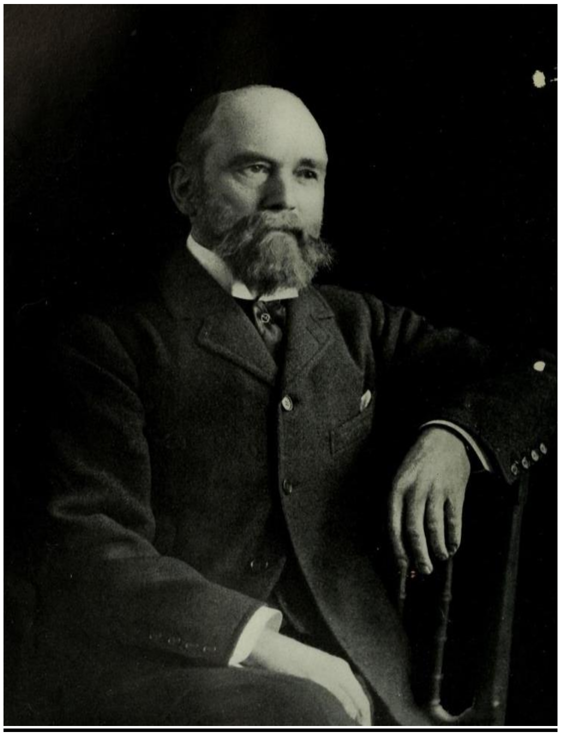
MARKET BRIEF

A Horse Chasing His Thousandth Rabbit



Portrait of James Robert Keene

I'm out in Thousand Oaks California at the moment visiting family and enjoying the warmer west coast weather.

It's been a busy past two weeks for me.

On the 12th I flew from NYC where I was visiting some old friends, back home to DC for a quick turnaround, and onto Vegas to compete in the 24-hour Tough Mudder World Championship. I then limped back to my family's place here in California.

We just had a pre-Thanksgiving on Sunday; since this year many of us will be off doing our own things Thursday. (I fly up to San Francisco tomorrow.)

It was a great time. There was a big crowd of relatives and some of my old Marine buddies showed up. We had good food, a lot of drink, and (with the evenly split number of Republicans and Democrats in the crowd) some spirited debate and discussions on the going ons of the world.

Early in the night, one of my cousin's friends from Oakland whom I had never met, came up and asked me the lamest of icebreakers: *"what do you do?"*.

I'm not a fan of that conversation starter and it's partly because I never know how to answer it. Am I a trader, researcher, writer, business owner, money manager etc? All answers sound pretentious and nobody really cares anyways.

Well it didn't matter because I could tell by the look on her face that she already knew what I did, or at least thought so, something to do with "finance and Wall St". I could tell she wanted to lecture me on the failings of capitalism and how my profession is a drain on society.

So I didn't waste time and figured I'd let her get on with it; I told her I'm a trader. She then started her prepared bit where she asked me rhetorical questions about what *exactly* traders contribute to society. And if I feel that many "market people" just exploit the ignorance of others. And isn't the market just a mechanism to transfer wealth from the many to the few and blah blah blah…

I nodded, smiled politely, and let her finish, and then enthusiastically agreed with her on every point before I extricated myself from the conversation and walked off for a drink.

I didn't care to debate the subject because I knew that somebody like her couldn't understand.

The thing is, I've heard her argument many times before. And what irks me is the ignorance behind the base assumption that a trader's primary drive must be money or greed.

I'm sure that is true for some market players, just as it's true that some doctors practice medicine because of the large paycheck and high status; not because they love caring for people.

But for me that couldn't be further from the truth.

I'm a minimalist and practitioner of Stoicism. I view money simply as a tool (like a hammer), not an endpoint. And I know that people who view money as an ends generally never arrive at their intended destination. They end up walking in circles.

I was lucky enough to learn this valuable lesson early on. Years ago, I worked in executive protection (bodyguarding), to pay my way through college. It was an interesting job.

