Market Brief – Tell Me I'm Wrong

"An old trading partner of Taleb's, a man named Jean-Manuel Rozan, once spent an entire afternoon arguing about the stock market with Soros. Soros was vehemently bearish, and he had an elaborate theory to explain why, which turned out to be entirely wrong. The stock market boomed. Two years later, Rozan ran into Soros at a tennis tournament. "Do you remember our conversation?" Rozan asked. "I recall it very well," Soros replied. "I changed my mind, and made an absolute fortune." He changed his mind! The truest thing about Soros seemed to be what his son Robert had once said:

My father will sit down and give you theories to explain why he does this or that. But I remember seeing it as a kid and thinking, Jesus Christ, at least half of this is bullshit. I mean, you know the reason he changes his position on the market or whatever is because his back starts killing him. It has nothing to do with reason. He literally goes into a spasm, and it's this early warning sign." ~ excerpt from Malcolm Gladwell's *Blowing Up*

Five things. The greatest traders who've ever played the game all possess five distinct qualities. These are:

1. Self-knowledge

2. Competitiveness
3. Discipline
4. Open-mindedness
5. Independent thinking

The excerpt above, about the Palindrome (Soros), displays all of these qualities which Soros possessed in spades. He was notorious for passionately arguing his stance on markets only to flip his opinion — and his positioning — on a dime and go the other way. Druckenmiller, Livermore, Marcus, Dalio, Tudor and on and on, are all masters of these traits.

I was reminded of this recently while listening to a Tim Ferriss podcast with legendary Silicon Valley venture capitalist, Marc Andreessen. The interview is excellent and worth a listen, here's the link. They cover many topics that are applicable to trading/investing as well as talk about the future of tech.

But one of the things that caught my attention was when Andreessen said the following (and I'm paraphrasing here):

> "Top hedge fund managers are some of my favorite people to hang out with… they are the absolute most open-minded group of people I've ever met. If you tell them you think they're wrong, their faces light up… they get excited… and will ask you a million questions because they want to know if and how they're wrong and will quickly change their minds if you convince them so."

I love this. I have found the same to be true as well. Out of the handful of exceptional traders and fund managers I have met, one of the things that most stands out is their absolute devotion to truth, their open-mindedness and their lack of ego.

Now compare these character traits to those of your average retail investor/trader, financial pundit, FA and so on. Not often do you see someone on finance twitter talk about how wrong they were on a trade or theme or even better someone on CNBC come out and say "wow, my analysis on that company/market was waaaay off…", it just doesn't happen.

This is because obtaining these character traits is really really hard — and painful. Our ego is a powerful and domineering influence and unless we're forced to confront it we will happily let it rule our thinking and decision making processes. The truth is, the vast majority of people will gladly choose unhappiness over uncertainty… because there is nothing more that the ego hates than uncertainty —- and markets are anything but certain.

What makes it even more difficult is that this is a constant journey rather than a destination. You will always be battling your ego and human foibles on your quest to better market returns. The riches go to those who persevere and march forward in the face of difficult and challenging self-reflection and growth.

But what's great about markets is that your P/L overtime will be a direct reflection of how successful you are in your evolution. It is impossible to remain ignorant of one's self and survive, let alone thrive, in the markets over the long-haul.

Perhaps no trader better exemplifies this evolutionary process than Ray Dalio (most successful hedge fund manager of all time). It would be natural to think that someone who's pulled over $60 billion from the markets would be a bit cocky… but in Dalio's case, you couldn't be more wrong. Dalio constantly talks about "his fear of being wrong" and has built one of the most advanced organizations centered around the pursuit of truth through relentless self-examination.

Here's an excerpt from an article Dalio wrote on the subject (emphasis added by me):

> To make money in the markets, you have to think independently and be humble. You have to be an independent thinker because you can't make money agreeing with the consensus view, which is already embedded in the price. Yet whenever you're betting against the consensus, there's a significant probability you're going to be wrong, so you have to be humble.
>
> Early in my career I learned this lesson the hard way — through some very painful bad bets. The biggest of these mistakes occurred in 1981–'82, when I became convinced that the U.S. economy was about to fall into a depression. My research had led me to believe that, with the Federal Reserve's tight money policy and lots of debt outstanding, there would be a global wave of debt defaults, and if the Fed tried to handle it by printing money, inflation would accelerate. I was so certain that a depression was coming that I proclaimed it in newspaper columns, on TV, even in testimony to Congress. When Mexico defaulted on its debt in August 1982, I was sure I was right. Boy, was I wrong. What I'd considered improbable was exactly what happened: Fed chairman Paul Volcker's move to lower interest rates

and make money and credit available helped jump-start a bull market in stocks and the U.S. economy's greatest ever noninflationary growth period.

This episode taught me the importance of always fearing being wrong, no matter how confident I am that I'm right. As a result, I began seeking out the smartest people I could find who disagreed with me so that I could understand their reasoning. Only after I fully grasped their points of view could I decide to reject or accept them. By doing this again and again over the years, not only have I increased my chances of being right, but I have also learned a huge amount.

There's an art to this process of seeking out thoughtful disagreement. People who are successful at it realize that there is always some probability they might be wrong and that it's worth the effort to consider what others are saying — not simply the others' conclusions, but the reasoning behind them — to be assured that they aren't making a mistake themselves. **They approach disagreement with curiosity, not antagonism, and are what I call "open-minded and assertive at the same time." This means that they possess the ability to calmly take in what other people are thinking rather than block it out, and to clearly lay out the reasons why they haven't reached the same conclusion. They are able to listen carefully and objectively to the reasoning behind differing opinions.**

When most people hear me describe this approach, they typically say, "No problem, I'm open-minded!" But what they really mean is that they're open to being wrong. **True open-mindedness is an entirely different mind-set. It is a process of being intensely worried about being wrong and asking questions instead of defending a position. It demands that you get over your ego-driven desire to have whatever answer you happen to have in your head be right.** Instead, you need to actively question all of your opinions and seek out the reasoning behind alternative points of view.

