedge and mutual funds diseconomies of scale have been much studied and argued about, but there is broad agreement that it is harder to run a very large fund in a given strategy, and that these very large funds have a tendency toward underperformance. It can be harder finding good opportunities when you are large, much less getting meaningful exposure to them without driving the price up.

In mutual funds, diseconomies of scale and the potential conflicts of interest are, up to a point, self-correcting. As fund flows follow fund performance, the biggest funds, if they lag, will lose assets, driving managers’ pay down alongside. For hedge funds though, the math is considerably different. To examine the issue, the study looked at results from over 2,000 hedge funds of varying strategies from 1994 through 2009.

The study divided funds into five groups by size and tracked their lagged returns using a style-adjusted measure meant to allow comparisons between, for example, a long-short fund and one with a global macro approach. The fourth-largest quintile was the top performing, with style-adjusted outperformance of 0.26 percentage point for a group with an average of $155 million under management. Step up to the largest quintile and assets under management jump to $780 million but performance falls to -0.30 percentage point, according to the study. If standard hedge fund contracts were aligning interests properly, you would expect the largest funds, which after all performed less well, to be less well paid too.

That, unsurprisingly, was not the case. While the second-largest quintile, the best performing, made on average $7.77 million in compensation, the largest took in $32.77 million. So we have at the large end of hedge funds a diseconomy of scale but one which is profitable for managers. The study offers two possible explanations. First, that the increase in fund assets is faster than the decrease in performance, which cuts down on the performance-based fee. Or, second, that the management fee becomes more important, in absolute dollar terms, the bigger the fund gets. As fund managers are motivated by their absolute dollar take-home pay they "likely have strong incentives to increase their assets under management," according to the study.
Market fragility

The lowest cost portfolio doesn't guarantee future success

There is a litany of evidence about the benefits of cost cutting on long-term portfolio results. This mantra has been echoed by large institutional portfolios such as pensions and endowments all the way down to main street investors.

The theme generally follows the line of removing high fee managers and making your portfolio as passive as possible. The logic entails that reducing transaction costs and overall management fees will ultimately add to your net returns over long time frames.

Private equity and hedge fund managers are usually the first on the chopping block because they tend to charge the highest fees linked to performance measurements. Next comes actively managed mutual funds and insurance products, which often include sales and redemption costs on top of ongoing management fees. Lastly, you can whittle down all the quasi-active or smart beta indexes to the absolute lowest cost exchange-traded funds.

Cheaper is better. Cheaper is efficient.

But, is it better under every single circumstance or just in the abstract?

What is lost in translation or perspective in this conquest is what is known as the behavior gap. There is a significant breach between a benchmark return and a true investor return that can’t be completely explained away by fees. Often the biggest driver of this difference is simply behavioral choices driven by embedded pressures to outperform or protect capital. Not every investor is cut out to buy and hold for decade after decade. They have a hard time separating their emotions from the hysteria of the media or other sources of influence.

I am all in favor of removing high-fee investments that are fundamentally similar or structurally inferior to an index fund. However, at some point you are going to have to pay someone to steer the ship or do so yourself. The replacement of expensive investment products can only be successful if you map out an alternate path with cheaper tools that you stick with through thick and thin.

There also must be some consideration as to when you decide to make this switch. Those who converted to ETFs or index funds and have ridden the market higher over the last half decade are going to be more comfortable understanding their opportunities and risks. They likely have a favorable cost basis established and have grown accustomed to what works and what doesn’t.

A pension fund that is firing 30% of its portfolio exposure in hedge funds right now has a much different risk symmetry. They more than likely know the basic asset allocation of what they want to own. However, they must figure out how to own it, when to buy it, and at what points would those parameters change.

The bull market could go on for another 10 years or we could have witnessed the peak this year. No one knows with any certainty.

The bottom line

My advice is to treat your investment portfolio the same as you would any other decision in your life. You evaluate the cost of a strategy, advisor, or fund versus how much value it created for your personal situation. Some investors may be paying a little bit more in one area (such as advisory fees), but the benefits are such that they would ultimately have much worse performance on their own.

There is usually a happy medium between implementing a low-cost portfolio and paying a little bit to make sure it properly looked after and serviced to your goals.

FMD Capital Management
MARKETS

Global QE (purchase vs. aggregate net supply)

Deutsche Bank Research

Biggest getting bigger

Bloomberg

You can’t build a wall to keep robots out!

