The Miracle Pine

In 2011 when the tsunami struck Japan, it left nearly 20,000 people dead and also killed over 70,000 trees on the coast pictured below. In the city of Rikuzentakata, every tree was taken by the tsunami….every tree but one. Meet the Miracle Pine.

Somehow this one pine tree survived against all odds and still stands today – albeit with some help. The tree finally perished because of the sea water – but thanks to donations pouring in from around the world, the tree was turned into a monument that will last forever. The tree also survived tsunamis in 1896 and 1933. The tree became a genuine symbol of hope for the people of this town and Japan as a whole, who were devastated by this disaster.

The story of the Miracle Pine inspired me to write a bit about something we should all be thinking about, especially professional investors…lasting. It's been a brutal 10-20 years for active management, value, hedge funds, etc. The current environment has witnessed a lot of great investors carried out on their shield and now great business school talent is choosing Silicon Valley over Wall St.

Knowing this, it is clear today how difficult and important it is to build a framework that allows you to last. I think the investors that last have some traits

in common that I would like to highlight before we touch on what is going on in markets.

Most importantly, traders and investors that last are true to themselves. They stay focused on what they know and what they trade well. During the internet bubble in the late 90s Buffett was getting crushed by the market and a lot of people took shots at him and assumed he was a washed-up dinosaur that was being consumed by a new world. He is still doing okay for himself 20 years later despite many challenges. Buffett and Munger stayed true to their skillset, competencies, and to themselves. They never got caught up in the mania and they were able to perform well and *last*. I was at the 50th anniversary shareholder meeting and it was impressive to consider 50 years of being such a successful pro in this game. Like many, I take issue with plenty about Mr. Buffett, but that is a track record of longevity I must tip my hat to.

Working with the right people is vital to lasting. For managers this more than anything means the right clients. Most managers will do anything to increase AUM and their wallet, and they sell out what made them alpha generators to begin with. If you want to perform and be satisfied with your work and the way you express yourself in markets – make sure you have clients that understand you and your methodology and your process. Don't sell out if you want to last. Sometimes this can work in a counterintuitive way. Jeff Bezos cares more about his company and his customers than his investors. He focuses on working for the right people and does not concern himself with the rest. Could he do more to boost quarterly numbers to get his stock higher? Sure – but if he did that 15 years ago would he have a $1T company today? Absolutely not. In the long run – to last – focus on the right people and the right inputs and the output will take care of itself.

I have reflected on what kind of clients I want to have. I am content to grow my business slower than I could in a way that ensures I have the right client base 20 years from now. If I used sleezy "you can make 400% returns!!" – or doom porn marketing, I would have more clients for my research. But they would be the wrong people to work for and that misalignment would find its way into my work and it would ruin my business. To stay true to myself and to *last* – I am worrying about the inputs and trusting that the right clients will find my work.

Jeff Bezos summed this up nicely in his 2009 shareholder letter:

> "We believe that focusing our energy on the controllable inputs to our business is the most effective way to maximize financial outputs over time. . . . We have a high bar for the experience our customers deserve and a sense of urgency to improve that experience."

Lasting also requires avoiding too much personal and professional leverage. Black swans will hit you and your business eventually. The investments you are most confident in will blow up one day. Knowing these truths, we must always manage risk in a manner that respects unforeseen ugly scenarios. This is especially deadly when you have leverage tied to your ego. Buying more of a sinking ship or shorting more of a high flyer because your ego is tied to your trade may make for a great year and a great ego stroke – but it is the enemy of lasting. It is possible to be both aggressive and conservative at the same time as an investor. It is all about ruthless risk management. Peter Brandt is a great trader and if you follow his work closely as I do, it becomes apparent that he is a borderline paranoid risk manager with rules I find too conservative. But guess what – the guy has been trading for a living for four decades! It is not a coincidence.

