

June  
2017



# MELLON ON THE MARKETS

By Jim Mellon

# Assume the brace position



**In the past month, I've been going around the British Isles, talking to groups of people about my research into longevity, ahead of the launch of the *Juvenescence* book in July. I know it's always a mistake to develop confirmation bias, but the more I talk on the subject, and the more I look into the fast-developing science, the more convinced I become. By convinced, I mean that I am quite sure that average life expectancy is going to go up sharply – and in the near future.**

It may not feel like it today – what with life expectancy having stalled in the UK and in the US – but that is a temporary phenomenon, due to poor lifestyle choices. In the US, the death rate from prescription opioid drugs is phenomenal, marginally deflating average age at death.

But the fact is – and it will all be detailed in the book – that we are all going to live a lot longer (assuming we do some simple things and embrace some new technologies).

To pay for these extended lives, we are all going to be working much longer – and only now is that fact beginning to dawn on commentators. Moreover, we are going to have to save – and in a much smarter and aggressive way than we do now. That means eschewing these tracker funds that have become the norm for so many investors – a sort of pass the parcel game for investment morons.

We all need – indeed, have to – select funds or shares that are going to reflect the future world – and not just slavishly mimic the current state of the markets. The US firm Vanguard is opening in the UK – and it is the key exponent and beneficiary of tracker (index) funds globally. It takes in so much money on a daily basis that its activities actually have an important market moving effect.

Vanguard and similar types of funds' main attraction is that they are super cheap in terms of fees and total costs, and they have benefited from the fact that indices have generally done better than active managers in the past decade or so, meaning that people are turning away from active management. Warren Buffet endorses them as his preferred way to invest (if he was an ordinary Joe Sixpack that is!), and who can doubt the great man? Well, I do, because I think copycat investment over the long term is a serious error.

The fact that you are reading this means that you are interested in investment, so why not translate that interest into actions that don't just reflect what everybody else is doing? And for heaven's sake, don't waste your time in low-grade chat rooms or by listening to market commentators who work out of seedy garrets and who have no or little money. If they haven't made anything in the course of their "careers", why would you follow anything that they say?

Stock picking has become a dying art, not helped by the fact that so-called active managers charge a lot more for their services than tracker managers do. But stock pick (or fund pick) we must, because one day the whole tracker industry is going to come down like a house of cards. That day of reckoning may not be so far off.

When everyone heads for the exits in these index funds, the decline in the indices will be amplified by the redemptions from panicked investors, and the whole thing will snowball out of control. Believe me, this will happen. It's only a question of when.

Who knows when this will happen? But the omens are telling me that it can't be too far away. After all, the key measure of volatility, the VIX, is at all time low levels, indicating that investors are far too complacent about market risk. PE ratios are high, particularly in the US, and especially for boring, slow growing so-called consumer staple stocks. And don't get me started on the FANG tech stocks, which are absolutely priced to a perfection that doesn't and won't exist.

Amazon is a great business, but its valuation beggars belief; Facebook and Alphabet can carry on growing, but I am certain they will end up being regulated, crimping profits; and Apple and its shiny repertoire of gewgaws, can surely only pedal away for a while longer. Toys get discarded, and new ones come along.

So, what should investors do? Well, I think we should all be looking at Juvenescence type investments, and the new book will detail three portfolios – conservative, medium risk and speculative – for people interested in the business of longevity. When we published *Cracking the Code* in 2012, Al and I suggested three portfolios, and all of them have at least doubled the performance of the broad indices, and provided great returns for investors.

Second, committed investors should make a list of companies that they really like, know about, and want to own – at the right price. If the shares of those firms are too high, put in limits, possibly 20-30% below current levels, and wait. Don't let cash burn a hole in your pocket – let the stocks come to you, and don't chase.

This is absolutely not the time to be rushing into stock markets; yes, maybe there is a little more upside, but the downside risk way outweighs that potential and fleeting upside.

Third, think strategically. What goes up in periods of market turmoil? Of course, it's gold and/or silver. What is the outlook for the US dollar and for sterling? Well, sterling looks undervalued and could rise another 5-10% against the dollar. The Euro, doomed at some date in the future, remains a speculative buy (see my last two letters) against the dollar, but not against the pound.

So, in a nutshell, cash is a good thing for now. Limits at way lower levels on the great companies you want to own a share of are good to establish – and do it now. Gold is a good thing, and sterling is a good thing. Sterling might actually become a safe haven in a world of turmoil.

But best of all, look at Juvenescence type stocks. Live long and prosper – i.e. benefit from the very things that will keep you alive to an age that would have been regarded as science fiction just one short generation ago.

I'm sitting on my terrace at my house in Ibiza; this house was the first purchase I ever made and next year will be the thirtieth anniversary of that transaction. It's a quiet Sunday morning, with birdsong the only sound for a long way around.

But I've been here for long enough to know that next month the peace and quiet ends and the mayhem that is Ibiza in the summer will begin.

And that makes it a bit like the markets – quiet at the moment, but the mayhem is just around the corner.

Assume the brace position.

**Happy hunting!**

**Jim Mellon**