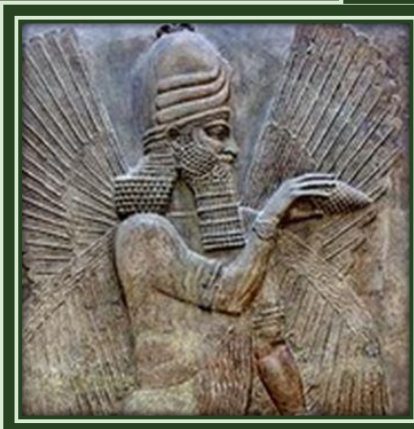
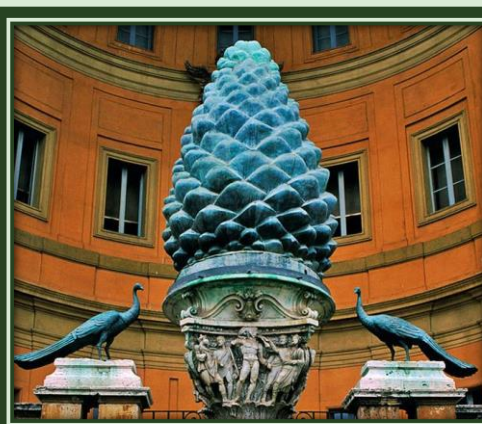




Welcome back to WMW for the 4<sup>th</sup> volume in the ongoing journey and a new adventure into pinecones and this week into the middle class that is changing the world.

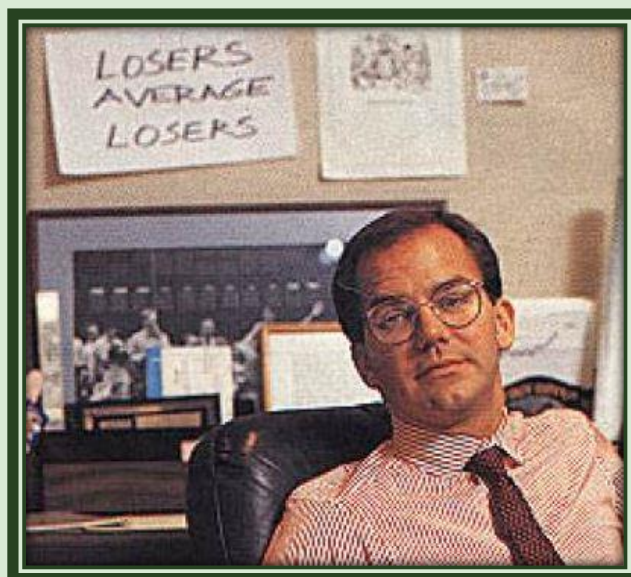
If you have been reading this letter you know I have a thing for pinecones and for pine forests in general. As it turns out I am not the only one. Pinecones have been a big deal for a long time on this planet. First of all, have you ever noticed the Pope's staff? It has a pinecone on it. The Pope also has the largest pinecone statue in the world at the Vatican (3 stories tall). The symbology goes back much earlier than the Pope however. The Ancient Egyptian God Osiris carried a staff that had two serpents meeting at a pinecone – which dates back to 1224 BC. Dionysus (Greek mythology) also carried a staff topped by a pinecone. The pinecone has been a symbol of supreme knowledge by many cultures for thousands of years and most of us just see them as Christmas ornaments. The pineal gland is named after pinecones because of the similar appearance. The pineal gland is known as the “third eye” which is an important part of the brain that regulates sleep by governing our perception of light to create melatonin. Throw in the “strategy” of the pinecone I have covered in previous letters and you can begin to understand the power of a little cone of tree seeds.





No investing analogies there – just some interesting history about the cultural significance of pinecones. But don't worry – nature is here to teach us an investing lesson again this week. Nature is after all the best teacher.