BofA Merrill Lynch

Scenarios that could disrupt "the great reflation" trade

- "Financial tightening" via higher USD and rates choking off the global economic acceleration, with potential for an especially disorderly rates move (rogue upside inflation print?) to create VaR shock spillovers into markets (as evidenced earlier this year during various "bond tantrums," triggering "short convexity" vol strategies into deleveraging and violent macro factor rotations);
- A similar rates dynamic where somewhere between the ~2.75-3.00 10Y yield level we would expect to see the 'equity risk premium' / 'multiples driver' tailwind of the QE era of perma-lower rates being 'reset' into a headwind...not to mention the potential negative incentive it would provide for corporate buybacks, which have been the largest source of demand for equities over the past five years.
- The growing "sell the Trump inauguration" meme that is rapidly becoming a narrative amongst traders (these things have a tendency of either self-fulfill OR creating the exact opposite outcome, LOL);
Various “Trump uncertainty scenarios”:

- **Ongoing agitation of China**, as Trump potentially names them as an FX manipulator shortly after entering office, leading to a "shot across the bow" Yuan devaluation (in conjunction with this [link](http://on.wsj.com/2gkfCQ8) as a driver of ongoing Yuan weakness—triggering a 'deflationary impulse' globally) OR causing an acceleration of the PBoC’s ongoing Treasury selling against their FX reserve / outflows situation.

- **Threat of increasingly "anti-corporate profits" Trump** (see: healthcare and Boeing tweets this week, yikes) resetting equities investors’ expectations; "Main Street versus Wall Street" stuff accelerates.

- **As opposed to the nearly consensually bullish 'new tax regime' outcomes for stocks** (every percentage point of corp tax cut driving an additional 1.30 of earnings for the S&P—thus all of the S&P target upgrades since the election), the potential utilization of the new Administration to deploy a "border-adjusted tax" system (highlighted in a super provocative note from RBC’s stud US Hardline Retail analyst Scot Ciccareli, this week garnering a ton of client attention) which could hit multiple industries’ earnings very sharply. Again, "Main Street vs Wall Street," as the full-court press on US corporates to bring jobs back domestically whacks margins, earnings and profits (per above).

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**Zero Hedge**

**Private credit (% of GDP): China vs. EM ex-China**

![](image1)

**J.P. Morgan**

**Morgan Stanley US cycle model: Late-cycle, at risk of rolling over**

![](image2)

**Morgan Stanley**

"The scariest chart I've seen in a long time"

There is a lot that scares Albert Edwards at the moment. For followers of Edwards’ musings this will come as no surprise, but Brexit, Donald Trump’s US election victory and last weekend’s Italian referendum have made SocGen’s permabear even more paranoid than normal.

"I sometimes feel like "The Grim Reaper", scouring the research savannah in a ghoulish quest to harvest bad news with a forceful sweep of my scythe," he self-deprecatingly admits. "Markets shrugged off the Brexit vote in a couple of days. They shrugged off Donald Trump’s election in a single day. They shrugged off the Italian Referendum result in a couple of hours. Heck, in this mood they would shrug off an alien invasion of planet Earth!"

Being a doom merchant can be a lonely quest, so Edwards was "perversely delighted" when SocGen’s credit team produced "one of the scariest charts [he has] seen for a very long time".

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New Model Adviser

**Estimated US debt-to-GDP – through 2026**

Source: Investment Strategy Group, Center for a Responsible Fiscal Budget, Congressional Budget Office.

Goldman Sachs

**Most think the biggest geopolitical risk in the next year is either a US recession or the breakup of the EU**

Morgan Stanley

**There is a long-term trend of looser covenant protection in high-yield bonds**

Distribution of Moody's covenant quality assessments

Moody's Investors Service
This is quite the divergence. Goldman Sachs Financial Conditions Index vs. the S&P

Joe Weisenthal

Dollar is new fear index as easing renders VIX useless, BIS says

Bloomberg

The current expansion has lasted almost 3 years longer than average

Goldman Sachs

India in a single move invalidated 86% of currency in circulation

Bloomberg
Video of the month

Rosenberg: We have the mother of all overvalued markets

David Rosenberg, Gluskin Sheff chief economist and strategist, explains why he thinks the Trump rally may be a "honeymoon rally."

