
Not Stupid

Trading Wisdom

It is important to come to the table with the goal of mastering yourself, not just the game. In many ways, this is more important than mastering the game. The reason is simple: For the most part, you already know the game. This mastering of yourself, however, is the work of a lifetime.

...
Years of experience eventually teach you that your main battle, always, is with yourself — your propensity for errors, for rationalizing marginal hands into good hands, lack of concentration, misreading other players, emotional eruptions, impatience, and so on. Your opponents are merely dim outlines that come and go. Few of them ever reach the exalted heights of damage that you can inflict on yourself. ~ Zen and The Art of Poker

Charlie Munger once said, “It is remarkable how much long-term advantage people like us have gotten by trying to be not stupid instead of trying to be very intelligent.” I’ve seen so many “smart” people get blown out of markets because they thought they knew more than they did. They were too smart by half...

Like poker, much of this game is about not making unforced errors. Not taking subpar trades because you want the action... not oversizing because you want the thrill... and not thinking that you know more than you do.

The markets have a way of humbling you. Those who embrace this humility and use it to make their approaches more robust, tend to survive. And those who don’t, never last long.

Markets and Macro

The S&P 500 finished on a strong note last week, closing near its highs and right below the “all clear” 2750 level that we pointed out. All our breadth indicators are showing strength which suggests we’ll likely see the S&P clear this level and move higher in the coming week.



There’s been some interesting news out this past week.

- Chinese authorities assumed control of Anbang, the country’s second largest insurance company and owner of the NYC Waldorf-Astoria, in order to stave off a “potential AIG moment” for China. It’s believed that the company is sitting on a large pile of toxic paper. And considering the company’s assets are equivalent to “a staggering 3.4 percent of China’s GDP,” as noted by Bloomberg, it’s probably a good thing that the government took action. The important question is, how many other Anbangs are out there in the Chinese economy? You can read more about it [here](#). Also, news just came out that President Xi is clearing the path to become China’s permanent ruler (link [here](#)).
- Apparently, Chinese regulators are looking into efforts to allow its citizens to trade US listed shares of Chinese companies (think BABA and JD). It’ll be awhile before something comes of this, if anything at all. But it would certainly be bullish for our JD investment. Here’s [a link](#) for more info.
- Abe’s government is considering allowing the BoJ to buy foreign bonds. Despite the official reasons given, this would be a direct effort to devalue the yen. Japan is an export

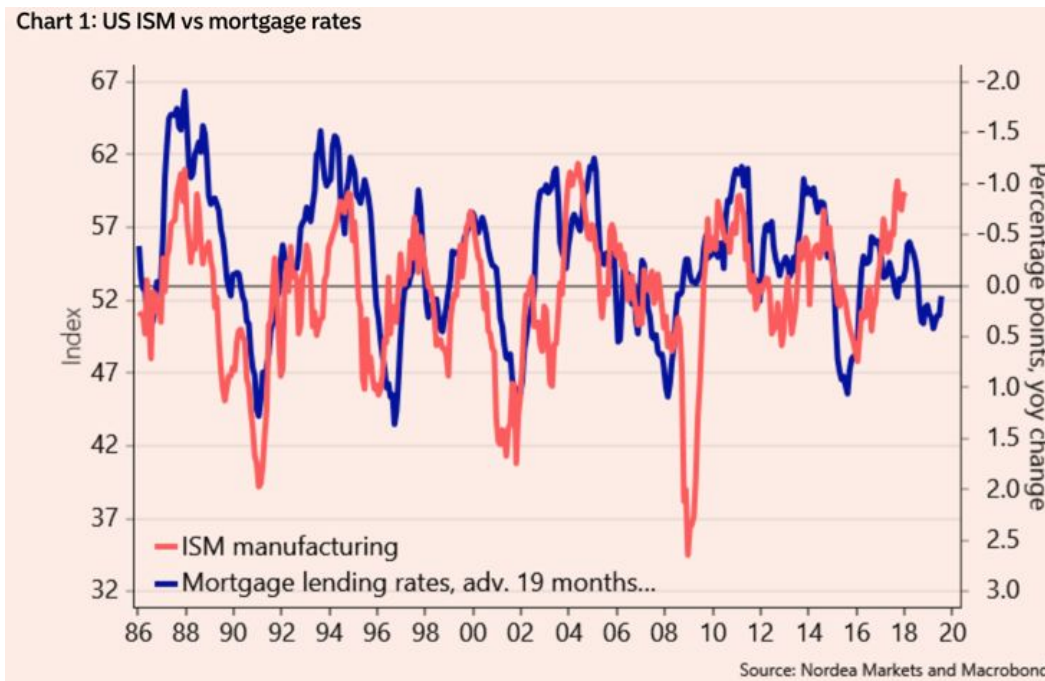
dependent economy so a weaker yen helps boost their nominal growth. It's to be seen whether they'll be able to do this but there's speculation of a potential Abe-Trump agreement where the US will allow the currency manipulation in exchange for helping to fund the US deficit (ie, buy US bonds). Here's a [link](#) for more info.