One impressive feature of pine trees is their incredible ability to self-prune. Chances are you have seen a pine tree without branches until perhaps twenty feet above the ground, if not higher. The tree “decides” to cut those lower branches loose in order to best allocate its precious resources in order to get the best return on investment. This is a cost benefit analysis that most investors do not use as well as your typical red pine does. A tree only has so much food, minerals, water, and light to utilize to grow, just as an investor only has so much capital to utilize to grow. Branches that contribute to growth get to live and branches that do not are cut off from further investment. Traders know this practice as cutting losses or selling losers. The best traders sell losers quickly and move on, just like the most prosperous trees. This can also be summed up by Paul Tudor Jones' famous “losers average losers” – if a tree devoted more precious resources to its “loser” branches, it may die. The same goes for our portfolios as traders. I think this issue is worst in long term portfolios where older folks who have had multiple brokerage accounts and 401Ks and IRAs have a soup full of mutual funds, stocks, bonds, and ETFs. Their portfolio may still have high fee index funds that only carry say the S&P 500 but at an absurd fee. These portfolios are in desperate need of self-pruning. The math on what 0.5% does to your returns over time is astonishing, and the boost many people could see over the years from self-pruning is substantial. So if you are a trader – cut your losses quickly and efficiently. If you are a long term investor – self-prune your portfolio to ensure higher returns over the years. Be more like a pine tree.

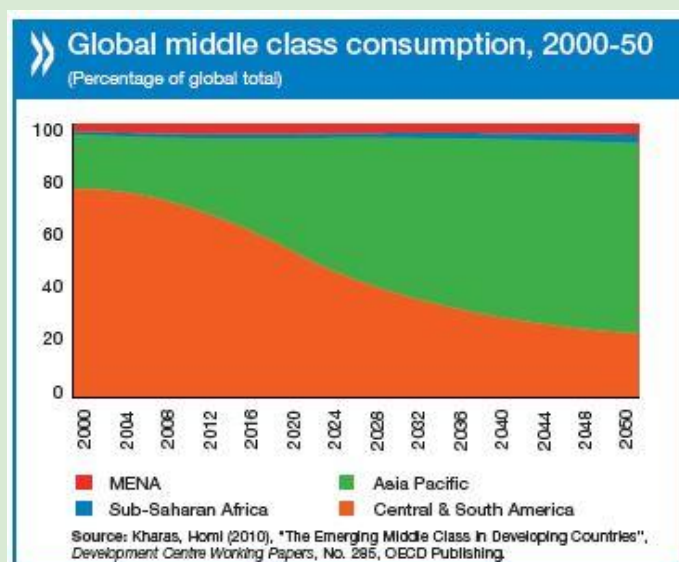




This week I wanted to cover the exploding middle class in Asia because it is a dramatically underappreciated phenomena in global macro in my opinion. To kick this off I want to just throw out some bullet points and some graphics for your consideration.

- Very soon (like a couple of years soon) intra-Asian trade will be worth twice as much as Asia’s trade with the rest of the world. [Link](#)
- By 2030 two-thirds of the global middle class will live in Asia. [Link](#)
- By 2030 Asia will account for almost double the world’s middle class consumption compared to North America and Europe – 60% [Link](#)
- By 2030, global middle-class consumption could be \$29 trillion more than in 2015. Only \$1 trillion of that will come from more spending in advanced economies. [Link](#)
- Asia will have more middle class citizens than the West has total citizens in just 2 years [Link](#)
- By 2022, the middle class could be consuming about \$10 trillion more than in 2016; \$8 trillion of this new spending will be in Asia. [Link](#)
- About 150 million people will be added to the middle class each of the next 5 years and 88% of the next billion will be in Asia. [Link](#)
  - 380 million Indians, 350 million Chinese, and 210 million other Asians
- By 2030, today’s lower middle-income countries, including India, Indonesia, and Vietnam, will have middle-class markets that are \$15 trillion bigger than today. [Link](#)
- The rate of increase of the middle class, in absolute numbers, is approaching its all-time peak. [Link](#)