This approach comes to life at Bridgewater in our weekly research meetings, in which our experts on various areas openly disagree with one another and explore the pros and cons of alternative views. This is the fastest way to get a good education and enhance decision-making. When everyone agrees and their reasoning makes sense to me, I'm usually in good shape to make a decision. When people continue to disagree and I can't make sense of their reasoning, I know I need to ask more probing questions or get more triangulation from other experts before deciding.

I want to emphasize that following this process doesn't mean blindly accepting the conclusions of others or adopting rule by referendum. Our CIOs are ultimately responsible for our investment decision-making. **But we**

all make better decisions by maintaining an independent view and the conflicting possibilities in our minds simultaneously, and then trying to resolve the differences. We're always in the place of holding an opinion and simultaneously stress-testing the hell out of it.

Operating this way just seems like common sense to me. After all, when two people disagree, logic demands that one of them must be wrong. Why wouldn't you want to make sure that that person isn't you?

I have to tell you that it's extremely difficult to really embody this objective search for truth. It goes against our inherent human nature.

I sometimes feel a bit schizophrenic. Over the years, I have been so wrong soooo many times that I now constantly debate myself on the quality of my opinions. For every market opinion I hold, I can argue *nearly* as persuasively for five different competing outcomes. Once an opinion beats out the others I arrive at the point of having a "strong opinion, weakly held." And that is the best we can aim for… no more.

And I would be lying if I told you that I'm not affected when I'm proven wrong. I am. My ego can be a son-of-a-b#tch and likes to think he's the greatest thing since sliced bread but that just ain't always the case. But, because I recognize this flaw in my character I can acknowledge the reaction of my ego while at the same time objectively assessing the situation. This is because I value *truth over pride* and *making money over being right.*

Michael Marcus (a Market Wizard) said, "I am very open-minded. I am willing to take in information that is difficult to accept emotionally, but which I still recognize to be true."

The John Hussmans and Zero Hedge readers of the world could benefit from adopting this open way of thinking. The markets are no place for emotions, ideologies, or rigid fixed opinions. We need to remain fluid, adaptive, and humble in our pursuit of alpha… so strive to keep your ego in check.

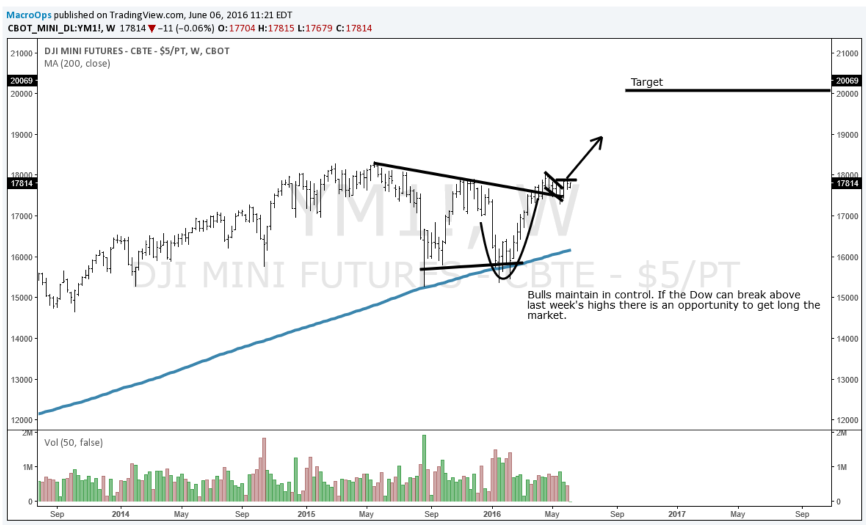
Markets Are Not The Economy And Vice-Versa

Many people (I would say the majority of people) make the mistake of referring to markets and the economy as being one and the same. This is wrong. The markets are a voting machine on the discounting of future cash flows. The economy is the measure of the aggregate of economic (goods and services) exchange that is going on, now. Markets and the economy are separate entities but not mutually exclusive — both directly affect the other in a reflexive relationship.

The majority of the time the market and economy will move in lockstep with one another. Occasionally, they'll diverge and one will lead the other as they move through their normal cycles.

We may be entering one of these periods now.

If I were to look at the major indexes (Dow and S&P) right now, without knowing anything else about liquidity, macro conditions, earnings etc… I would say that they look like they are <u>potentially</u> on the cusp of a major bullish run after over 18-months of consolidation. Here's a technical look at the DOW



But when I look at the macro picture and at the economics of the situation I see a dangerously fragile market that is ripe for a systemic liquidity event — as I discussed in the last Market Brief.

So what do we do and how do we proceed from here?

Well, the market can very well go on a bullish tear while the economy turns cold and even the possibility of recession looms. It would not be out of the ordinary for the market to go on a final rally to cap off the end of one of the *strangest* market cycles in history. It would certainly be the final nail in the coffin for the perma-bears who've been getting their faces ripped off from these constant rebounds (this would fix the overly bearish sentiment that has made me hesitant to push to the short-side).

Since we respect price above all else and are fully aware that we may very well be missing some key variables, we have to be ready and willing to aggressively go long some equities if this bullish inflection point is crossed — a strong weekly close above the 2120 line on the SPX would signal this.

And we can do this while remaining completely aware of the tail-risk that are present in the current market so we can reverse course and go short if this just ends up being a massive bull-trap (which would be quite typical of this market as well).

But we're not there yet, we are still in trading no-man's land and there are some big events coming up in the next couple of weeks that could very well determine the near-term direction of markets.

Let's talk about Friday's jobs report. The non-farm payroll numbers were a huge miss, and the weakest since 2010. Here's what David Rosenberg (chief economist for Gluskin Sheff) had to say about the numbers:

We had been saying for some time that if there was something in recession in the U.S. it was productivity and that a huge gap had opened up over the past six months between weak business output growth and the pace of job creation.

Well, now we know how that gap is being resolved — with the latter playing catch-down to the former.

As everyone is left wondering "what happened?" here is what happened.

Productivity declined at a 1.7% annual rate in Q4 of last year and followed that up with a 1.0% drop in Q1. On average, labor input expanded at nearly a 2½% annual rate and nonfarm business output growth barely averaged 1%.