Nordea's FX Weekly put out some interesting charts. The piece is worth a read, here's the [link](#).

The Nordea shop is expecting a dramatic decline in liquidity in the coming year and a subsequent rise in credit spreads — a belief that we hold as well.

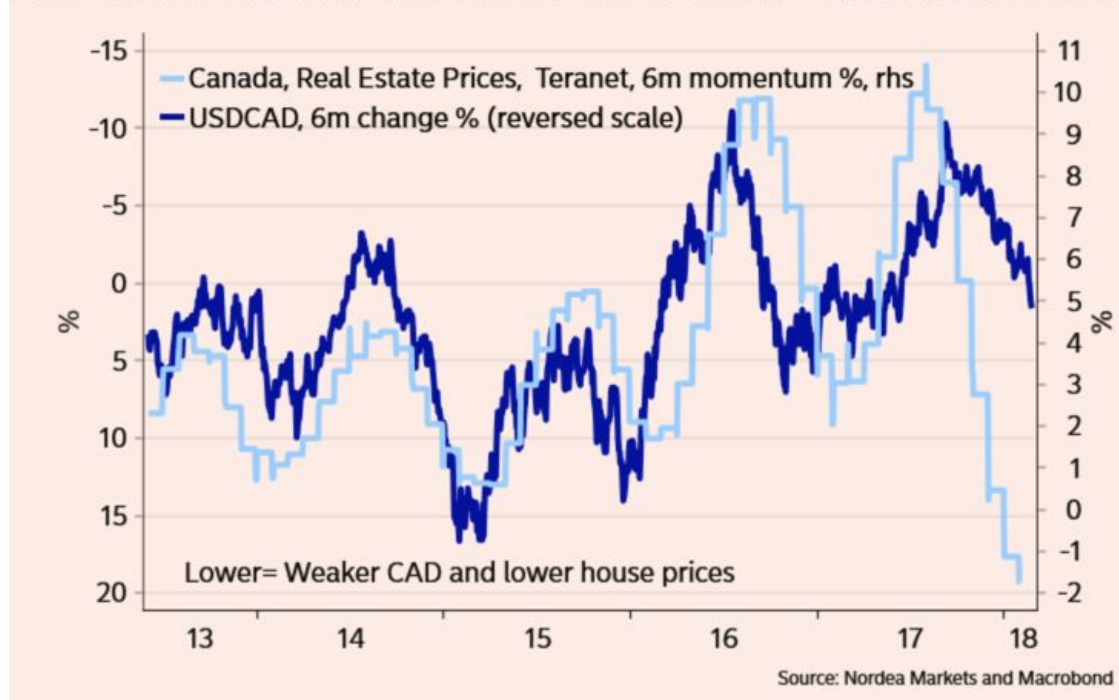


Which should begin to be reflected in a slowdown in the economic data. Indicators such as the ISM are likely to see some coming weakness.



And they point out the interesting correlation between the momentum in Canadian home prices and the USDCAD pair. Housing prices in Canada fell in the fourth quarter which is the first decline in over 5 years.

Chart 8: Current house price momentum in Canada historically led to double-digit increases in USD/CAD



All of this makes me wonder whether the dollar's slide is close to over.

Draining liquidity, widening credit spreads, and Asian governments looking to put a ceiling on their currency appreciation should at the least place a floor under the dollar. That doesn't necessarily mean though that it's time to be a US dollar bull. The dollar could just as well chop around for a while and frustrate traders.

The market though doesn't seem to be concerned about draining liquidity. Our basket of FAANG stocks closed at new all-time weekly highs.



It's quite possible we're entering a period similar to 99'-00' where we'll see both deteriorating liquidity and a pick up in positive equity momentum as sentiment takes over as the primary driving force.

The relative equity momentum of the tech sector (XLK) versus the market supports this idea. Below is a monthly chart. Momentum tends to build on itself in a snowball fashion. I wouldn't be surprised if we see positive range expansion in the bars below as investors pile into the tech sector.



If so, Micron Technologies (MU) should perform very well. We held off entering a position last week because we wanted to see the market give us more confidence that a bottom was in place. Now I think we have that and we'll be buying DOTM calls on MU on Monday morning.



Crude oil continues to look good. There's still an overhang of long spec positioning shown in the COT data but overall market sentiment towards it appears to be mixed to slightly negative, which is good.



Now may be a good time to add to our long energy theme. And because we expect greater equity volatility across the board over the next year, it makes sense to get this exposure through our DOTM call strategy.