[Video still image]

Click to watch

CNBC

Joke of the month

Cartoon of the month
How policymakers plan to solve a long-term global debt crisis

1. As in Japan, the Eurozone, the US, and the UK, central banks bought/buy increasing amounts of government debt (QE), then rebate all interest to their Treasuries and eventually extend bond maturities. Someday they might even "forgive" the debt. Poof! It’s gone.
2. Keep interest rates artificially low to raise prices and bail out over-indebted zombie corporations and individuals. Extend and pretend.
3. Talk about "normalization" to maintain as steep a yield curve as possible to help financial institutions with long-term liabilities, but normalize very, very slowly using financial repression.
4. Liberalize accounting rules to make some potentially "bankrupt" insurance companies and pension funds appear solvent. Puerto Rico, anyone?
5. Downgrade or never mention the low interest rate burden on household savers. Suggest it is a problem that eventually will be resolved by the "market".
6. Begin to emphasize "fiscal" as opposed to "monetary" policy, but never mention Keynes or significant increases in government deficit spending. Use the buzzwords of "infrastructure" spending and "lower taxes". Everyone wants those potholes fixed, don’t they? Everyone wants lower taxes too!
7. Promote capitalism – even though government controlled, near zero percent interest rates distort markets and ultimately corrupt capitalism as we once understood it. Reintroduce Laffer Curve logic to significantly lower corporate taxes. Foster hope. Discourage acknowledgement of abysmal productivity trends which are a critical test of an economic system’s effectiveness.
8. If you are a policymaker or politician, plan to eventually retire from the Fed/Congress/Executive Wing and claim it’ll be up to the Millennials now. If you are an active as opposed to passive investment manager, fight the developing trend of low fee ETFs and index funds. But expect to retire with a nest egg.

Janus Capital

5 key revelations for free thinkers to consider after election 2016

The political system we have today is not the democratic republic it pretends to be. National elections are orchestrated public relations events, engineered to serve the complex interests of the plutocracy and shadow government. The perception of differences between major party candidates is limited to within a narrow spectrum of mainstream ideology, and voting has become a tool used by the oligarchy to routinely refresh the illusions of choice and consent.

Indoctrinated to believe this system is mandatory for human prosperity and security, consideration of alternatives is practically unthinkable to the citizenry. Most have their entire lives and fortunes invested in this game, and as such, a truth this heavy is simply too much to process and too painful to accept. Obedience and compliance to state and culture have their sleepy, comfortable perks, but the natural inclination of the human spirit is to gravitate towards truth and freedom. When this is ignored or denied, inner peace is impossible, and outer chaos inevitable.

For this, the free-thinker will always emerge as the winner in a contest against the statist, for, it is the soul who needs no illusions and carries no attachments which can look upon the ashes of ruin and give them credit for being the first signs of new bloom. Now that the unbelievable spectacle of election 2016 is complete, here are some critical things that free-thinkers can take away from this rather insane and revelatory experience.

1.) The mainstream, corporate media is unashamedly here to convince and distract you, not to inform or empower you. Most media outlets, including many alternative outlets, have fully exposed themselves as partisan organizations with no commitment to objectivity or logic. We are at last free from the chokehold of this organized form of propaganda and ideological occupation.

2.) People still do not yet understand the true nature of government as an organization which derives its power and authority from the superior application of violence. They don’t yet fully understand that in order for government to offer a solution to a problem, it must first create that very problem. Many are still unready to admit that we are ruled by a plutocratic, oligarchical, corporate state that does not take orders from elected politicians. Because of this, there are now plenty of opportunities to inspire and awaken people with serious information.

3.) Social chaos and mindless incivility has been properly revealed as a reflection of inner chaos, fear and disharmony. It’s clear now that many have been trained to choose team loyalty over personal independence. To choose destructiveness instead of creativity, to build echo chambers instead of round tables, to relish conflict over curiosity, and to seek the comfort of group-think over the uncertainty of individuality. These programs are socially engineered diseases and their chief symptoms are violence in word and deed. This is out in the open now, for those who have eyes to see and ears to hear.