So do the math.

From last October to this past March, we had an unusual situation where aggregate hours worked outpaced production by a ratio of two-and-a-half to one.

Not sustainable.

The mean reversion means that it is pay-the-piper time in terms of what this means for the labor market.

Nonfarm payrolls rose a meager 38,000 in May and even accounting for the striking Verizon workers, the headline still would have been less than half the consensus estimate of +160,000.

This is the biggest "miss" by the economics community since December 2013, and the worst headline since September 2010 when the Fed was more preoccupied with its next round of quantitative easing than with raising the funds rate.

Not just that, but there were downward revisions to the prior two months totaling 59,000 — something we have not seen since June of last year.

Look at the pattern; +233,000 in February, +186,000 in March, +123,000 in April and +38,000 in May. Detect a pattern here (he asks wryly)?

I don't want to alarm anyone but the facts are the facts, and the fact here is simply that this is precisely the sort of rundown we saw in November 1969, May 1974, December 1979, October 1989, November 2000 and May 2007.

Each one of these periods presaged a recession just a few months later — the average being five months.

There was just one time, in the 1985/86 oil price collapse, that we had such a huge decline in goods-producing employment without a recession lurking around the corner — but the Fed was easing then and fiscal policy was a lot more accommodative than is the case today.

More than one-third of the weakening we saw in the private services sector came in temp-agency employment where employment shrunk 21,000 in May, down now in four of the past five months and by a cumulative 64,000, which is a losing streak we have not seen since August 2009.

In fact, this type of weakness over such a stretch, again not to sound like an alarmist, occurred just prior to economic recessions in the past, without exception and with no "head fakes".

Yes, it typically is not good news when the headhunters are the ones to start chopping off heads — this is a leading indicator. So I may not want to sound alarmist, but the answer is yes … I am worried.

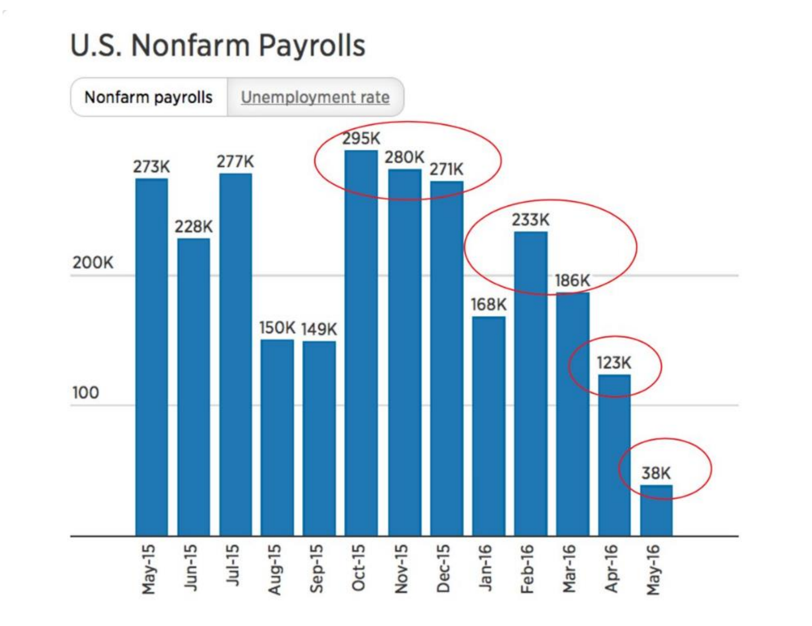
In fact, the weakness in employment has broadened out rather dramatically — this is not just a one or two sector phenomenon. This is not just about factories cutting back, shale weakness affecting mining or constraints within the re-regulated financial sector.

The bottom line is that no matter how shockingly weak the headline numbers were, the details were even worse.

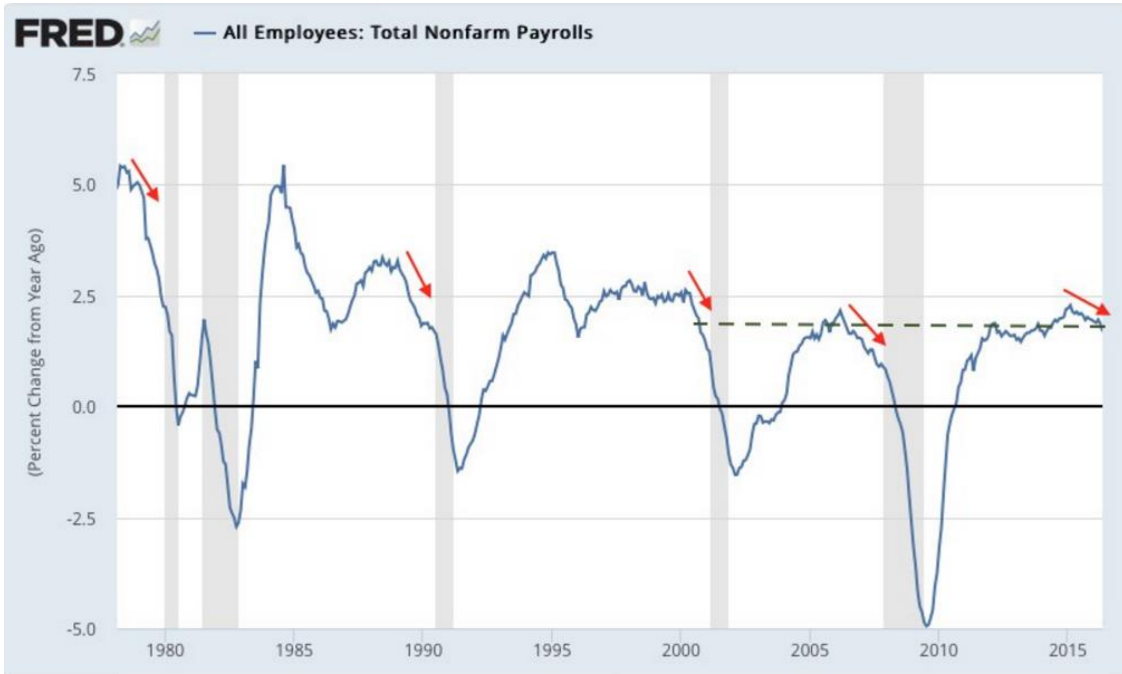
Full-time employment declined 59,000 on top of a 316,000 plunge in April. Those working part-time for economic reasons — actually preferring full-time employment but no such luck — jumped 468,000 in the sharpest increase for any month since September 2012 (when the Fed embarked on QE3).

