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MELLON ON THE MARKETS

By Jim Mellon

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The things keeping me awake at night

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With the gaggle of visitors to my Spanish lair abating with summer, I've had a lot of time for thinking lately. It's been a quiet time for markets, seemingly, but there have been opportunities, some of which we've taken, and others which we outright missed. But you only need one or two to stay ahead of the pack. However, the images out of Syria have been more than disturbing; they are horrific, and they represent two things. One, there are no easy solutions to badly drawn maps. And second, Syria is becoming a 'pocket' battlefield for Russia, which remains determined to regain its lost status.

On the first point, the Sykes-Picot treaties/secret agreements of 1916, which resulted in a French administration being established in Syria after the First World War, have proved disastrous. The reason that Syria is in such a mess isn't simply because the Americans and Brits didn't intervene, or that Russia has been interfering, or that ISIS came along: it's because a flawed division unreflective of tribal realities – realities that persist today – was undertaken by the French and the British in a rushed division of assets post the Great War.

Further flawed foreign policy decisions, until recently including support for the Assad family, have compounded the situation and laid the blame fairly and squarely at the feet of the British and French, and it is well-deserved blame. So, yes, while I believe that economic migration is a real problem for us in the developed world, and that we need to do everything we can to limit it, and to filter it to include only skilled migrants, Syria is different.

It's our fault, in some ways, that this is happening and we should do everything to help the poor people of Aleppo and elsewhere within that benighted country, as well as the refugees who huddle on our borders. They are (some of) the Jews of today, homeless and without means, through no fault of their own, and we need to do a lot more to render assistance.

Now, you might well ask, what has this got to do with markets?

Two important things, as it happens:

1. The Syrian crisis will have a big part to play in shaping the attitude to borders within the EU. You might not be familiar with this, but in early October a referendum in Hungary will take place to determine if immigration should be banned. If the result is YES, then Hungary will be seriously at odds with EU policy, and its whole existence within the EU may be in doubt. The Hungarians (along with all of their Eastern European counterparts) *love* the transfers from the EU (new roads, farm subsidies, new infrastructure etc.), and they *LOVE* the remittances from workers in other EU countries (hence the Eastern sulk over Brexit). They don't, however, like inward immigration into their largely homogeneous populations. *This Hungarian referendum is an iceberg that is just in sight of the bridge of the Euro Titanic, so watch it carefully.* I think it could cause some serious turmoil in Euro markets, including a further sell off in Euro bonds, further declines in EURO STOXX, and a further down leg in the Euro Dollar rate. And then, of course, there's the Italian referendum in November...
2. Normally, I take the view that geopolitical risks (South China Sea, North Korea, etc.) are best covered by holding gold and by praying. But the reckless intervention in Syria by an opportunistic Russia is actually raising my stress levels, and is flashing red for world markets. The Russian economy, which never diversified from fossil fuels in the good years and continues to suffer from capital flight, is still in a bad way. It has shown some marginal signs of recovery, but the outlook for many of its people is bleak. But greyness and hardship is a regular feature of the Russian landscape, and its people adore "strong" leaders a la Putin, and they have a masochistic stoicism. *It must be the cold.* In the face of a poor economy, Russia has been adding to its military capability and has been pushing the envelope of Western indecision. First, Crimea, then sabre rattling on Ukraine, then Latvia and Lithuania, and now Syria. From Western leaders, there is lots of wordy condemnation, but no action. *If there is ONE live flashpoint that really worries me, it is this.* If NATO, for instance, doesn't respond to an incursion into the Baltics, then Russia will just keep going. But I think that NATO, whether led by Clinton or Trump, will not respond. The answer to all this? Be cautious on markets, which is especially pertinent as volatility is abnormally low and valuations are high. Oh, and buy more gold.

Meantime, *I am starting work on a new book with Al Chalabi and we hope to make it ready by the time of Master Investor 2017* on March 25th. If you haven't got tickets, better apply now. It's free to our readers, so it's worth emailing rebacca@burnbrae.com or going to the masterinvestor.co.uk website for yours. It's going to be HUGE this year, and we are super excited about the companies exhibiting and the quality of the speakers. Of course, it's the UK's biggest investor show and it just keeps getting better.

In terms of stocks, I am very bullish on **Gilead (NASDAQ:GILD)**. It's on about 7x earnings, and boasts a huge cash pile and very smart people at the top. After Medivation was taken over, it also appears a prime juicy takeover target. **Arrowhead (NASDAQ:ARWR)**, headed up by the brilliant Dr Chris Anzalone is another company with great prospects, as is **Synergy Pharma (NASDAQ:SGYP)**, headed up by Gary Jacob; both will be at Master Investor 2017.

I have mentioned **Aurora Labs (ASX:A3D)**, the Australian 3D company headed up by David Budge – it's up almost 10x since the IPO, and that was only three months ago! I hope they will be at the show as well, and you should definitely check out their technology. I thank my old mate Anthony Baillieu for the tip here. He's on a roll!

Portage (OTC:PTGEF), founded by my friend Dr Greg Bailey and myself, is doing really exciting stuff, and although it is traded on the Canadian exchanges it is well worth checking out. I believe it could do an Aurora Labs in due course. I imagine they will be at the show, along with the other JV that Greg and I have, **Salva Rx (LON:SALV)**. Meanwhile, Greg and Dec Doogan (ex-head of R&D at Pfizer) are establishing a new company which aims to invest in life extending businesses.

Sticking to cutting edge technology, Lorne Abony is doing a terrific job at **Fast Forward (LON:FFWD)**, and I am super bullish on that company. I expect him at the show, and he can update investors on how that company has made some TERRIFIC investments.

At the Master investor show, I hope to talk about some of the new opportunities we are seeing in, amongst other things, anti-ageing, AR and VR (buy and hold **Sony (TYO:6758)**), 3D printing, and also in a basic industry that we are currently researching. This could be the trade of the decade. Meanwhile, it's time to stick with gold and the US dollar, and short any bond you can nail down!

Happy Hunting!!

Jim Mellon

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