

Market Watch with RMH – (a document update from last week), Blackstone surprises for 2021, and a comment on GameStop

I wanted to thank all of you for reading our RMH Market Watch. A number of questions were asked regarding Cryptocurrencies and Bitcoin, and it appeared that the original paper on Bitcoin was **NOT** apparent below the references we provide for our research. It is included in this email as an attachment. In addition there were a number of comments asking how Bitcoin is mined (created), that attachment is here as well. A number of you were uncomfortable opening Seeking Alpha, hence I created a PDF.

One of my favorite daily reads comes from Fuller Treacy Money which is a daily Global Strategy Service and I particularly enjoy the **Comments of the Day** from the subscribers. The following is a question to Eoin Treacy and his answer follows (as an aside and in full disclosure, I sponsored him for a work visa in the United States, he now resides in Los Angeles, having moved there from Ireland with his family).

“As an American investor, it has occurred to me that as we enter an era of money printing the likes of which we probably have never experienced, I really don't have a good handle on the potential risk. It is virtually impossible to allocate one's assets appropriately without a good understanding of a "best case/worst case" scenario. I watch as those in charge in Washington salivate at the prospect of writing checks, checks, checks, and assume that the currency will depreciate, but wonder: how bad might this possibly get?”

Thank you for this question which helps to express the uncertainty many people feel after a year of outsized volatility across assets...everywhere. Trillions of dollars in deficits will need to be funded somehow. Right now, the plan is to print the money and devalue the currency. Comparisons with Greece, Zimbabwe or Venezuela miss the point. The USA prints debt in its own currency. It will never default. All of the pressure will be borne by the Dollar.

The Dollar's Purchasing Power peaked in 1933 and halved by 1948 (15 years). It halved again by 1974 (26 years). It halved again by 1983 (9 years). It halved again by 2007 (24 years) and is well on its way to another halving.

There is a cottage industry in worst case scenarios and I am reluctant to indulge in that kind of speculation. The one thing we know for sure is investors are being forced to speculate. Cash is a wasting asset when devaluation is in play. That is creating demand for hard assets and preferably those with strong cash flows.

One of the traditions I like to observe at the start of the year, is to see what could be the surprises in store for RMH to try and navigate. In early January, Blackstone's Vice Chairman Byron Wien and Chief Investment Strategist Private Wealth, Joe Zidle issued their list of Ten Surprises of 2021. Byron has done this for 36 years, and he defines a surprise as an event an average investor would think has less than 1/3 chance of taking place, **but which he believes is probable and has a greater than 50% likelihood of happening.**

The 10 Surprises as follows:

1. Former President Trump starts his own television network and also plans his 2024 campaign. His lead program is The Chief, in which he weekly interviews heads of state and CEOs with management styles like his own. His virtual interview with Vladimir Putin draws more viewers than any television program in history.
2. Despite the hostile rhetoric from both sides during the U.S. presidential campaign, President Biden begins to restore a constructive diplomatic and trade relationship with China. China A shares lead emerging markets higher.
3. The success of between five and ten vaccines, together with an improvement in therapeutics, allows the U.S. to return to some form of “normal” by Memorial Day 2021. People are generally required to show proof of vaccination before boarding airplanes and attending theaters, movies, sporting events and other large gatherings. The Summer Olympics, postponed last year, are held in July with spectators allowed to physically attend.
4. The Justice Department softens its case against Google and Facebook, persuaded by the argument that the consumer actually benefits from the services provided by these companies. Certain divestitures are proposed and surveillance restrictions are applied, but the broad effort to break them up loses support, except in Europe.
5. The economy develops momentum on its own because of pent-up demand, and depressed hospitality and airline stocks become strong performers. Fiscal and monetary policy remain historically accommodative. Nominal economic growth for the full year exceeds 6% and the unemployment rate falls to 5%. We begin the longest economic cycle in history, surpassing the cycle that lasted from 2010 to 2020.
6. The Federal Reserve and the Treasury openly embrace Modern Monetary Theory as their accommodative policies continue. As long as growth exceeds the rate of inflation, deficits don’t seem to matter. Because inflation increases modestly, gold rallies and cryptocurrencies gain more respect during the year.
7. Even as energy company executives cut estimates for long-term growth, near-term opportunities are increasing. The return to “normal” increases both industrial activity and mobility, and the price of West Texas Intermediate oil rises to \$65/bbl. Rig counts increase and energy high yield bonds rally soundly. Energy stocks are among the best performers in 2021.
8. The equity market broadens out. Stocks beyond health care and technology participate in the rise in prices. “Risk on” is not without risk and the market corrects almost 20% in the first half, but