“We have met the enemy, and he is us.” ~Pogo

4.) There is no place on planet earth where free-thinking people can enjoy voluntary community and peaceful coexistence without interference by the state and its sympathizers. Sad, but true. The entire world is colonized by statist ideology and there is no where to run or hide from this mindset. Yet, there is sufficient living freedom in this revelation alone, because from anywhere now, we can openly engage in any one of a million simple acts of revolution and independence, and they will be witnessed and absorbed by those most in need.
At long last, some of the darkest, ugliest and most difficult to look at issues are bubbling up into mainstream consciousness. The long and well-documented history of occultism, pedophilia, human-trafficking, human sacrifice, Satan worship and dark ritual among the world’s ruling elite can finally be openly discussed without instant mindless backlash. The proverbial black cat is out of the bag now, and there has never been a better time to participate in the work of waking people up to the high crimes of the elite.

Final Thoughts

In 2016 your personal awakening counts more than your vote, for the only thing that can turn the tide on endless war, unstoppable surveillance, the strategy of tension, weaponized stress, environmental ruin, and unchecked debt-slavery, is a large enough and spirited enough class of fearless, righteous individuals. Until free humanity emerges victorious from the mental slavery of the state, we will get the president that we deserve.

Waking Times

Trump’s bait and switch: How to swamp Washington and double-cross your supporters big time

By Nomi Prins

Given his cabinet picks so far, it’s reasonable to assume that The Donald finds hanging out with anyone who isn’t a billionaire (or at least a multimillionaire) a drag. What would there be to talk about if you left the Machiavellian class and its exploits for the company of the sort of normal folk you can rouse at a rally? It’s been a month since the election and here’s what’s clear: crony capitalism, the kind that festers and grows when offered public support in its search for private profits, is the order of the day among Donald Trump’s cabinet picks. Forget his own “conflicts of interest.” Whatever financial, tax, and other policies his administration puts in place, most of his appointees are going to profit like mad from them and, in the end, Trump might not even wind up being the richest member of the crew.

Only a month has passed since November 8th, but it’s already clear (not that it wasn’t before) that Trump’s anti-establishment campaign rhetoric was the biggest scam of his career, one he pulled off perfectly. As president-elect and the country’s next CEO-in-chief, he’s now doing what many presidents have done: doling out power to like-minded friends and associates, loyalists, and -- think John F. Kennedy, for instance -- possibly family.

Here, however, is a major historical difference: the magnitude of Trump’s cronism is off the charts, even for Washington. Of course, he’s never been a man known for doing small and humble. So his cabinet, as yet incomplete, is already the richest one ever. Estimates of how loaded it will be are almost meaningless at this point, given that we don’t even know Trump’s true wealth (and will likely never see his tax returns). Still, with more billionaires at the doorstep, estimates of the wealth of his new cabinet members and of the president-elect range from my own guesstimate of about $12 billion up to $35 billion. Though the process is as yet incomplete, this already reflects at least a quad-rupling of the wealth represented by Barack Obama’s cabinet.

Trump’s version of a political and financial establishment, just forming, will be bound together by certain behavioral patterns born of relationships among those of similar status, background, social position, legacy connections, and an assumed allegiance to a dogma of self-aggrandizement that overshadows everything else. In the realm of politico-financial power and in Trump’s experience and ideology, the one with the most toys always wins. So it’s hardly a surprise that his money- and power-centric cabinet won’t be focused on public service or patriotism or civic duty, but on the consolidation of corporate and private gain at the expense of the citizenry.

It’s already obvious that, to Trump, “draining the swamp” means filling it with new layers of golden sludge, similar in color to the decorations that adorn buildings with his name, including the new Trump International Hotel on Pennsylvania Avenue near the White House where foreign diplomats are already flocking to curry favor and even the toilet paper holders in the lobby bathrooms are faux-gold-plated.

The rarified world of his cabinet choices is certainly a universe away from the struggling working class folks he bamboozled with promises of bringing back American “greatness.” And yet the soaring value of his cabinet should be seen as merely a departure point for our four-year (or more) leap into what is guaranteed to be an abyss of inequality and instability. Forget their wealth. What their business conflicts, relationships, and ideological stances indicate about what they’ll do to America is far more worrisome. And though Trump promised (and tweeted) that he’d be “completely out” of business operations,” the possibility of such a full exit for him (or any of his crew) is about as likely as a full reveal of those tax returns.