I worked for actors, musicians, producers, and billionaire business tycoons. And some I got to know on a very personal level. That's a picture the paparazzi took of a younger me with one of my clients to the right.

One of the more surprising realizations I got from doing this work, was that these people who "had everything" were on the whole, terribly miserable.

Of course there were a few exceptions. But for the most part it seemed the more money they had, the more dissatisfied they were. And this inverse relationship was even more true for fame.

The more famous they were, the more lonely.

And I think that's because as a society we've mistaken the act of accumulating money for that of having virtue. We've sold ourselves on the false belief that success can be calculated in dollar terms regardless of the means in which those dollars are made.

This is an easy thing to believe when you don't have much. It's appealing to think you just need X amount more and *then* you'll be content.

The real misery sets in when you finally get that X amount only to find yourself right where you started. Only this time, you don't have the comforting belief that things would be great if you could only get a bit more.

And that is, I believe, what happened to many of my clients.

They thought that accumulating a lot of money would bring them happiness. But really they were just accumulating a lot of hammers. And without a purpose, carrying around a bunch of hammers is just tiring.

So if not for money then why trade? Why devote and sacrifice so much time and energy to a lonely endeavor that boils down to executing entry and exit orders on a computer?

I remember watching a Charlie Rose interview with Stanley Druckenmiller a while back. Charlie asked him why, when he has so much money, does he still spend 60 hours a week trading. Druck replied, "I ***have*** to, I love the game... I just love winning".

James R. Keene — one of the trading greats from the turn of the 20th century — was asked the same question and his response was, "Why does a horse chase his thousandth rabbit? All life is speculation. The spirit of speculation is born with men."

To be a Keene, a Druck, or a Soros, the process of trading *is* the goal. You don't get to that level if you're driven by money, status, or fame… that level simply demands too much sacrifice, too much passion to be propelled by anything other than an unadulterated love for the game itself.

For me, there is no end or destination in trading. It's just something I do because I can't imagine doing anything else. My goal is mastery but I know that's not a singular point. It's a lifelong path.

I play the game simply because it's an extremely fun game to play and I work extremely hard at it because I like to win. That is reason enough for me. After all, life itself is a game, and like Vonnegut said, we're all just here on Earth to "fart around" anyways. So we might as well play a game we enjoy.

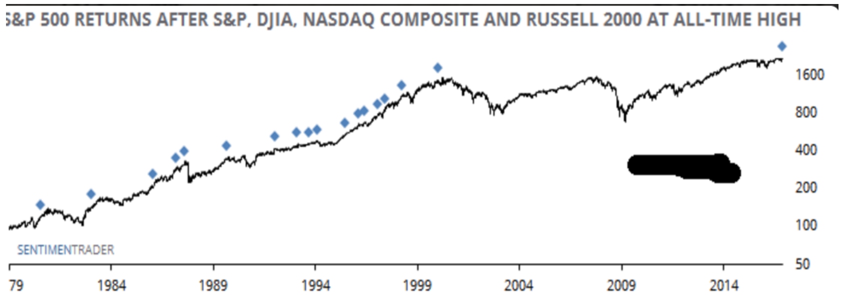
Markets and Macro

The big news this week was the simultaneous new highs made by the "big four". The last time this happened was in 1999.

Looking at the market from a technical standpoint, it's difficult not to be bullish going into the end of the year. Breadth is strong, credit is strong, commodities are rebounding, and economic data is mixed but definitely not signaling a recession in the next few months.

My biggest concern is still the yuan and the strength of the dollar — both of which have continued their trends. But that doesn't seem to be a problem for stock buyers at the moment.

We also have this new "fiscal spending" narrative that's developing. It's gaining traction and is begrudgingly shifting sentiment from a prolonged bearish base to a more positive one. I think this narrative is likely a Soros-style false trend, but false trends can prove nearly as powerful and enduring as real ones. They just carry more risks.