Keep in mind that this metric is a Yellen favorite.

Here's the thing, job's numbers are noisy and we shouldn't read too much into a single print. But, as Rosenberg points out, there has been a clear trend developing in the jobs market for some time now, just look at the chart below.



When you look at the historical trends in the jobs numbers, a consistent decline like this typically indicates a recession in the near future. Here's another chart that demonstrates that point. The shaded areas represent economic contraction (recession).



Still too early to "call for cover" but definitely a trend worth keeping an eye on.

The jobs miss caused some interesting moves in the market Friday. Equities stayed mostly bid, indicating that the dominant narrative is still "bad news is good news" in the hopes that a deteriorating economy will stay the Fed's hands on rising rates.

As a result, the dollar plummeted (falling over a 150bps) and gold and long dated treasuries rallied hard.

Will this jobs number impact Yellen's decision to hike this summer? I have no idea.

My personal opinion is that the Fed is probably behind the curve on this cycle and will find itself fighting a recession with little dry powder available (ie, ability to lower interest rates because they're at zirp). I think the inflation trade will probably be wrong — at least in the short-term — but I'm willing to play Soros style false-trends when I can understand the underlying assumptions and I like the price-action.

In any event, I would put a summer Fed rate hike at 50/50. And if we don't get one by the July meeting then we'll probably see a QE4 before we see a rate hike — and only after some major market turmoil. The economic numbers certainly don't warrant a hike at this point but the Fed often goes off its own logic — which isn't always logical.

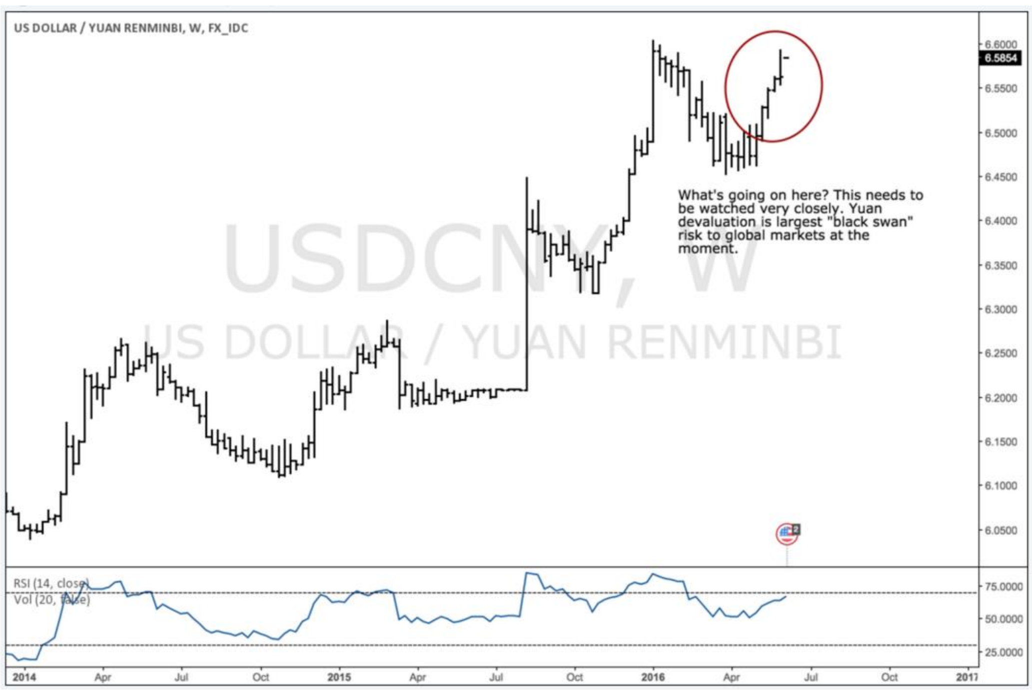
To play the reflation trend, I like silver (SLV) and some miners like Hecla Mining (HL). The price action in silver looks more favorable to me than gold and I think it has a higher chance of producing a smoother trend. The silver chart has formed a nice year long cup-n-handle base.

We will wait for a breakout of that flag as a signal to enter. With all of the major central banks meeting over the next two weeks there is potential for this trade to rip or quickly fizzle out and reverse, so it'll have to be watched closely.

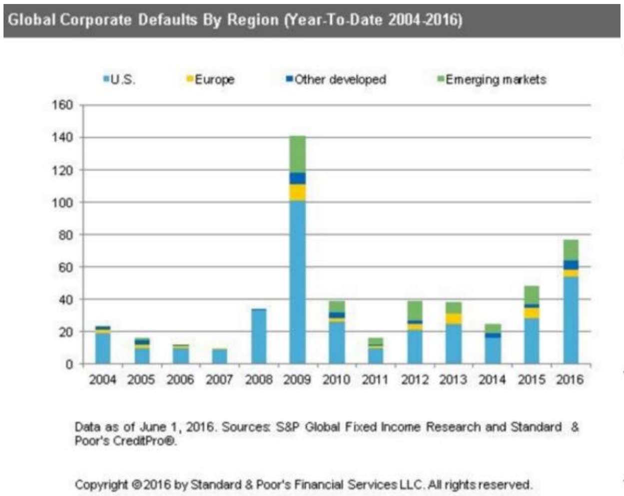
As far as events to watch over the coming week, we have Yellen speaking on Monday (the FOMC isn't until next week), Draghi is speaking on Thursday and the RBA and BOC both come out with their rate announcements this week.