Diamond Offshore (DO) is a company we covered in a couple of weeks ago in our weekly Musings ([link here](#)). Despite its collapse in revenues from lower oil prices, the company still produces substantial free cash flow (\$360m on a TTM basis). It trades at only 4x these cash flows, has a strong balance sheet with no debt due for another 5 years, and is trading at historically all-time low valuation multiples.

The DOTM calls on DO are reasonably priced and offer us great optionality on playing a further recovery in oil. We'll put a position on early Monday.



Lastly, I want to share this chart below. It shows utilities (XLU) relative to the S&P. XLU is trading at its lowest levels relative to the market since 2000.



Utilities essentially trade as a bond proxy. And both appear to be oversold. Not only that but short positioning is extremely stretched in bond futures which sets up the potential for a strong snapback rally. The chart below shows speculators holding record short positions in 10yr notes.



The XLU chart (shown here on a weekly) looks like it's put in a bottom. This may be good swing trade opportunity for us.



This week we have a plenty of interesting macro data releases. There's the Euro-area flash inflation print on Wednesday, and the US core PCE deflator and ISM manufacturing on Thursday. And JD puts out earnings on Friday, so let's cross our fingers for a strong beat on that one.

I'm still working on digs into Purple Innovations (PRPL) and Fairfax India Holdings (FIHu.TO) and hope to put those out this week. One of the problems with digging into smaller less known stocks like these two is that information and data can be scarce and they often have little to no IR department to reach out to. But that's also why they have little coverage and are mispriced in the first place.

That's all I've got for this week. Hope you had a good weekend and I'll see you in the CC!

- Alex

Macro Ops Portfolio		YTD	Inception (16')				
NAV	\$2,774,041	2.85%	38.08%				
Big Bet Macro							
Asset Class	Position	Size	Cost Basis	Risk Point	Open Risk	Target	Last Price
Equity	Limbach LMB	2,750	\$13.66	\$12.00	\$550.00	\$18.00	\$12.20
Equity	JD	5,867	\$44.74	\$36.00	\$72,457.45	\$72.00	\$48.35
Equity	Interactive Brokers IBKR	1,800	\$41.71	\$58.50	\$19,314.00	\$55.50	\$69.23
Equity	W&T Offshore WTI	16,000	\$2.18	\$3.30	\$11,200.00	\$4.50	\$4.00
Equity	Yatra Online YTRA	39,286	\$7.40	\$6.45	\$22,785.88	\$14.00	\$7.03
Equity	United Insurance UIHC	13,000	\$16.98	\$17.00	\$31,850.00	\$20.00	\$19.45
Equity	Trip Advisor TRIP	7,754	\$36.46	\$33.80	\$65,909.00	\$50.00	\$42.30
Equity	BCS Jan '19 15 Call	574	\$0.35	\$0.00	\$17,220.00	\$3.50	\$0.30
Equity	DB Jan '19 30 Call	670	\$0.30	\$0.00	\$6,700.00	\$3.00	\$0.10
Equity	CCJ Jan '19 17 Call	236	\$0.41	\$0.00	\$4,012.00	\$5.00	\$0.17
Equity	FCAU Jan '19 25 Call	108	\$0.90	\$0.00	\$22,572.00	\$5.00	\$2.09
Equity	JD Jan '19 70 Call	108	\$0.92	\$0.00	\$17,496.00	\$7.00	\$1.62
Equity	TRIP Jan '19 75 Call	108	\$0.89	\$0.00	\$6,480.00	\$7.00	\$0.60
Equity	CHK Jan '19 10 Call	750	\$0.14	\$0.00	\$10,875.00	\$1.00	\$0.15
Equity	Tesla Mar '18 240 Put	28	\$8.80	\$0.00	\$336.00	\$24.00	\$0.12
Equity	MS June '18 65 Call	126	\$0.46	\$0.00	\$4,662.00	\$3.00	\$0.37
Equity	WMT June '18 120 Call	126	\$0.51	\$0.00	\$2,142.00	\$3.00	\$0.17
Volatility							
Asset Class	Position	Size	Cost Basis	Risk Point	Open Risk	Target	Last Price
Rates	IEF March 2018 104/109 St	150	\$1.31	\$0.00	\$31,050.00	\$7.00	\$2.07
Commodity	SLV June 2018 17 Straddle	130	\$2.84	\$0.00	\$24,050.00	\$5.00	\$1.85
Commodity	GLD Sep 2018 128 Straddle	24	\$15.10	\$0.00	\$21,840.00	\$30.00	\$9.10

Risk Budget				
	Total Allowed (In Bps)	Total Used	Total Available	Percentage Used
Master	2500	1,419	1081	56.74%
Big Bet Macro	1250	1141	109	91.29%
Volatility	1250	277	973	22.19%

**Updated 2/25