Signals (1979-2016)	1 Day Later	1 Week Later	2 Weeks Later	1 Month Later	3 Months Later	6 Months Later	1 Year Later
1980-07-17	0.5%	0.3%	0.2%	3.5%	10.1%	11.0%	7.7%
1983-01-10	(0.7%)	(0.0%)	(4.6%)	(0.7%)	5.7%	14.5%	15.1%
1986-01-07	(2.7%)	(3.3%)	(3.7%)	(0.4%)	9.2%	13.0%	18.2%
1987-02-17	(0.0%)	(0.9%)	(0.5%)	2.6%	0.4%	17.0%	(9.0%)
1987-08-06	0.3%	3.9%	4.0%	(1.7%)	(22.7%)	(21.7%)	(15.6%)
1989-09-01	(0.3%)	(1.7%)	(2.0%)	0.3%	(0.9%)	(5.7%)	(8.8%)
1991-12-31	0.0%	0.2%	0.9%	(1.3%)	(3.2%)	(2.1%)	5.0%
1993-02-04	(0.1%)	(0.4%)	(3.4%)	1.1%	(1.4%)	(0.3%)	7.2%
1993-08-24	0.1%	0.8%	(0.7%)	(0.4%)	(0.1%)	2.5%	1.0%
1994-01-28	0.6%	(1.9%)	(1.8%)	(3.0%)	(5.4%)	(3.7%)	(2.1%)
1995-06-05	(0.0%)	(0.9%)	1.8%	2.2%	5.3%	13.3%	24.7%
1996-02-05	0.8%	3.1%	(0.1%)	1.6%	(0.1%)	2.9%	22.7%
1996-05-20	(0.1%)	(0.1%)	(0.1%)	(1.7%)	(1.0%)	9.6%	23.8%
1997-01-10	0.0%	2.2%	1.5%	3.4%	(2.9%)	20.7%	22.1%
1997-05-23	0.3%	(0.1%)	1.9%	5.8%	9.0%	13.2%	29.2%
1998-03-16	0.1%	1.5%	1.3%	3.7%	(0.2%)	(4.6%)	21.0%
1999-12-29	0.1%	(4.2%)	(2.1%)	(7.1%)	3.1%	(0.6%)	(9.2%)
2016-11-21							
Mean	**(0.1%)**	**(0.1%)**	**(0.4%)**	**0.5%**	**0.3%**	**4.7%**	**9.0%**
Median	**0.0%**	**(0.1%)**	**(0.1%)**	**0.3%**	**(0.1%)**	**2.9%**	**7.7%**
All Days	0.1%	0.3%	0.6%	1.2%	2.9%	5.7%	11.5%
Risk	0.0%	(0.3%)	(0.8%)	(1.6%)	(3.4%)	(4.6%)	(4.8%)
Reward	0.0%	0.5%	0.8%	1.1%	4.6%	9.6%	17.6%
# Up / Down	10 / 7	7 / 10	7 / 10	9 / 8	7 / 10	10 / 7	12 / 5
Relevance	6%	56%	81%	77%	91%	71%	73%

 Relevance > 95% suggests statistical significance; Risk = avg max loss; Reward = avg max gain

SentimenTrader @sentimentrader · 16h

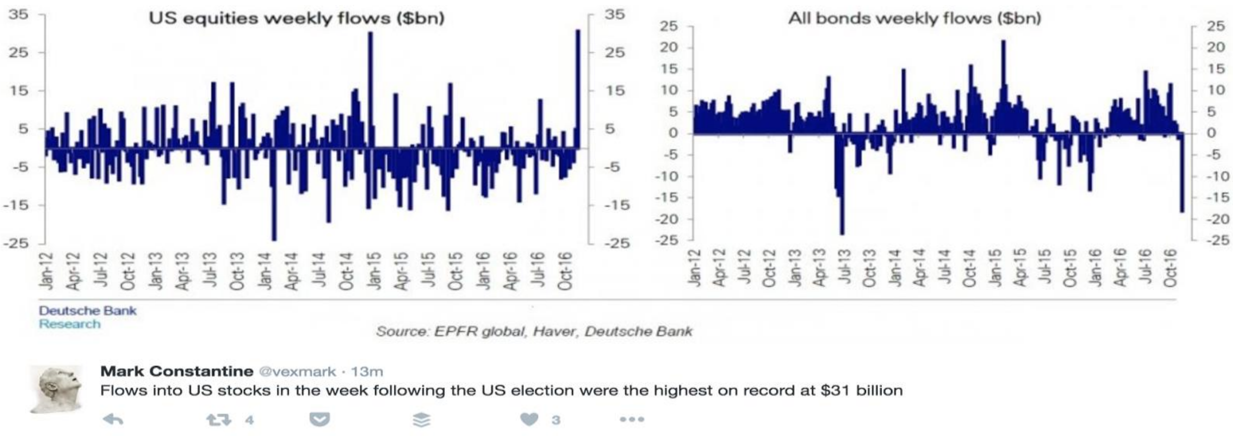
When the "big four" make new all-time highs together. Actually a negative average return 3 months later.