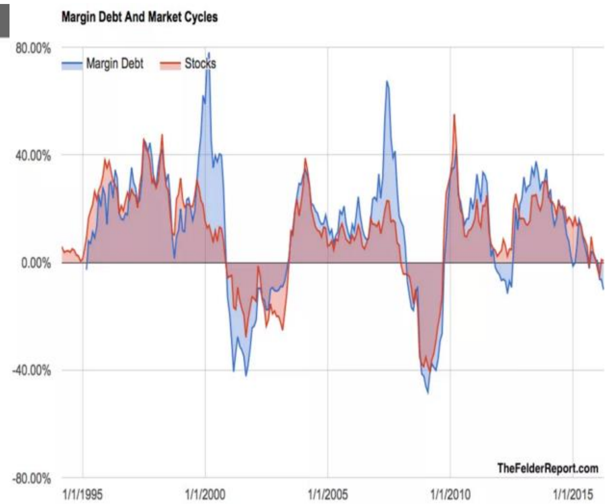
It’s the following week when some potential “game changing” news could be announced — with the BOJ being the prime candidate for a stimulus surprise.

The USDCNY has been quietly creeping back up near its January high (USDCNY goes up when the yuan moves lower against USD). I still hold high conviction that the Chinese will have to devalue the yuan and this is the largest risk to global markets at the moment — we will need to keep a close eye on this.



Also to note, NYSE margin debt continues to contract from all-time highs and global corporate defaults are on track to surpass the level of defaults reached in 09’, totaling 77 at the moment.





I think our patience of light trading and protecting capital over the last few months will finally start to be rewarded in the coming months. There is an increasing probability for growing monetary policy divergence between the majors as well as potential shocks from a banking crisis in Europe (Italy is looking bad) and of course, trouble in Greece — to name just a few.

Keep your mind wide open in your search for truth.

Portfolio Update

We allocated a good amount of capital this week for the first time in months. In both Tactical and Strategic we took new long positions in US 30 year bonds and the Belgian equities ETF.

There are a few key differences between our Tactical and Strategic portfolios.

In Tactical you'll see a lot more short term trading. We'll take a position with the expectation that it'll work out immediately. If it doesn't, we're quick to cut it. We're very strict with these positions and have tight stops. The goal is to hit the trend at the *exact* right time. We don't give something more room just because the fundamental case makes sense. And we're even open to making trades based purely on momentum, they don't always have to have a strong fundamental backing in this portfolio. Fundamentals govern how quickly we take profits. If something has a lot of fundamental runway, we'll extend targets. If the trade is part of what we believe to be a "false trend", we'll exit much sooner.

Our Strategic portfolio on the other hand is more fundamental based. As you’ve been able to tell, there’s a lot less trading. And in this portfolio we tend to give positions more room through wider stops. We want to give the position time to work because we have strong fundamental conviction in the trade.

The other difference between these portfolios is the position sizing. In Tactical you’ll see a standard position size of 75 bps per trade.

But in the Strategic portfolio we tend to vary position sizes based on our conviction level. We’ll discretionarily decide a size depending on how strong the trade thesis is when considered within the Marcus Trifecta framework. For example, this week you’ll see that we risked 200 bps in bonds while only risking 100 bps in EWK. We are far more convicted in bonds than EWK. In general, our position sizes will also be larger in the Strategic portfolio. We only take a few convicted trades per year, so we want to size up on them.

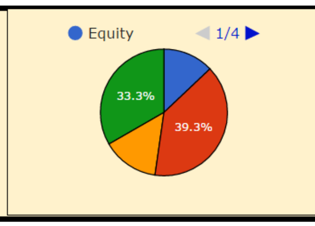
Macro Ops Tactical Portfolio

NAV $1,004,694.90

Asset Class	Position	Size	Cost Basis	Risk Point	Market Price	Open Risk	Target 1	Notional
Commodity	Bean Meal (ZM)	3	281.50	335.2	414.9	$23,910.00	296.5	$171,420
Fixed Income	ZBU6 (Bonds)	4	166'16	164'19	166'25	$8,760.00	171'27	$667,000
Equity	EWK	10600	18.72	18.00	18.74	$7,844.00	$21.35	$198,000
Forex	Mexican Peso (6M	-16	0.05493	0.05587	0.05372	$17,200.00	$0.05220	$438,960
Forex	GBTC	205	72.00	59.85	74.75	$3,054.50	124.00	$14,699

Metrics

Exposure Breakdown		Total Open Risk
Equity	$7,844.00	$60,768.50
Commodity	$23,910.00	6.05%
Fixed Income	$8,760.00	
Forex	$20,254.50	*Updated 6/5

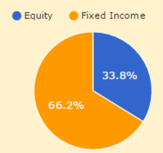


You’ll notice that in our Tactical portfolio for bonds we took a futures position, while in the Strategic portfolio we used the bond ETF TLT. The reason we didn’t use futures in Strategic is because it’s easier to hold bonds for the long term with this ETF. You don’t have to deal with rolling the contract and you also collect dividends. It makes more sense to play it this way in a longer term portfolio like Strategic. In Tactical on the other hand, we were willing to take a futures position because it’s shorter term anyway. More often than not, we’re out of a Tactical position before we have to roll a contract.

If there comes a time where we need to free up capital in Strategic we can always exit TLT and replace it with ZB futures.

Macro Ops Strategic Portfolio								
NAV	$968,460.95							
Asset Class	Position	Size	Cost Basis	Risk Point	Open Risk	Target 1	Beta (1yr)	Notional
Fixed Income	TLT	5000	$132.87	128.98	$19,450.00	146.00	-0.32	$667,000
Equity	EWK	13800	$18.72	18.00	$9,936.00	21.35	0.85	$258,000

Metrics			
Exposure Breakdown		Total Open Risk	Portfolio Beta
Equity	$9,936.00	$29,386.00	0.01
Commodity	$0.00	3.03%	
Fixed Income	$19,450.00		
Forex	$0.00	*Updated 6/5	



The Income portfolio continues to grind along and love the "chop-chop" price action of the last three months. At this point the options are very close to max profit.