the S&P 500 trades at 4,500 later in the year. Cyclical lead defensives, small caps beat large caps and the “K” shaped equity market recovery unwinds. Big cap tech is the source of liquidity, and the stocks are laggards for the year.

9. The surge in economic growth causes the 10-year Treasury yield to rise to 2%. The yield curve steepens, but a concomitant increase in inflation keeps real rates near zero. The Fed wants the strength in housing and autos to continue. As a result, it extends the duration of bond purchases in order to prevent higher rates at the long end of the curve from choking off credit to consumers and businesses.
10. The slide in the dollar turns around. The post-vaccine strength of the U.S. economy and financial markets attracts investors disenchanted with the rising debt and slower growth of Europe and Japan. Treasuries maintain a positive yield and the carry trade continues.

“Also Rans”

Every year there are always a few Surprises that do not make the Ten, because we either do not think they are as relevant as those on the basic list or we are not comfortable with the idea that they are “probable.”

11. Cyber-attacks, mostly from Eastern Europe and the Middle East, begin to have an economic impact. Bank account information is invaded and distorted, patient records are lost at hospitals and credit collection companies can’t keep track of customer purchases. Those tampering prove to be more skillful than those protecting the integrity of the data and the dislocation cost becomes significant.
12. Tesla acquires a major global auto manufacturer in a transaction that involves a combination of cash and stock. Elon Musk is the CEO and pledges to eliminate the internal combustion engine by the end of the decade.
13. Kim Jong-un threatens to explode his latest long-range missile, capable, he says, of reaching Los Angeles. Trump invites him onto TV and explains that Kim will be a better person and the world will be a better place if he works with other countries rather than threatening them. Kim agrees to stop testing long-range missiles. Trump looks into the camera and says, “People say I am the best negotiator.”

I get two chart books a month from Merk Research, a picture is worth a thousand words. Charts 1 & 2 are two of my favorites. In Chart 1, a lot of cash is sitting on the sidelines; it makes it very easy to re-allocate to long term target rates for one's Asset Allocation. The second chart shows the Bond Yield vs. Equity Yield and Past Crashes. With the expected 10 year US Treasury rate expected to remain low for the foreseeable future, the 10 US Treasury year yield is unattractive relative to equities.