TomDispatch

The fascinating theory that “The Economist” magazine covers are like cabbies offering share tips

The Economist magazine is known for many things, including thought-provoking covers on what’s happening in the global economy, markets and politics. Aside from creating debate, those covers, according to Greg Marks and Brent Donnelly, analysts at Citibank, are also useful from another perspective: they’re often a contrarian indicator, pointing to a particular trend that’s been dominating financial markets that may be coming to an end. "The Magazine Cover Indicator is a belief commonly held by financial market participants that when a financial story or market theme is displayed on the cover of a magazine, that theme or the related trend is near exhaustion," the pair said in a note seen by Business Insider. "In other words, magazine covers are believed to be reverse indicators.

"The premise behind the indicator is that when a journalist or editor finally devotes a cover to a market trend, company, country or person, the story or theme has been in vogue for some time and is likely past its peak. Positioning and sentiment should already fully reflect the story
on the cover of the publication and the story should be priced in." This, says Marks and Donnelly, suggests that by the time a journalist writes about a trend, a majority of the move has already happened.

To back-test this theory, the pair looked at every cover story from the Economist going back to 1998, selecting those stories that covered "an emotional or hyperbolic portrayal of an asset class or market-related theme". In the end, excluding ambiguous covers which they left out of the study, they found 44 covers to test their theory. The results were eye-opening. "We recorded each cover that met these criteria and tracked the performance of the referenced asset over the next 3, 6 and 12 months," they said. "The results are interesting and strongly suggest that covers from The Economist are a reverse indicator. The bulk of the reversal suggested by The Economist cover stories tends to happen 6 to 12 months after the magazine comes out," the pair said, noting that "68.2% of all covers were wrong after one year which is a very high success rate for any indicator."

Business Insider

The great infrastructure myth

President-elect Donald Trump has promised to boost infrastructure investment by $550 billion-$1 trillion because there is supposedly an "infrastructure crisis." Never mind that the number of structurally deficient bridges has been steadily declining for 25 years while pavement roughness has been improving. If there is a transportation "infrastructure crisis," it exists due to a failure to maintain mass transit facilities and municipal streets, neither of which can be fixed by increasing federal capital spending (as a general rule, maintenance projects and non-National Highway System road segments are ineligible for these funds).

A sketch of this plan by Trump advisors Wilbur Ross and Peter Navarro can be found here. The Trump transition website touts the $550 billion figure. House Minority Leader Nancy Pelosi has pledged to "work together with (Trump) to quickly pass a robust infrastructure jobs bill."

I won't critique the financing specifics here, many of which are dubious. Instead, I'll focus on the assumption underlying the assumptions: that more public infrastructure investment is a surefire way to boost the economy. Contrary to the dominant political narrative from members of both parties, which is parroted uncritically by most of the press, there is little evidence that these public works projects promote long-run economic growth.

Infrastructure isn't magic

As economist Andrew M. Warner noted in a 2014 International Monetary Fund paper evaluating public infrastructure investment in developing countries, "Overall, it is difficult to find a clear-cut example that fits the oft-repeated narrative of a public investment boom followed by acceleration in GDP growth. If anything, the cases of clear-cut booms illustrate the opposite – major drives in the past have been followed by slumps rather than booms."

Yet, despite the lack of evidence supporting the claim that public infrastructure investment is an important economic catalyst, there is a near-consensus among the professional commentariat that infrastructure is economic magic. In attempting (and largely failing) to critique Trump’s plan, progressive writer Jeff Spross regurgitates the Great Infrastructure Myth: "Any infrastructure plan that isn’t ultimately redistributive — that finances itself entirely from the people that use the infrastructure — isn’t going to serve its social purpose. It’s also unlikely to serve the broader purpose of reviving the national economy."

A major problem with public infrastructure projects isn’t that the benefits aren’t redistributed to a level Spross would prefer; rather, it’s that the costs of the projects are usually completely divorced from the primary purported beneficiaries — users. (In reality, the primary beneficiaries of infrastructure projects often turn out to be the construction contractors and the politicians they support.)

None of this is particularly controversial within the development, transportation, and urban economics research communities. The infrastructure-as-productivity-booster narrative has been around for many years — see this undated 1994 paper by Douglas Holtz-Eakin and Amy Ellen Schwartz if you want to see how stale this "debate" is. Microeconomists who focus on infrastructure generally reject this narrative. The macroeconomists such as Larry Summers who promote the Great Infrastructure Myth are being fooled by their unreliable macro models.