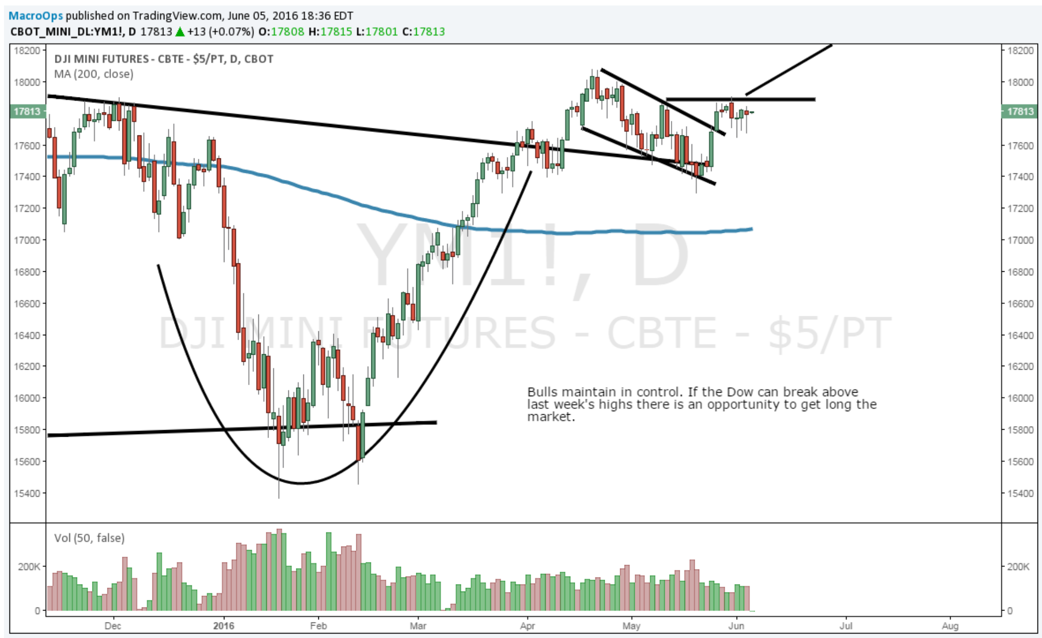
Macro Ops Income Portfolio				
NAV	$1,036,543.30			
Asset Class	Position	Size	Cost Basis	Max Profit
Option	SPX June 16 1960 Put	-10	10.80	$10,800
Option	SPX June 16 2155 Call	-10	14.80	$14,800
Option	SPX June 16 1520 Put	10	1.00	Hedge

Scenario Analysis/Stress Tests	
Worst Case	Worst Drawdown
SPX Down 10%	-$58,000
SPX Down 20%	-$252,861
	**Updated on 6/5

Trade Update

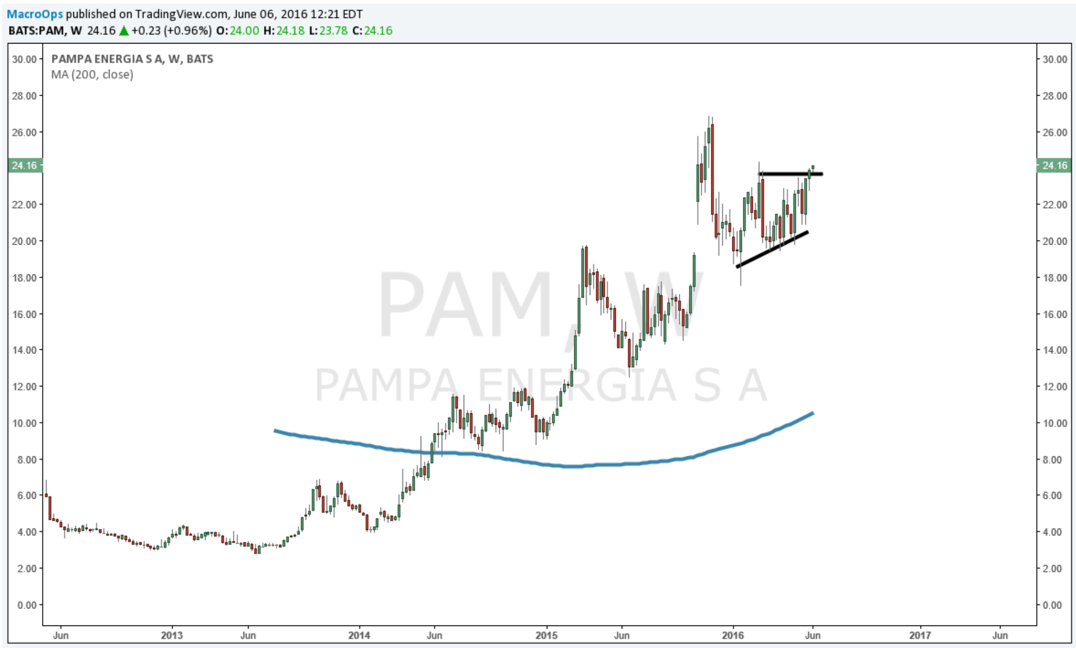
DOW

Equity markets continue to move sideways, but a resolution is probable post FOMC meeting. Take a look at DOW Jones futures:



A break above last week’s highs as discussed earlier in the brief can springboard a final blow off top. We’re willing to take a position in the DOW if this happens.

PAM



Pampa Energía, an Argentine utility is on our "stalk list." It's likely we take a long position this week. Pampa Energía is the largest fully integrated electricity company in Argentina. It's involved in energy generation, transmission, and distribution. It's also expanding into oil & gas exploration and transportation.

36% of their financial debt is AR$-denominated which was highly reduced after the December 2015 devaluation of the peso. The spike in the stock chart at the end of 2015 was the market's reaction to the deval.

Argentine bond yields have been falling since mid-March as well and provide a tailwind of interest expense relief.