**For more read Macro-Ops’ great piece on the wealth s-curve and what this means**





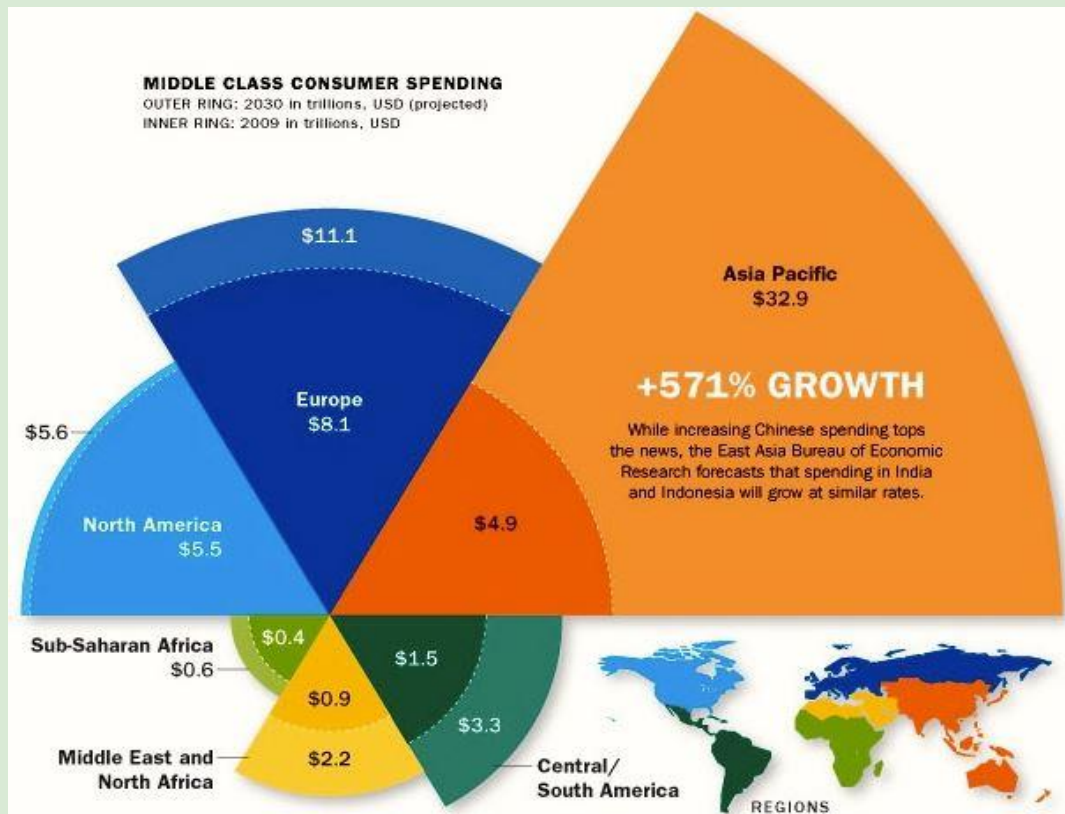


Figure 7. Regional contribution to next middle class billion, 2015-2022

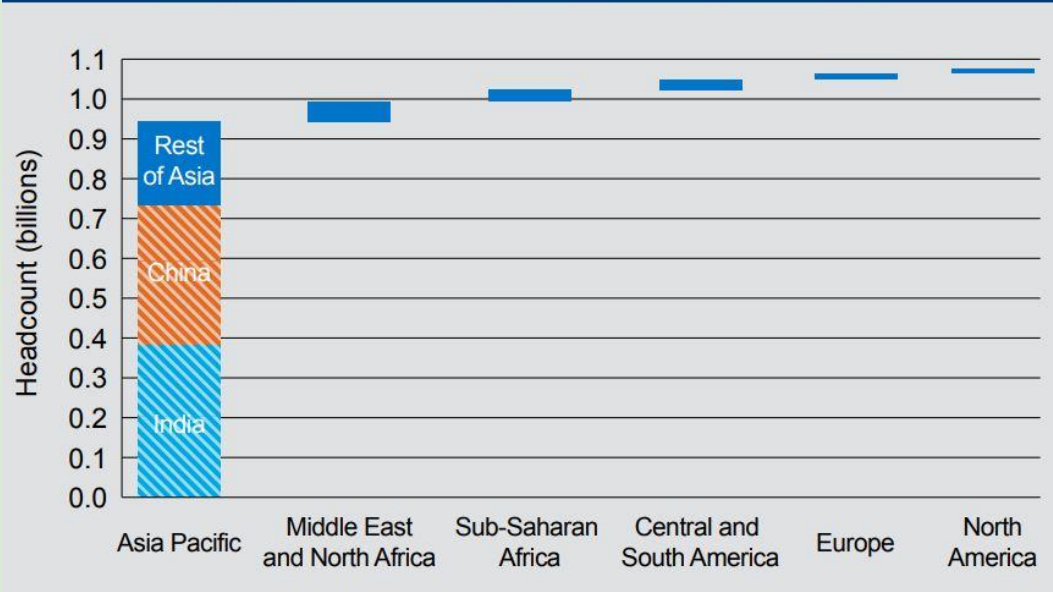
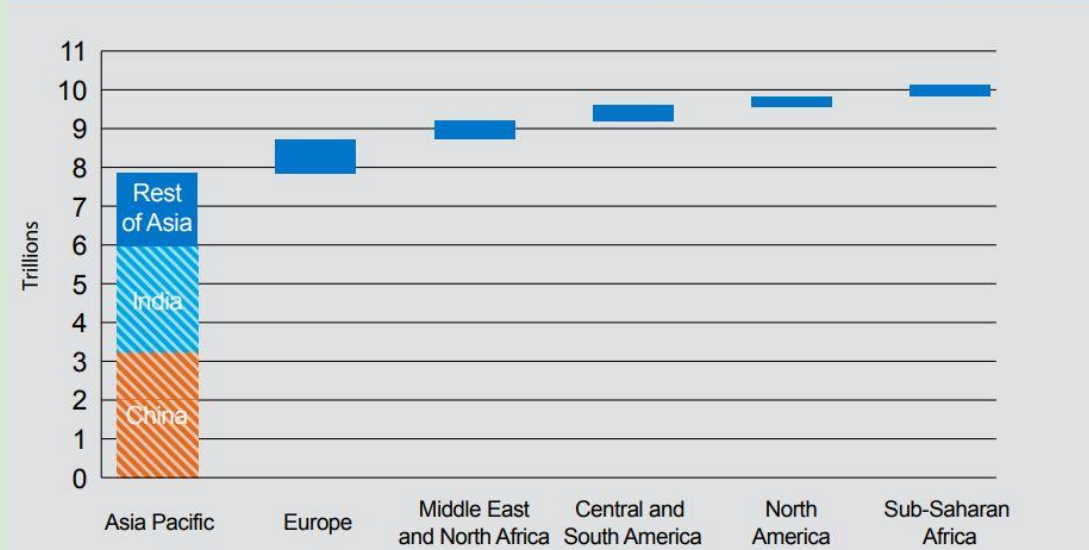