Foundation for Economic Education

How regulation protects established firms

In various talks (long and short) and articles about big business, I’ve stressed the point that established companies frequently lobby for more regulation, give generously to politicians on all sides, and benefit from an environment in which government plays a large role in the economy. Regulation makes many firms larger and more bureaucratic than they would otherwise be. Murray Rothbard, building on earlier scholars such as Gabriel Kolko, made this a major theme of his work on the history of regulation.

It’s nice to hear the argument that regulation helps large, politically connected firms from the horse’s mouth — that is, from one of the regulated firms. And in the US there’s no bigger horse than Goldman Sachs, which is so closely tied to Washington, DC that it’s practically a fourth branch of the US government. Here’s Goldman’s CEO Lloyd Blankfein from a 2015 interview:

Now I’ll tell you something interesting else about our industry: That all industries are being disrupted to some extent by new entrants coming in from technology. We, again, being, you know, technology-oriented ourselves, try to disrupt ourselves and try to figure out what’s the new thing, and come up with new platforms, new forms of distribution, new products. But in some ways, and there are some parts of our business, where it’s very hard for outside entrants to come in, disrupt our business, simply because we’re
so regulated. You'll hear people in our industry talk about the regulation. And they talk about it, you know, with a sigh: Look at the burdens of regulation. But in some cases, the burdensome regulation acts as a bit of a moat around our business.

Regulation, in other words, can serve as a very effective barrier to entry. Don't understand these highly complex rules? Don't know the right people in government? Don't know how the game is played? Too bad, this industry's not for you!

Mises Institute

Global warm-ongering

1. The earth has gone through many periods of warming and cooling that have lasted 10s of millions of years or longer. The reasons are complex, far beyond greenhouse gas emissions. Background radiation from space, the sun's position in the galaxy, and solar cycles that no one has any record of, all play a part. There are likely complex reasons we are not even aware of today. CO₂, in isolation, all other things equal (which they aren't and never will be), will tend to warm the atmosphere. However, it's questionable, at best, to presume greenhouses gasses account for the bulk of what's happening.

Scientists have changed their model numerous times, and the data to match, to prove global warming. Models that said were in a period of no warming for 15 years now suddenly state this is the warmest period ever recorded. The amazing thing about all of this is how irrelevant it is. Breaking this down into 100-year periods when changes take place over tens of millions of years, for numerous, complex reasons is ridiculous.

2. Nonetheless, let's presume the scientists are correct, and I am wrong. The idea that government will do anything sensible about it is silly.

If Florida goes underwater, there is not a single change we could have made today, or 20 years ago, to save it. If global warming is happening, as described by the warm-ongers, it will still be happening 50 years from now, just at reduced rates of increases. Al Gore floated an amazing plan to save the world at a World Economic Forum in Davos, Switzerland: Spend $90 Trillion Redesigning All The Cities So They Don't Need Cars.

You cannot make this kind of stuff up, but it is typical bureaucratic madness in action. Lest you think this was only former US vice president Al Gore, the former president of Mexico Felipe Calderon, also backed this preposterous idea. "We recommend those cities should have more density and more mass transportation. Together with a program for reforming land use, and bringing deforestation to zero, the total cost of this plan would most likely be $90 trillion in future investment", Calderon said. The amusing part of Al Gore's inane proposal is the sheer amount of fossil fuels it would take to implement. It never occurred to him.

3. Let's stop pollution, for pollution's sake, not for misguided global warming reasons. China is poisoning the air and water to maintain growth, and killing or injuring millions of its citizens in the process. I am strongly in favor of cutting emissions, especially in places like China which accounts for nearly twice as much greenhouse gas pollution as the US. Chinese cities have smog alerts nearly every day of the year. Start worrying about people dying now, not 400 years from now, on a fool's mission belief that man can control climate changes that happen over tens of millions of years.

4. Technology will do far more than bureaucrats ever will in the battle against emissions.

Companies like Uber, Google, Apple, GM, Ford, etc. are all working on technologies that will dramatically reduce the need for cars. The cars themselves will be electric. Autonomous trucks will drive the speed limit, in small caravans, not only reducing accidents, but reducing fuel consumption as well.