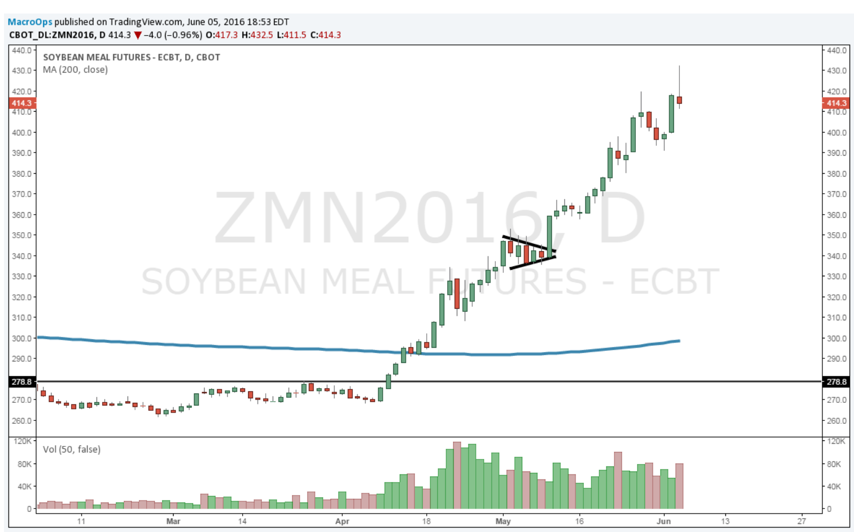
Short Mexican Peso

Pesos continue to fall as we continue to profit. The position held up nicely with the surprise dollar weakness on Friday. We'll keep holding our position as it works in our favor.

USDSGD

Our Sing trade fell apart when the dollar dropped on Friday. This is a great example of how important automatic stops are. If you take a look at that candle, you'll see the Sing blew right through our risk point of 1.36947. Fortunately we had automatic stops in place, and even though the stop level was jumped a little bit, we were still able to get out with a loss close to our planned risk amount. If we didn't have an automatic order in the system, we would have a lost a lot more than we were willing to on this position.

Soybean Meal



Soybean meal is the gift that keeps on giving. We're still holding our position.

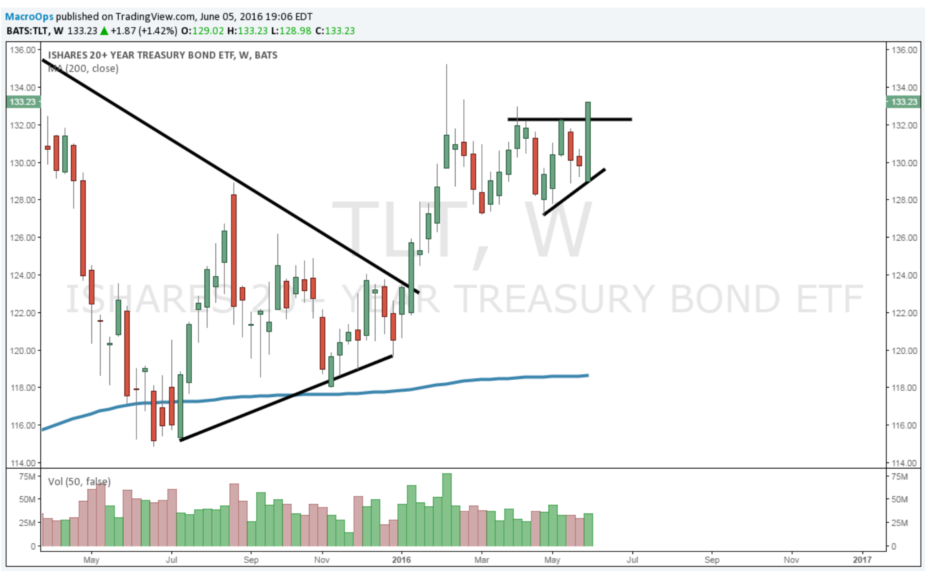
GBTC

Bitcoin made a strong recovery in the last few weeks and is now rocketing higher. We are still holding our position in the Bitcoin ETF GBTC.

EWK

EWK broke out of a multi-year ascending triangle and has a lot of potential upside. With the ECB's corporate bond purchases starting on June 8th, many European equities will receive a boost. The ECB has also decided to continue QE until at least March 2017, while keeping rates steady in their last announcement. In late June, they will also begin a new program providing long-term loans to banks. All this stimulus is bullish for equities. We'll be managing this position tightly and jamming stops to breakeven as soon as possible.

ZB / TLT



Bonds are another position we took in both Strategic and Tactical. The US 30-year government bond broke out of a 3.5 month congestion zone. With the latest jobs number a disappointment to the market, everyone is expecting Yellen to keep rates low in June. The U.S. government still has some of the most attractive sovereign debt in the world. We expect these bonds to keep a bid and really run if the deflationary scenario plays out.

Further portfolio details can be found here in the hub.

Comm Center Highlights

Bulls Vs Bears

This post started out with a simple question from Jamie: Are you bullish or bearish?

Jamie is bullish. The labor market continues to tighten, pushing average hourly earnings higher. Living costs are also low due to a weak inflation and a strong dollar. And as the market tightens, wages will rise faster than living costs.

Housing prices are rising which create a wealth effect. This increases the potential for consumers to borrow more money. And as far as borrowing ability goes, credit card utilization is low along with low credit card delinquencies. Household debt service costs are also low along with many banks easing lending standards.

Jamie believes that the credit cycle will continue. We may be over-leveraged already, but we will continue to get more over-leveraged. Eventually rising interest rates will be a problem, but that will only happen a few years down the line. Till then, the bull will rage on.

Alex doesn't agree with this bullish scenario. He believes many of the factors Jamie is looking at are not leading indicators, but are instead present indicators. They tell us where we are, not where we're going. Alex is still bearish, but there is one possible bullish scenario he sees.

China's first quarter massive credit creation finally starts to show in their economy this summer (there's typically a lag of a few months between credit creation and econ impact). This extends the building boom (which is already happening a bit), people buy into the recovering China narrative, and commodities rally. This, of course, causes credit to extend its vertical rally along with emerging markets. The G7 and central banks remain in agreement to try and keep the dollar low and in its range. We see a big narrowing of spreads here in the US as oil rallies above $60 and the US energy space recovers. Yellen doesn't raise rates in June or July — because really the data doesn't call for it (and US policy makers don't want a Trump Presidency) — so the Fed plays loose and fast and the markets rally into the 98' scenario and we go vertical.