56 84

Unless something changes, I feel compelled to buy into any retracements.

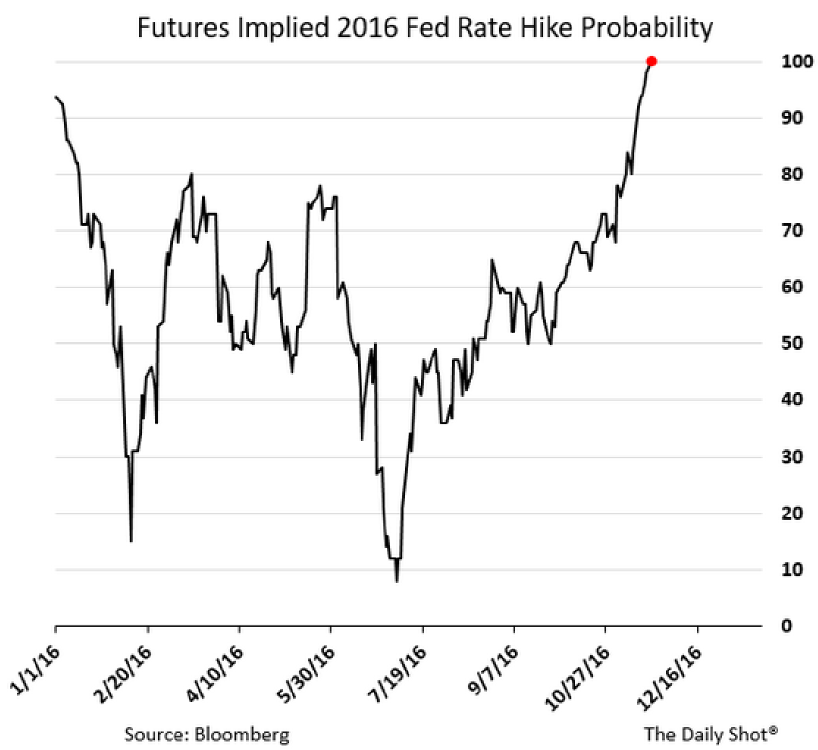
I'm seeing some potentially great long setups in the market. If this narrative continues to coalesce and strengthen, we could see the 98'-99' scenario that we've talked about in past Briefs play out.

And looking at fund flows into US stocks immediately following the election — which were the highest on record — it seems like sentiment around equities has finally turned a corner.



Next month holds some important macro events. The Fed meets on the 2nd and Italy votes on its referendum on the 4th.

Regarding the Fed, the market has already priced in a December rate hike. So there's much greater potential for a surprise "no hike" to have an impact on markets (specifically in the form of a weaker dollar) or for them to aggressively increase their hawkishness in their forward guidance.



I think the likeliest scenario is that they hike 25bps and maintain the expected slow rate hike path with their forward guidance. And this will be interpreted as market positive — but like I said, it's already priced in.