MishTalk

Number of homeless people each night in the NYC shelter system, 1983-2016

Source: NYC Department of Homeless Services and Human Resources Administration and NYCityStat. shelter census reports

Coalition for the Homeless
TIME OUT

Michelle Obama replaced by immigrant

[Image of Michelle Obama]

Snopes

Gender inequality goes right to the top

[Graph showing gender inequality]

The Economist

Births outside of marriage decline for immigrant women

As births outside of marriage decline among the foreign born, the gap between immigrant and U.S.-born moms widens

[Pew Research Center graph]

KU bars gorillas from jungle-theme decoration due to "masculine image"

An RA at the University of Kansas was advised against incorporating an image of a gorilla into a jungle-themed floor decoration because the animal apparently represents "a very masculine image." Assistant Complex Director Dale Morrow also noted that there are "stereotypes that surround this animal," and therefore its inclusion in the display would not be "inclusive."
Dial 00000000 for Armageddon. US’s top secret launch nuclear launch code was frighteningly simple

For nearly 20 years, the secret code to authorize launching US nuclear missiles, and starting World War III, was terrifyingly simple and even noted down on a checklist. From 1962, when John F Kennedy instituted PAL encoding on nuclear weapons, until 1977, the combination to fire the devastating missiles at the height of the Cold War was just 00000000. This was chosen by Strategic Air Command in an effort to make the weapons as quick and as easy to launch as possible, as reported by Today I Found Out.

Daily Mail

Are hipsters the new yuppies?

*Hipsters oustrid all shoppers.*

Forbes

Bring manufacturing home? Let’s start with Ivanka Trump’s $100 million made-in-Asia apparel line

Cheap labor, more profit. Isn’t that why Carrier was moving their manufacturing to Mexico? Isn’t that why Donald Trump has scolded companies like Apple? For manufacturing overseas? Why shouldn’t the Trump family put their money where their mouths are and start by finding a way to make their own goods right here in the USA? Because it’s all about that profit and that bottom line.

Daily Kos

The 10 most stolen cars in America

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<thead>
<tr>
<th>Number of vehicles stolen in the United States in 2015</th>
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<tr>
<td>Honda Accord</td>
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<td>Honda Civic</td>
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<td>Ford F-Series (Full size)</td>
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<td>Chevrolet Silverado (Full size)</td>
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<td>Toyota Camry</td>
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<td>Dodge RAM</td>
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<td>Nissan Altima</td>
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<td>Dodge Caravan</td>
<td>9,978</td>
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<tr>
<td>Chevrolet Impala</td>
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</tr>
</tbody>
</table>

Statista

Aston Martin’s new $1 million, 195-mph limousine

The Wall Street Journal
Bruno J. Schneller, CAIA

Bruno J. Schneller is the CIO of Skënderbeg Alternative Investments AG. Prior to establishing the company, Bruno worked at investment boutique and fund of hedge funds pioneer BrunnerInvest AG.

Prior to BrunnerInvest AG, Bruno worked at AXA Private Equity in 2007 and at Zurich-based hedge fund Naissance Capital Ltd. in 2006.

Bruno holds a M.A. from University of St Gallen (HSG) and earned the CAIA designation in 2012. Furthermore, he is a CFA Level II candidate.

Miranda Ademaj

Miranda Ademaj is the CEO and Chairwoman of Skënderbeg Alternative Investments AG.

Prior to establishing the company, Miranda worked at BrunnerInvest AG and Sallfort Private bank AG. Before that, she worked at Credit Suisse for several years.

Miranda is a CAIA candidate (Chartered Alternative Investment Analyst) and member of the global association „100 Women in Hedge Funds“.

About us

Skënderbeg Alternative Investments AG, investment adviser of the Skënderbeg Fund, began operations in December 2013 and is based in Zurich. The company consists of a team of specialists and has long-standing and financial crisis proven experience in the hedge fund sector. The team has an excellent network with direct and personal access to the top talents in the industry.

The multiple award-winning, UCITS-compliant Skënderbeg Fund* specializes in long/short equity strategies and offers investors access to exceptional hedge fund investments on a global scale. The fund of hedge funds was launched in February 2014 with a concentrated portfolio of 10-15 small to mid-sized managers who are typically overlooked by larger shops.

For more information on Skënderbeg Alternative Investments AG, please visit www.skenderbeg.ch.

*The Skënderbeg Fund is domiciled in Liechtenstein and not registered for public distribution outside its legal domicile.

Contact us

Skënderbeg Alternative Investments AG
Seestrasse 17
8702 Zollikon
Switzerland
info@skenderbeg.ch
T: +41 43 535 77 52
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