Either way, everyone agrees that from a price action standpoint the markets are neutral to bullish in the short-term. Price is king, and we'll watch for a signal to tell us which scenario is correct.

The Best Technology Doesn't Always Win

The following was one of our *Macro Musings*:

Many times when investors evaluate a company, they blindly assume the best technology always wins out. But this is not usually the case. Ben Thompson recently reminded me of this in one of his blog posts.

Take Microsoft. They didn't actually gain dominance with their initial product — Altair BASIC. The real key was their business development deal with IBM that put their operating system in every IBM PC. Even the operating system that Microsoft used — MS-DOS — was acquired from another company.

Microsoft went on to create its own amazing technology, but it didn't start that way. A lot of its success was based off business deals.

Google, on the other hand, did succeed by making the best technology.

Their search engine was revolutionary and far beyond anything out there. Even so, no company wanted to buy it. What made Google's search engine take off was the fact that anyone could access it from any web browser. It was easy and low cost to use, while clearly better than anything else. The Google search engine spread by word of mouth and blew up that way.

Google success through superior technology made it an exception. But this does not mean it will continue to be an exception.

Just like their search engine, it's said that *all* of Google's technology is way ahead of everyone else's. The biggest gap is in their artificial intelligence (AI). Assuming that's true, will its superiority be enough to dominate the AI market in the future?

Probably not.

The reason Google's search took off is because it could be accessed from any browser. But think about the market now. It's all about platforms. And everyone has their own. Facebook. Apple with their iPhones. The ability to control their specific platforms allows them to restrict access to other companies. This never happened with internet browsers.

The platform is now more important than the actual product. Apple Maps is used 3 times more often on iPhones than Google Maps. We all know Apple Maps is trash. But because it's automatically on the platform, it's just easier for iPhone users to access. So they use it.

The whole tech market is moving towards a focus on messaging. Facebook messenger, Snapchat, What's App, etc. This is where AI will take form, in smart chat bots and the like. But how is Google going to get access to all these different platforms with all the restrictions they have to keep Google out? It's not like a browser in the 90's where you could easily go anywhere. Google will have a tough time overcoming these hurdles, even if their AI tech is superior.

It just goes to show, equity analysis is not as easy as just determining who has the "best" product. It takes a lot more than a great product to make a sustainable, cash-flow rich business.

Hub Spotlight

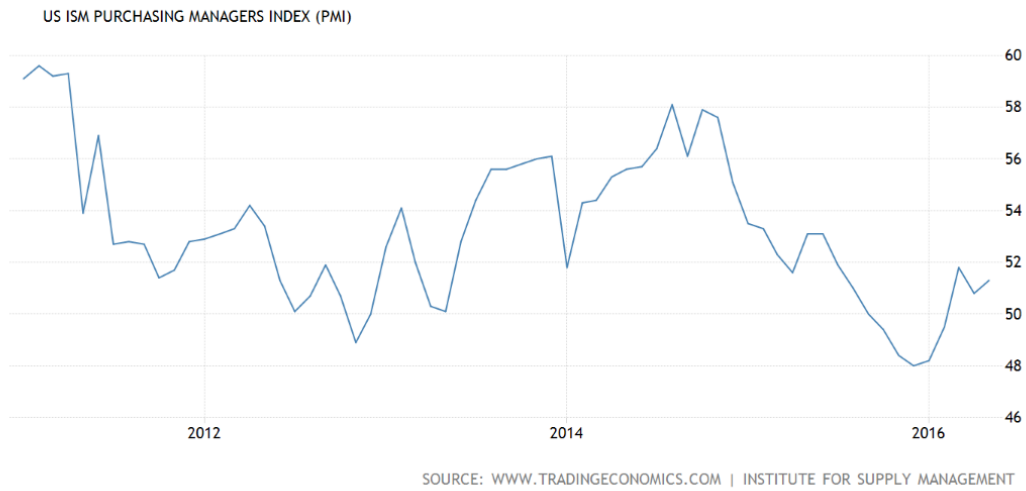
You can check out the updated IMINT here. And the updated HIT List can be found here.

Both the ISM and Unemployment were updated in our Indicator Dashboard.

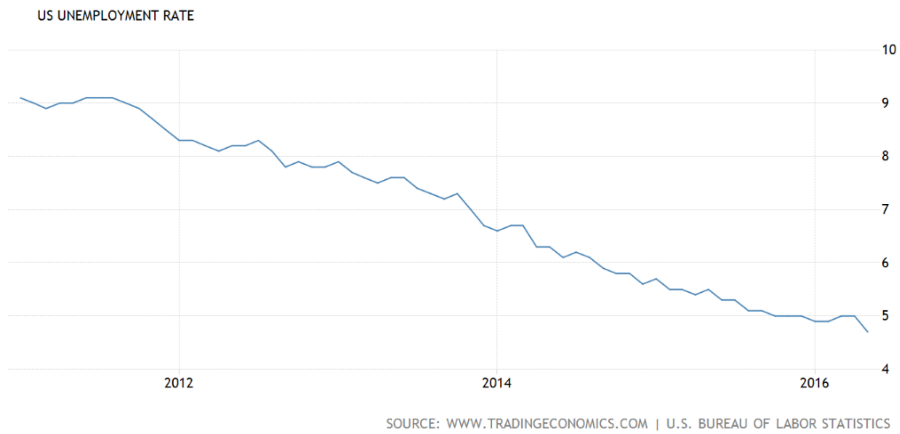
Overall = Neutral

Indicator	Reading	Bullish / Bearish
ISM / PSI	51.30	Bullish
Retail Sales	3%	Neutral
Shiller P/E	26.01	Bearish
Price-to-Sales	1.82	Bearish
Inflation	0.90%	Neutral
Unemployment	4.70%	Bullish
Market Cap/GVA	1.90	Bearish

ISM remained bullish, increasing from a reading of 50.8 to 51.3. Any reading above 50 implies an expansion and is considered to be a positive for the stock market.



Unemployment decreased to 4.7% from a previous reading of 5%. Our reading here remains bullish.



Overall we are still neutral on the US economy. These recent reading didn't change our stance. They were more of the same.

Have an excellent week,

Alex