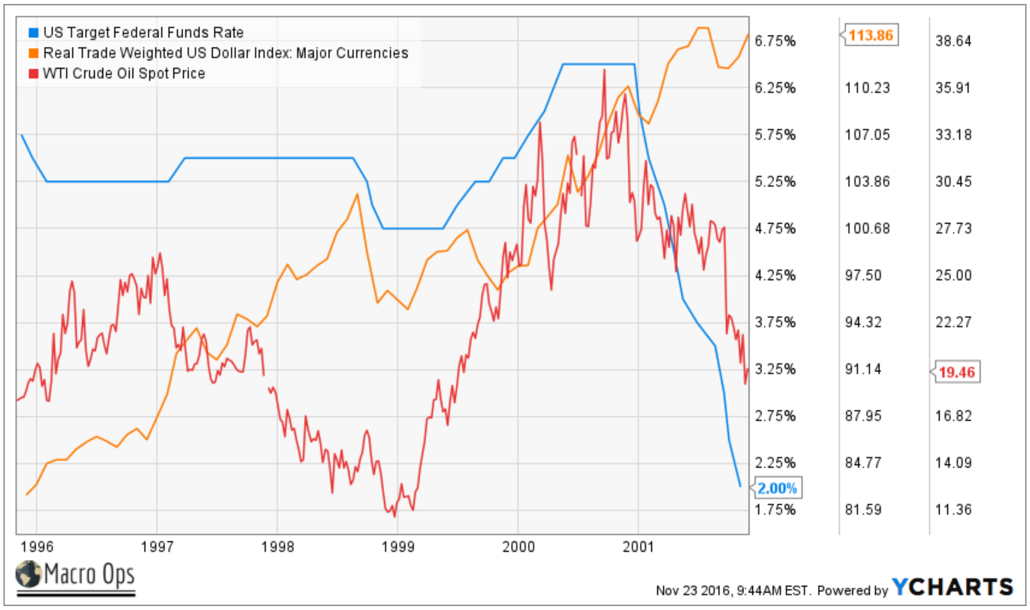
The Italian referendum is another matter. I don't have any edge there, but if any of you have a strong opinion one way or another, please shoot us an email or hop in the Comm Center.

I'm inclined to think that we don't see too many more political surprises over the next few months. After Brexit and Trump, I believe the Western world may take a bit of a break to cool their heads, but we'll see.

Going back to the 98'-99' scenario, there are just too many similarities on a macro level to dismiss. Let's quickly cover and compare.

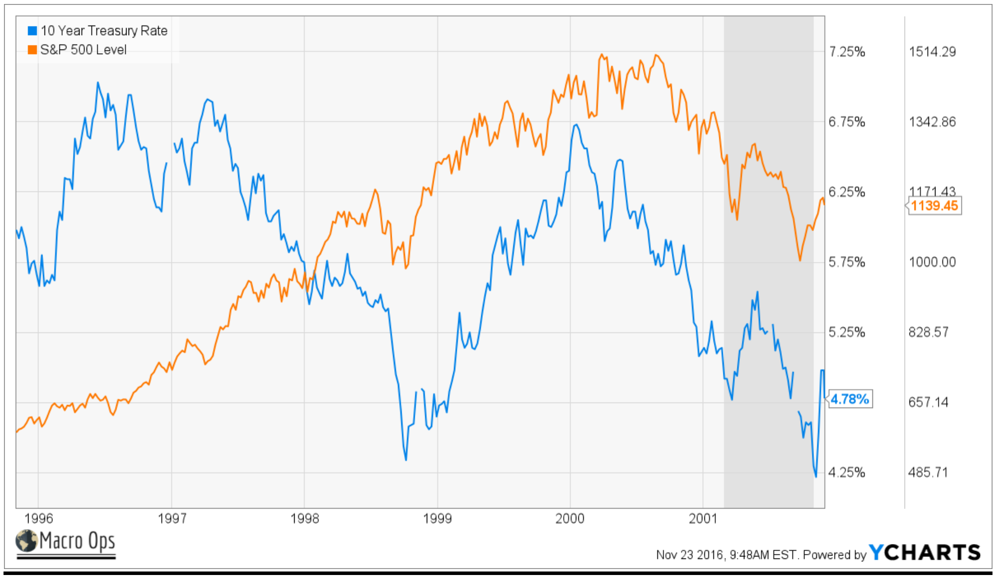
In the mid 90's, Greenspan stopped mid-way through the Fed's hiking cycle because the economy started to sputter from the tighter monetary policy.