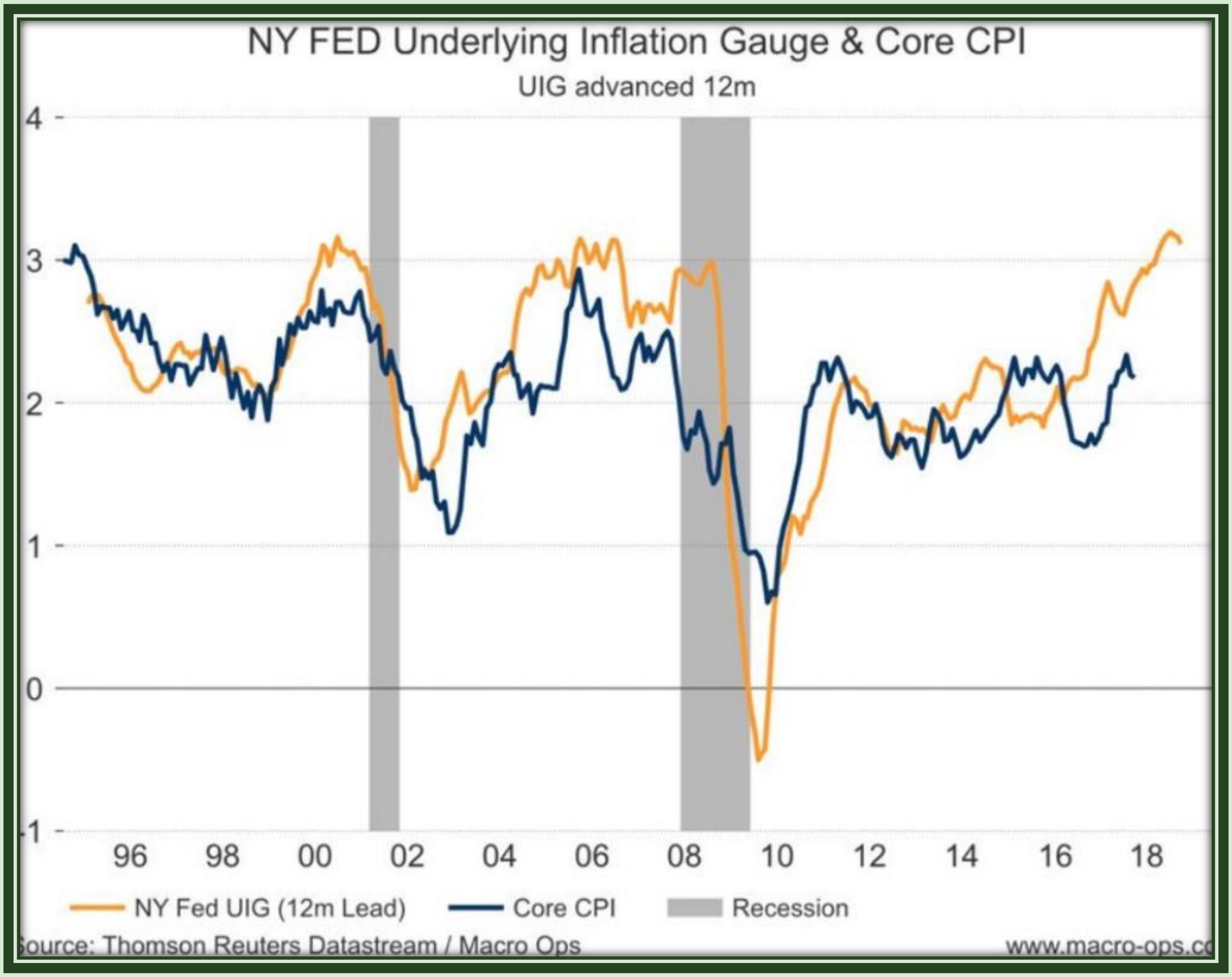
While you must be true to yourself and what you are good at – you also must be able to adapt. I covered this in my piece on the Douglas Fir and the tree's morphological plasticity. It may sound like a contradiction, but it isn't. You can absolutely be adaptable without ever reaching outside of the scope of your abilities. This may take a lot of work, reflection, and educational sweat equity – but if you want to last – it is imperative. If you did not read my thoughts on plasticity check out the link above.

Onto the markets…

First off, let's talk about rates for a minute. There are still a lot of bond bulls out there and maybe they are about to hit a homerun with stocks finally breaking down a bit here. But I doubt it…here are some reasons why:


FRED
Chicago Fed National Financial Conditions Index
Index
0.1
0.0
-0.1
-0.2
-0.3
-0.4
-0.5
-0.6
-0.7
-0.8
-0.9
Jan 2012
Jul 2012
Jan 2013
Jul 2013
Jan 2014
Jul 2014
Jan 2015
Jul 2015
Jan 2016
Jul 2016
Jan 2017
Jul 2017
Jan 2018
Jul 2018


US CORE INFLATION RATE
3
2.5
2
1.5
1
0.5
2008
2010
2012
2014
2016
2018
SOURCE: TRADINGECONOMICS.COM | U.S. BUREAU OF LABOR STATISTICS



So just to recap – it certainly looks to me like there is a great chance of core CPI breaking higher and making new highs that really bring pressure to interest rates and demand that the Fed not even think about slowing down hikes.

Remember, the Fed is more hawkish than markets right now. Even if the market just aligns with the Fed's dots – rates would have to make a big move.

If you are thinking yeah but not if stocks are down a little bit…be careful. Jerome Powell is not The Bernank. It was just 18 years ago that the Fed raised !!50 bps!! *AFTER* the Nasdaq was already down by 30%...because wage data was strong. If wages pop and core CPI pops (I expect both) – rates and the dollar are heading higher with or without the stock market in my opinion.

$DXY - Daily

The dollar is currently breaking out. We broke above an important horizontal level and the DTL I drew on the weekly that goes back to the end of 2016. We even retested the level at the end of last week. As long as the dollar is above these levels, you have to bullish, and why not – the Fed is upping the QT ante and liquidity is being withdrawn aggressively with assets flowing into the US.

One the next page I have one more chart for you – regarding China and man is it UGLY…

FXI/SPY - Monthly

This is a chart of Chinese stocks relative to US stocks. As you can see we are at new all-time lows going back to 2004! This was an ugly breakdown in an ugly trend with an ugly retest to boot. China is in real trouble which I just outlined for Cascade clients over at [Pinecone Macro Research.]

If you are a serious trader and you would like a look at my report for this week or another sample, reach out on twitter or email me at pineconemacro@gmail.com.

Also, I was recently mentioned in this piece about Real Vision in the New York Times if interested.

Thanks so much for reading The White Mountain Letter and best of luck in the markets.

Your Macro Analyst,
Chase

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