Chart 1

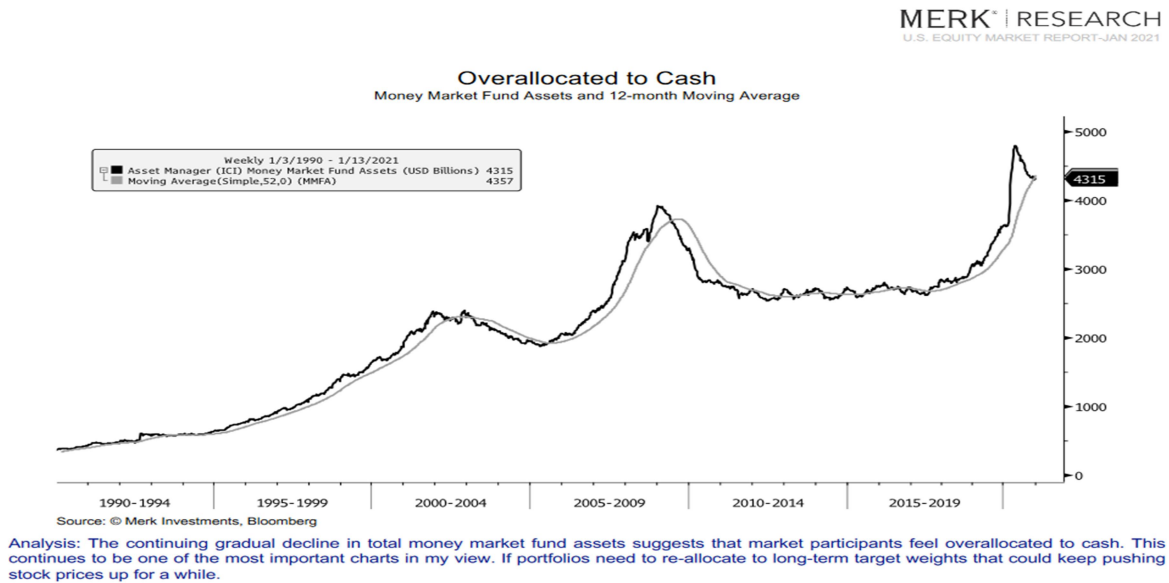
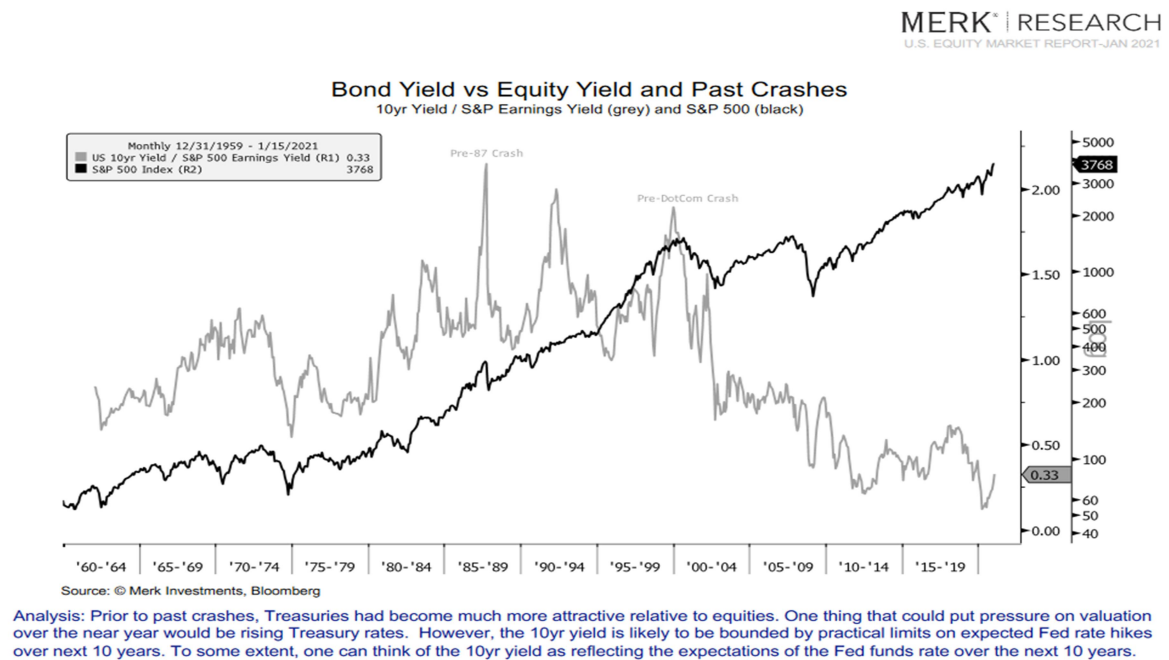


Chart 2



What would an **RMH Market Watch** be without a comment on the headline of the month, **GameStop (GME)**. A number of you reached out to get my opinion on what happened.