The rising rates had caused the dollar to go on a run, which subsequently drove oil to a cyclical low in the teens. The dollar strength and oil weakness put a world of hurt on emerging markets. Sound familiar?



Eventually this led to the Russian default, the Asian financial crises where some countries lost their currency peg, and a blow up of Long-term Capital Management (LTCM) — the largest hedge fund implosion ever at the time.

Market sentiment was sour. Stocks spent most of 1998 in a bear market. US long bonds were bid up. The dollar traded in a range and oil finally found a bottom near the end of the year.



And then the sky cleared.

Sentiment quickly shifted. The Fed began hiking rates again, bonds sold off and yields rose as investors rotated money out of safety and into risk. Stocks rallied hard for a nearly a year straight.

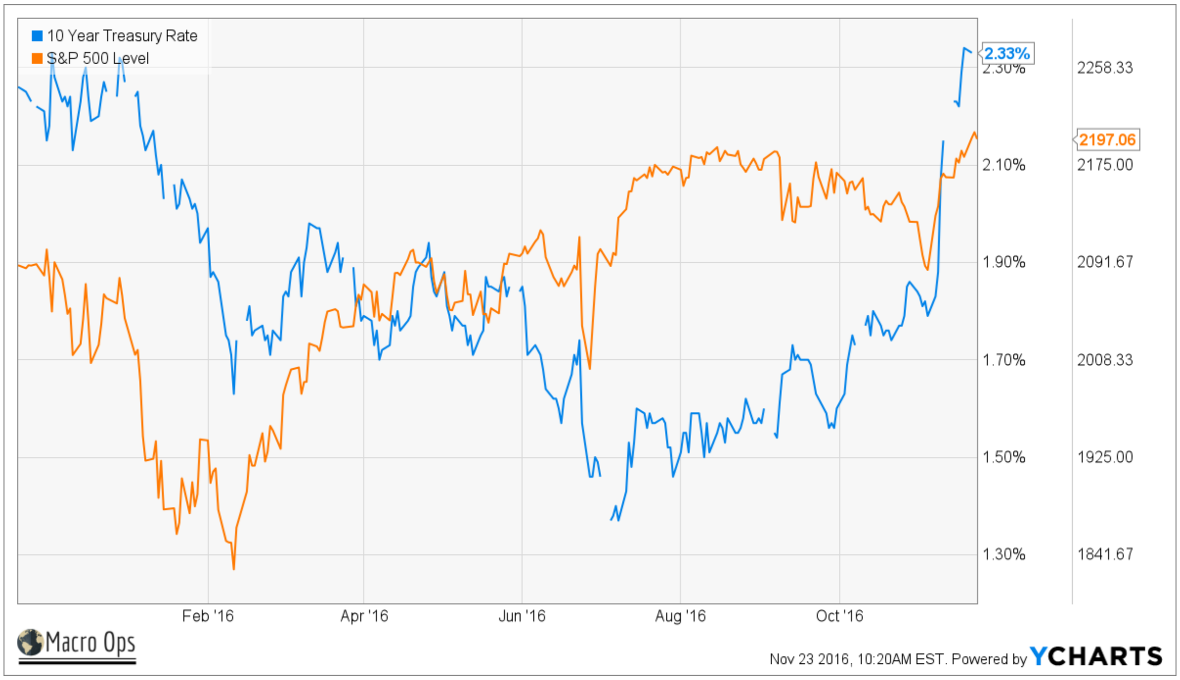
But some other, even more interesting things happened.

Traditional correlations broke down. The dollar and oil moved higher in tandem. US credit spreads (a measure of risk and stability in the economy) remained high and they continued to move higher with stocks into the end of the year.

Now look at where we are today.

The Fed is about to resume hiking rates again after a year hiatus. The dollar is breaking out of a long consolidation period and moving higher. The inverse relationship between the dollar and oil seems to have broken down with oil moving higher as well.