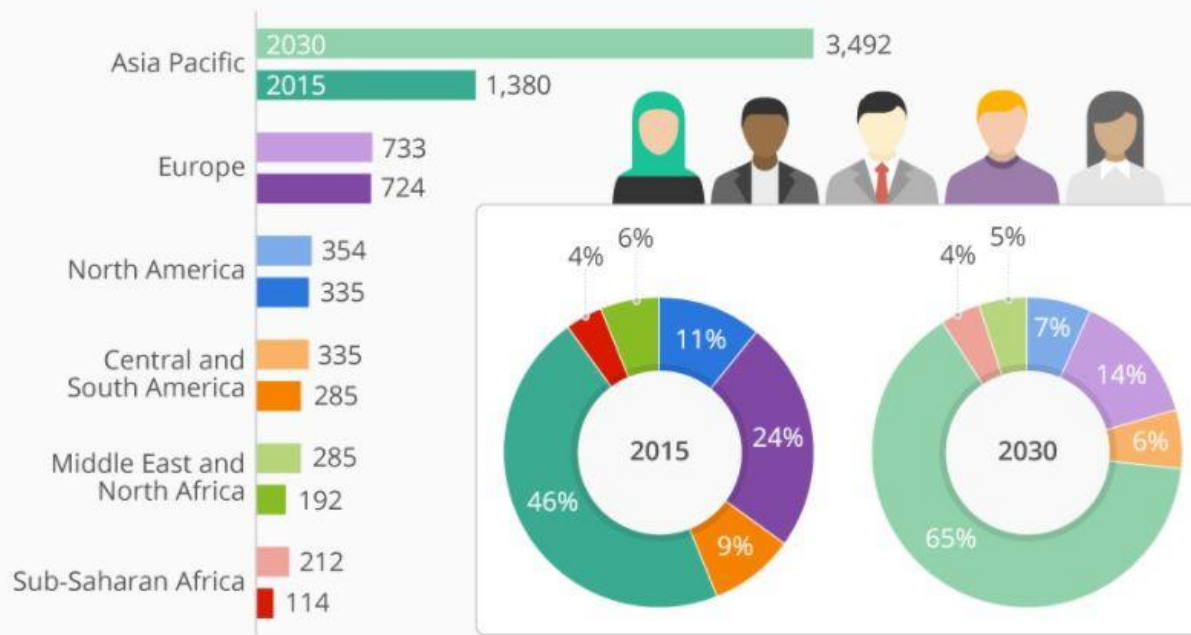


Figure 9. The middle class could spend \$10 trillion more by 2022 (PPP, constant 2011 trillion \$)