GameStop was going nowhere, management and board were trying to turn the beleaguered company around in the middle of a pandemic, shuttering at least 1,000 stores, an online subscription model was gutting sales, and they were buying back 35%+ of their own common shares. The following happened:

- GME shares that were shorted rose to 140% of the outstanding shares. This of a company buying back their own shares. To short a share, means to sell a share you do not own, with the hope of buying it back at a lower price.
- When a share is sold short, one has to pay interest. In the case of GME it got as high as 200% per day! That should be a tip, that this was a crowded trade. **NEVER** a good idea to be in a crowded trade, for this type of strategy, as liquidity/anonymity are friends. See next point why.
- **Theoretically, an unlimited loss!** Only profit that can be made is for the stock to go to zero from the level you shorted it at. For example if one sold 1,000 shares short at \$20, then maximum profit could be **\$20,000** with no transaction costs, less the interest charges you paid above.
- If shares went to \$100 (they ultimately went higher than \$400), you are offside by **(-\$80,000)**, in other words showing a loss.
- How could the short share float get higher than 100%, probably because the hedge funds who were shorting GME, were working with other firms shorting the same stock, and they were passing the same “electronic share” certificates around. Here we come back to the crowded trade mentioned above. Who monitors the short trade levels of securities, apparently not the NYSE or another regulator.
- Finally, when I speak to friends who have worked at hedge funds, and have shorted shares, they all had a real time profit and loss calculation going. With theoretically unlimited losses the question that needs to be asked, why didn't the hedge funds cover at the earliest possible time?

Last week we had an equation from Ross Stevens from Stone Ridge:

Risk Management = diversification + humility

For the word diversification – one could substitute crowded trade

For humility – one could say that short sales over the years mostly profited the hedge funds, at the expense of the “market”.

To be clear I am in favor of short selling, it serves a specific purpose, however I would prefer it to be done properly! Properly, means arranging to borrow the shares before you trade, not settling up at the end of the day as they currently do. That is trading on the markets capital, something I am not allowed to do by Charles Schwab. Let's all have the same rules.

This was a fun RMH Market Watch to write, a lot to learn and try to disseminate in a readable form to a varied and different group of readers.

What steps are we taking at RMH?

- We are looking at the portfolios and rebalancing where necessary.
- We are taking advantage of tax loss selling to lower future capital gains.
- We are looking at what insiders are doing with some of the stocks we have purchased.
- We are talking with portfolio managers on a one to one basis and participating in conference calls.

If there are ever any topics you wish for us to explore, please let us know. ***We are here to help and guide you through these times.***

We thank you all for taking the time and reading “Market Watch.” It is meant as an educational piece on the always evolving markets. It is something we plan on providing every month, and your feedback is very important to us.

On a personal note, RMH is now in the position to bring on new clients so please be sure to share this informational letter with whomever you wish. RMH’s focus is on the customizable investment needs of individuals, families, and foundations. We enjoy working with our clients to better understand their goals, values, and passions for what is important in their lives. In expanding our client base, we look forward to working with people who share these same desires

Richard Munding, CFA

Sources:

<https://www.blackstone.com/insights/article/blackstone-quarterly-webcast-the-ten-surprises-of-2021/>
<https://www.thinkadvisor.com/2020/02/18/byron-wien-is-betting-1m-on-these-10-market-surprises-happening-in-2020/>

[Fuller Treacy Money Global Investment Service January 22, 2021](#)

Seeking Alpha Bitcoin: Mining, Scarcity, and Why the Price May Push to \$150,000: Jan. 27, 2021 12:46 PM ET | Bitcoin USD (BTC-USD) | ETH-USD | 23 Comments | 11 Likes