Bonds have sold off and rates have gone up and stocks have climbed with them in lockstep fashion. And credit spreads remain elevated (though not in danger territory)



Like 98', the majority of stocks are rebounding after being in a technical bear market. Sentiment shifts like this tend to catapult stock indexes on vertical runs and that may be what we're seeing now. Soon FOMO may displace concerns over valuation and "risks" and we'll see investors who've been sitting with large cash holdings over the last year begin to pile into the market.
Of course, just as there are many similarities between now and the late 90's, there are as many differences. History doesn't repeat but it does occasionally rhyme and that's what we potentially have here.

Unlike the late 90's, we don't have a major technological change driving an exciting narrative to pull retail money into stocks. This time we just have Trump and fiscal spending.

But negative sentiment has been very strong for a long time. Our human tendency towards optimism can be just as strong an attractor. Sometimes just a little bit of a sentiment shift is enough to drastically affect behavior.

Tactical

Here's some things I'm looking to potentially add to the Strategic Portfolio.

Skyline Corporation is a US manufacturer of modular housing. I'm becoming more bullish on the housing sector, especially the part that caters to lower/middle income earners.

SKY is trading at less than half of annual sales. Its sales grew over 25% YoY this last quarter and earnings just recently turned positive for the first time in a number of years.

The stock also has a really nice technical setup. It broke out of a multi-year base at the beginning of the year and has been trending higher along its 50-day moving average. I will probably put on a starter position in Strat over the next few days.

FreightCar America (RAIL) builds railcars for the transportation of bulk commodities and containerized freight products in the US and Canada.

This is a cyclical business as their sales tend to follow the pricing of the commodity sector who uses their railcars to move their products.

RAIL is currently trading at a third of sales. It has a solid balance sheet, a small stock float, and lots of recent insider buying.

It looks like it has put in its cyclical bottom with its recent strong reversal on high volume. Right here offers a good buying opportunity to start building a position. We'll be adding this to the Strat port in the coming days.

And finally there's Kingstone (KINS).

KINS is an insurance provider that underwrites property and casualty insurance products for small businesses and individuals in New York.

The company trades at 10x earnings, has strong sales and earnings growth, and will benefit from a rising rate environment. Another insurance stock I also like is KFS.

On technical basis, KINS is in a great looking trend, but is a bit overextended on a short-term basis. This makes the entry a little bit tougher to execute. I may just start with a small position in this stock and add to it as price action develops.

Lastly, if you're in gold, dump it. It's just going lower from here. The dollar bull market looks like it has officially reignited and gold has nowhere to go but down.

That's all I've got for this week. To our U.S. Operators, Happy Thanksgiving. I hope you all enjoy a good meal with your family and friends and remember all that we have to be thankful for!

Cheers,

Alex

Portfolio Snapshot

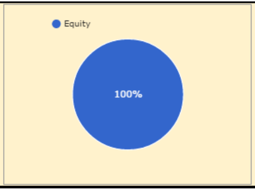
Macro Ops Strategic Portfolio

NAV $1,039,395

Asset Class	Position	Size	Cost Basis	Risk Point	Open Risk	Target 1	Beta (1yr)	Notional
Equity	Stealth Gas GASS	3,800	$3.90	$3.27	$2,394.00	$6.00	2.26	$30,186.00
Equity	Goldfield GV	6,300	$3.10	$2.52	$3,654.00	$4.50	1.81	$19,530.00
Equity	Intrepid IPI	45,000	$1.32	$1.09	$10,350.00	$3.50	-0.37	$56,700.00
Equity	Dorian LPG	9,500	$6.99	$6.15	$7,980.00	$9.59	2.33	$69,445.00
Equity	Whiting Petroleum WLL	5,000	$9.18	$8.10	$5,400.00	$16.42	2.94	$45,750.00
Equity	Navios Maritime NMM	7,600	$1.75	$1.36	$2,964.00	$3.33	4.46	$18,544.00