### The Rise of the Asian Middle Class

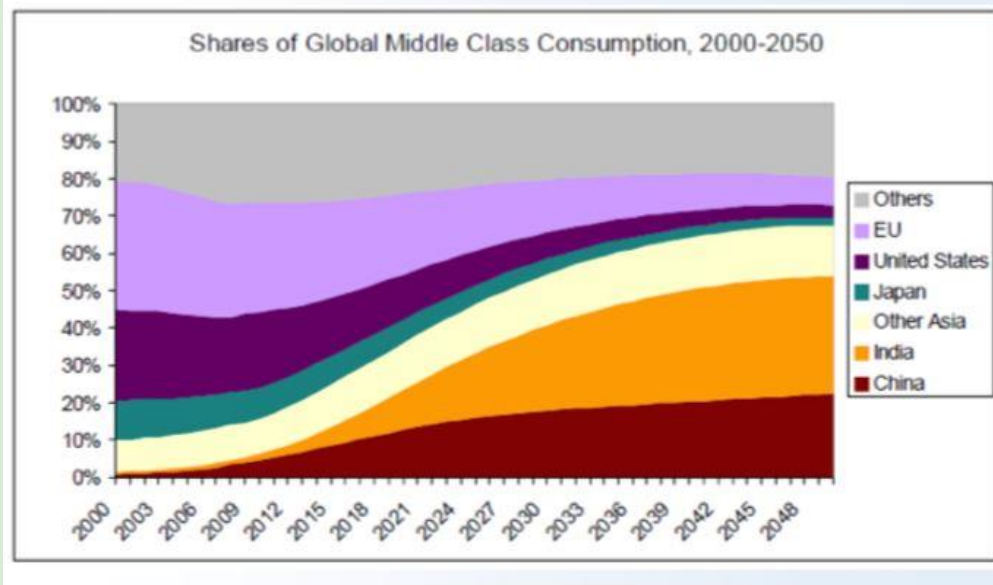
Number (in millions) and share (in percent) of global middle class by region



Middle class = households with incomes between \$11 & \$110 per person per day (pppd) in 2011 purchasing power parity (PPP) terms  
 Source: Brookings Institute  
 @StatistaCharts  
 statista



## India and China Make Waves in the Global Middle Class



You should now have a good feel for the incredible numbers we are dealing with and what they mean for the next decade.

Most economists, investors, politicians, and military leaders in the United States view everything through a US-centric lens. This perspective will become more myopic every day. Focusing on the Fed and US earnings and US growth will be less and less instructive for US asset prices. Focusing on the way the US wishes the world order worked, will be less and less reasonable. Tying US inflation to domestic only factors will be more confused every day moving forward.

Asia is the fulcrum of the world over the next decade and it is where macro trends will be decided – inflation/deflation – consumption – commodity demand – trade – interest rates – labor costs - it will all be decided in Asia in the coming years.

This is not to say US numbers and policies will be meaningless, just that they will in fact *mean less*.

This trend will cause much higher commodity prices and much higher inflation – globally. Hundreds of millions of new people eager to consume more energy, food, clothing, gadgets, etc. while demanding infrastructure will lead to a level of demand it seems the world is not preparing for. The amount of



investment in commodity extraction moving forward is quite low along with many commodity prices. Commodities are near their lows in value compared to financial assets and this will change.

Do yourself a favor and understand this trend. Study it, research it, and think about it. What will this mean? I can assure you this explosion in the middle class in Asia will dramatically impact your portfolio and you should consider how. Do you have too many bonds? Enough commodities? Exposure to agriculture? Enough exposure to energy?

If you are not a China watcher much less an Asia watcher and you think understanding that part of the world is for macro tourists and not you – think again – you need to understand the demographic explosion that is taking place and how it will shape the world and the markets.

Below is Asia (ex-Japan) vs the S&P 500 via their ETFs. What do you see?

Pinecone\_Macro published on TradingView.com, April 20, 2018 04:07 UTC  
BATS:AAXJ/BATS:SPY, 1W 0.29 0.00 (0.19%) O:0.29 H:0.29 L:0.28 C:0.29



Created with TradingView



### What about commodities (\$DBC)?

Pinecone\_Macro published on TradingView.com, April 20, 2018 04:17 UTC  
BATS:DBC, 1W 17.50 ▼ -0.07 (-0.4%) O:17.33 H:17.62 L:17.16 C:17.50



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***“Look back over the past, with its changing empires that rose and fell, and you can foresee the future too.”***

**— Marcus Aurelius**





Thank you so much for your readership and if you are enjoying the letter please send it to your friends.

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