

April
2018



MELLON ON THE MARKETS

By Jim Mellon

Get ready for the coming cataclysm



Normal service was somewhat delayed by the exigencies of the road trip I have been on for two weeks to Asia and Australia. My colleague Anthony Chow and I have been doing the crossover (i.e. pre-IPO) institutional/UHNW (ultra-high net worth) round for Juvenescence Ltd and the result has been that by the time I get back to London, we should be close to, or at, full subscription.

After all, just about everyone on the planet is a potential client for the longevity products of Juvenescence and the aura is somewhat helped in that the latest company that I was lucky enough to be a partner in, shepherded by the inestimable Dec Doogan, just read out on two successful Phase III trials. This company, Biohaven (NYSE:BHVN), listed on the New York Stock Exchange (and once described as a piffling speculative investment by a notoriously off-target and downright frothy individual), has come up trumps and I am very grateful. \$3.5 million to \$1 billion in little over three years is pretty miraculous! If that is speculation, give me more!

On my travels, I met some really bright people, including top dogs at the big Chinese internet platforms in Hong Kong. They present a bright contrast to the sorry performance of Facebook (NASDAQ:FB), which is lurching from disaster to disaster. This was my key short at the Master Investor Show this year, and I believe we are looking at carnage in this time wasters' medium, one where the entire business model is now not just redundant but screwed.

I have been coming to Australia for decades, and every time I am increasingly impressed. Like everywhere, Australia has its problems (very fractious politics and an overbearing nanny state, for example) but overall this is one of the great delights of the planet.

My friend Robert Purves is a big advocate of climate change being real – as well as being a disaster – and the unseasonably warm weather here convinces me of that. Even if you don't believe that climate change is man-made, the incontrovertible fact is that electric vehicles are the future, fossil fuel power is the past, and renewables are going to dominate power generation. With that in mind, lithium demand will surpass all expectations, and the relisting of LIFE (AIM) as a lithium company in the near future, neatly recapitalised, and renamed Bradda Head is a nap of mine.

The coming cataclysm

I met with an outstanding market commentator, whose views are so widely sought that he can charge vast amounts for them. James D*** (anonymised as he is pretty exclusive) is convinced that we are just at the start of interest rate normalisation, that volatility is too low, and that central banks are now mostly manipulating rates higher and restoring a normal yield curve. He and I agree that wage push inflation, as the precariat demands – and gets – more in the way of wages, will be a factor in making inflation, insidious or benign (as it currently seems), much higher.

This will accelerate the process of the Fed, the Bank of England, and the Bank of Japan etc. shrinking their balance sheets; four hikes this year in the US, and three next year and pretty soon you are looking at distinctly higher interest rate levels. In addition, the Trump tax cuts and the increased spending that every US Senator and Congressman/woman wants, will put added pressure on US rates.

Bonds will be crushed. Watch out for this as it will be cataclysmic when it happens.

All sorts of things are conspiring to make me believe that the US dollar has upside potential (sell euro) and that bonds will be crushed. Watch out for this as it will be cataclysmic when it happens. Coupled with the fact that almost all US stock performance (measured by the Nasdaq and S&P 500) has been generated by just a few tech stocks, wildly over-owned and overpriced in the context of their regulatory and business travails, you will see decimation sometime soon.

James D*** called it a reverse parabolic curve; loss of momentum, loss of energy and what looked like a bright day for Silicon Valley people in T-Shirts now looks like an expensive lesson in hubris. My general conclusion is to sell Amazon (NASDAQ:AMZN), Facebook and Alphabet (NASDAQ:GOOGL)(the best of the bunch).

What to buy

Biotech, meanwhile, is cheap against the market; and furthermore, it actually does more good than Facebook – a lot more, if you believe that people should prioritise health over contact with ephemeral “friends”. I would absolutely load up on Gilead (NASDAQ:GILD), AstraZeneca (LON:AZN) and GlaxoSmithKline (LON:GSK), as well as Novartis (VTX:NOVN), if you are looking for large cap, undervalued dividend-yielding stocks. In smaller ones, you might want to look at restORbio (NASDAQ:TORC) in the US and Biotime (NYSE:BTX)(owner of Age X, which we really like).

On a macro basis, all eyes are on the Donald Trump trade war declaration, which, to be quite honest, I reckon will resolve itself. His action of stirring up hornets’ nests seems to be reasonably effective, but the fact is, we are not living in the 1930s and broad scale trade war is unlikely.

I am like a broken record on this, but if you do believe that inflation is being overlooked but is coming back to bite us, you must own gold. Yes, it finds it hard to break above \$1,350 an ounce, but that day is coming. Load up on anything halfway decent related to gold and I believe you will be highly rewarded.

So, in summary we have three broad themes to consider: the return of inflation and the breaking of the longstanding bull market in bonds; the relative attractions of biotech stocks to the busted flushes of the social media tin plutocracy; and the likely resurgence of the US dollar for the balance of this year.

As I write the final sentences of this missive, I am looking out at the distant cityscape of Sydney. If in less than 300 years, this land has gone from a wilderness to be the world-beater it is today, just imagine what will happen in the next few decades. It's going to be good!

Happy Hunting!

Jim Mellon

[Click HERE to follow Jim's trades on twitter](#)