Metrics

Exposure Breakdown	
Equity	$32,742.00
Commodity	$0.00
Fixed Income	$0.00
Forex	$0.00



Total Open Risk	Portfolio Beta
$32,742.00	0.44
3.15%	

*Updated 11/23

Macro Ops Income Portfolio

NAV $1,116,111

Asset Class	Position	Size	Cost Basis	Max Profit
Option	SPX Dec 15 2045 Put	-10	$15.38	$15,380.00
Option	SPX Dec 15 1600 Put	10	$1.06	Hedge
Option	VIX Dec 20 15 Puts	800	$1.21	~

Scenario Analysis/Stress Tests

Worst Case	Worst Drawdown
SPX-10%	-$88,800
SPX-20%	-$300,000

**Updated on 11/23

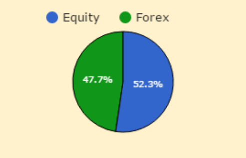
Macro Ops Tactical Portfolio

NAV $987,500.00

Asset Class	Position	Size	Cost Basis	Risk Point	Market Price	Open Risk	Target 1	Notional
Equity	First Solar FSLR	-2,000	$32.49	$37.00	$29.64	$14,720.00	$19.66	$64,000
Forex	Euro (6EZ6)	-7	$1.0859	$1.0941	$1.05580	$33,512.50	$1.0470	$937,431
Forex	Yen (6JZ6)	-3	$0.9224	$0.9434	$0.88770	$20,868.75	$0.8738	$344,737
Forex	Aussie Dollar (6AZ6)	-5	$0.7334	$0.7482	$0.73890	$4,650.00	$0.6841	$369,482
Forex	Dollar Index (DXZ6)	3	$101.34	$99.91	$101.86	$9,750.00	$107.6	$508,910
Equity	Nikkei (NKDZ6)	3	$18,015	$17,435	$18,410	$14,625.00	$20,460	$276,121
Equity	Natrl Resource Prtnrs NRP	1,000	$36.00	$29.32	$35.65	$6,330.00	$61.12	$38,400
Equity	Transports IYT	844	$154.00	$145.81	$161.38	$13,141.08	$176.43	$132,888
Equity	S&P 500 (ESZ6)	6	$2,156.25	$2,138.00	$2,196.00	$17,400.00	$2,221.00	$652,950
Equity	GDX	-2,820	$20.85	$23.31	$20.42	$8,149.80	$13.75	$61,617

Metrics

Exposure Breakdown	
Equity	$59,740.88
Commodity	$0.00
Fixed Income	$0.00
Forex	$54,381.25



Total Open Risk
$143,147.13
14.50%

**Updated 11/23

Asset Allocation Weightings

Asset Allocation Weightings is a new section we're introducing after getting feedback from some of the financial advisors in the Operator community (thanks Stephen!). Let us know how you like it. Any feedback or suggestions you can provide will go a long way in helping us develop this further. Thanks.

Asset Allocation Weightings	Underweight	Neutral	Overweight
Large Cap Growth		X	
Large Cap Value			X
Small/Mid Cap			X
International Equity			X
Emerging Market Equity			X
Real Estate, Domestic			X
Real Estate, Global	X		
Consumer Discretionary			X
Biotech		X	
Industrials			X
Materials			X
Financials			X
Tech		X	
Telecom		X	
Healthcare		X	
Consumer Staples	X		
Utilities	X		
Long Bonds	X		
Intermediate Bonds	X		
Short Bonds		X	
High Yield	X		
TIPS		X	
Emerging Market Credit		X	
Gold	X		

Notes:

- Large cap growth is overextended and we favor US centric, non-MNCs at the moment.
- With fiscal spending as the driving narrative going forward, we should see beaten down value plays outperform speculative growth stocks.
- US housing market is picking up and sentiment on housing stocks should follow
- A big narrative shift has just occurred for financials with the election of Trump. Not only are rates going, up which is good for bank's NIM, but there's good chance we see regulation get rolled back.
- In a rising rate environment, the gold bug narrative is severely threatened.