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MELLON ON THE MARKETS

By Jim Mellon

New “highs” for early investors

There are three of us Mellons currently trying to get books out ahead of each other: my father is finishing one on African Bangles; my brother in law is close to completing a magnum opus on the future of media; and I am pleased to say that, albeit delayed, Juvenescence is coming out on September 25th and is currently being formatted. Christmas presents in our family this year are a no-brainer, and will be circular. At least all three of us know we will have a few sales, if only to ourselves!

On the subject of Juvenescence, I am off to San Francisco with my old best friend Anthony Baillieu to meet my new best friend Aubrey de Grey (Google him!) and my dear colleague Greg Bailey. We are all spending the day at the Buck Institute of Aging – not to be rejuvenated ourselves, but to understand more of the amazing science that is coming out of this institution.

One of the key senolytic drugs in development, being trialled by Unity Lifesciences, first emerged at the Buck. In a nutshell, senolytics are among the first of several compounds that will add significantly to human lifespan in the next ten or twenty years. While more fully described in the new book, these are drugs that clear so-called senescent cells from tissues. Senescent cells become more prevalent as we age, and are cells that are neither dead nor healthy, but which exist in a limbo like state. They contribute significantly to inflammatory disease and their removal, at least in part, is demonstrably life extending in animal models.

We are also visiting another company involved in senolytics, and will be looking to make an investment in it for our venture, Juvenescence Limited, which is jointly owned by Greg, Dec Doogan (formerly head of drug development at Pfizer, the world’s biggest drug company) and myself. We have collectively recently invested a largish sum in a venture called Insilico Medicine, which uses deep neuronal networks (aka AI) to enhance medical discoveries, and we have capitalised a JV with Insilico called Juvenescence AI which will look to discover five new chemical entities a year for several years, using AI. These are exciting times in the field of longevity, and believe me, staying healthy today will allow you to cross a bridge to ultra-long life in the not too distant future.

Of course, if we all live as long as I think we can, then we will need good investments to sustain ourselves. The gradualist approach to raising the pensionable age (to 68 in 2030 in the UK) is ridiculous. Governments need to wake up and recognise that people are going to live much, much longer, and that older workers will not only be hired (especially as the pool of younger workers shrinks) but will be required.

Retirement ages of 80+ are going to be commonplace, as are centenarians.

It is important for people to recognise that this trend to Juvenescence will result in a whole new approach to life. No longer will we will live the three-stage life as described in Andrew Scott and Lynda Grafton's brilliant book, the 100 Year Life, but we will go on a very different course. Born learn, earn, retire and expire will be replaced by a life that encompasses multiple careers, continuous education, and very different types of work. In Juvenescence, we outline portfolios that can take advantage of those trends. The portfolios we outlined in our previous biosciences book, Cracking the Code, have smashed the returns of all the indices since it was publishe d in 2012 and we are hopeful of doing the same with the guide portfolios we have included in this book.

In the meantime, the FANGs have begun to crack, and not before time. Sure, Facebook produced stellar quarterly results and still looks robust; but Amazon, that convenient machine of perpetual profitless prosperity, produced terrible results – only a third of the profits expected – and Alphabet demonstrated what I have long suspected: that these big internet companies might end up like banks: regulated, fined and slow growing, with steadily declining returns on equity. I would stay short of all of them and look elsewhere for value. You'll have to look pretty hard, because there isn't much of it about.

The good news for followers of Master Investor (and you guys now make us one of the UK's most widely read financial publications) is that the era of negative yielding bonds appears to be over, and those who took our advice to sell or short such bonds will have done very well. Bond yields in major economies have been moving up, albeit slowly, but I am sure there will be a bond crash in the not-too-distant future. After all, central banks are beginning to taper, and hence the single biggest buyer of bonds worldwide – the governments issuing them themselves – are retreating from the crazy manipulation of the past few years.

I have railed about how this manipulation distorts the price clearing mechanism, keeps zombie companies afloat, contributes mightily to wealth inequality, and funnels excess returns to people who are the least deserving – the idle rich. That era is coming to an end.

And although oil prices have been in retreat (and will continue to be), thus masking the upward trajectory of inflation, inflation is nevertheless beginning to emerge in subtle ways pretty much everywhere. That's why gold remains a top pick and it is acting very resiliently in the face of still fairly buoyant equity markets.

Regular readers may recall that for the past three months, I've suggested buying the euro (yes, the currency of the evil and doomed empire!) against the dollar, for mostly technical and valuation reasons. It's risen enough for now, I feel, and I would sell the euro against the dollar and indeed consider buying sterling against the euro.

Japan remains my favourite stock market, though **Sony (TYO:6758)**, my favourite pick, has run enough, and among the big stocks I would buy **Hitachi (TYO:6501)**, which is a kind of Japanese GE, instead.

Gilead (NASDAQ:GILD), another top pick at Master Investor, produced OK results in the latest quarter and remains outstandingly cheap. Its HCV franchise is stabilising, its HIV dominance continues and I love the look of its JAK inhibitor in development with **Galapagos (AMS:GLPG)**(another favourite).

I spent a day this week with my friend Lorne Abony, a truly brilliant businessman, and the boss of Fast Forward (LON:FFWD). He was describing – over tea and not anything stronger, I hasten to add – the business of medical marijuana, in which Fast Forward has an investment. It's going to be a huge business, and one has to think that the big vice companies will buy up all the serious marijuana companies in due course.

Legalisation of soft drugs has to be the future, and there is no doubt that marijuana will rank as a major business once legitimised.

That's coming soon, and new "highs" must be envisaged for early investors.

Happy hunting!

Jim Mellon

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