



MELLON ON THE MARKETS

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By Jim Mellon

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The trickier the times, the greater the opportunities for profit (and loss!). And we are now firmly in tricky times. I have spoken and written before about the imperative of seeing through the fog of financial battle in order to achieve success. By this I mean focusing on a few things where your level of certainty is greater than it is vis a vis the vast morass of financial instruments available for speculation, most of which will lose most people most of their money.

An example of this is **call options**. Unless you're an insider, call options are the equivalent of the **National Lottery**. Buyers of these are 99% certain to lose their money. That is because, although they may choose the correct stock, they are likely to be unaware of duration risk (the call option expiring before the stock goes up), or of the implied price of the volatility of the underlying stock, which is generally too high.

On the other hand, the writers of the call options, most of whom are institutions, almost always do better. And of course, the biggest winners are the brokers who trade them – they are the Camelot equivalent of this particular market. Quite often, chartist forecasters suggest using call options to add leverage to stock recommendations, but the fact is, most chartists I have met have no money to speak of. So here is another tip: why would you follow the recommendations of a stock market or financial forecaster who is impoverished? The answer of course, is that you shouldn't. I always admire the forecasts of our very own **Evil Knievil**, and one of the reasons for so doing is that he is a made man – he trades in his own recommendations, and makes good money – not always, but way over half the time – and so his actions are worth following.

But perchance, if you did have call options in **Synergy Pharma**, one of my featured stocks in last month's magazine, you would have done pretty well. The share has moved from \$4 to \$9 in the last three weeks, on the back of great Phase 3 trial results for Plecanitide, its drug for chronic constipation.

I want to add a few words as to why I liked this company, and show a little of the methods I use in undertaking research. I have met the management and like them, and I knew that Phase 3 data was imminent (this was public knowledge). Of course, neither I nor the company knew what the data would look like, as it is blinded till it is released, but I had a pretty good guess. This is because the Plecanitide molecule is very similar to that of Linzess, which is a drug marketed by **Ironwood**, and which is running at \$400 million a year in US sales, after one year on the market.

Phase 2 data for Plecanitide indicated fewer side effects than for Ironwood's drug, notably less diarrhea, and I felt that those results would persist in Phase 3 data. Also positive for Synergy is that it owns 100% of the rights to Plecanitide, whereas Ironwood owns only 50% of the rights to Linzess. And Synergy has plenty of cash.

Synergy is now a sitting duck for a takeover – and it's a duck that wants to be caught. Its drug will be best in class, in a market that has been trail blazed by Ironwood, and where there is clear medical need. At least 40 million Americans suffer from chronic constipation, partly the result of diet, but also because of high consumption of opioids, which induce the condition. The other piece of good news is that the drug is not highly priced; it is about \$6 per day, which means that it will be easily reimbursable by insurers and won't suffer from what I think is coming.

What's coming is much greater pricing pressure on exceptionally highly priced drugs in the US. Some of these drugs, for orphan diseases, or cancers, or Hepatitis C, are really expensive. Soliris for instance, from **Alexion Pharmaceuticals** (which has a market cap of about \$30 billion), is a biologic drug that can cost up to \$450,000 per person per year - and it's not a cure, and has to be administered for the rest of the sufferer's life.

In Europe, national medical agencies rarely pay anywhere near US drug prices; I am watching carefully to see if European drug pricing practices come to the US – and will pounce on the short side – and let you know when the time is ripe.

That having been said, I still love the biosciences industry; it is a fact that prescription drugs make up about 10% of health spending in most developed countries, and that figure has been constant for 50 years. Moreover, those drugs tend to displace hospitalisation, which is by far the biggest expense. So I don't expect across the board carnage in manufacturers of high priced drugs – just an appropriate adjustment.

I am writing my monthly missive in Ibiza, where I spend the summer. In order to avoid the temptations of the local taverns and dive clubs, I spend a large part of my days reading and trying to work out strategies for making me – and hopefully, you – money.

Of course, the present news is dominated by **Greece**. I called for a sale of the **Euro** eighteen months ago, and then in April reversed that position, at least temporarily. I now think the Euro is range bound, and even if there is a Grexit, it won't move much. I also called at this year's **Master Investor conference** for short **German Bunds** – then yielding 0.21% on the ten year paper – and now at 1.16%. Yields are probably going higher, but I would bank the profits – which by the way are substantial, if you followed my lead. Following my lead has not always been a good move, but this year's crop of recommendations has been very good, so maybe I'm on a roll. Long may it last!

Now the following suggestion is really contrarian, and is not for the weak of heart. I don't know whether or not there will be a Euro fudge at the last minute to Save Greece. Either way, the holders of Greek debt are not going to be repaid any time soon, unless it's in Drachma Bonds, which would serve well as supplementary paper in the downstairs lavatory.

But Greek stocks are really cheap (I am not including the banks, which are cheap, but bankrupt). **The stock market in Athens is valued at the lowest percentage of GDP of any market in the world, and that's after a crushing depression.** If Greece exits the Euro, the new currency will plummet, but shares will soar. If there is a solution to the Greek tragedy, shares will soar. Buy **Hellenic Telecommunications** and **Hellenic Petroleum**. I'm in for the wild ride ahead – and I am guessing that plenty of Greeks with money outside the country will be also.

Happy Hunting!!

Jim Mellon

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What Jim read this month

Game of Drones: Drone Startup Funding Hits High. Have Raised More in 2015 than Last 3 Years Combined.

<https://www.cbinsights.com/blog/drone-startup-venture-capital/>

If you saw Jim at this year's Master Investor Show, then you'll know he's no stranger to drones. This article from CB Insights looks at the seemingly unstoppable success of drone start-ups, most notably a \$75M financing to DJI innovations, securing its place on the list of unicorn companies.

In Busy Silicon Valley, Protein Powder Is In Demand

http://www.nytimes.com/2015/05/25/technology/in-busy-silicon-valley-protein-powder-is-in-demand.html?_r=1

It seems the coders and software engineers of the world's booming tech trade are now too busy to process solids. The next stage will be to upload their consciousness onto MacBooks and flee the planet in search of an eternal energy source. But until then Silicon Valley's demand for meal replacement drinks is soaring, with waiting lists for first orders anywhere between 1-6 months. With names like People Chow, Schmilk and the suspiciously familiar Soylent (what's in that again?), meal replacement drinks could be set to hit our supermarket shelves within the next couple of years.

Making the Modern Farmer: The Precision Agriculture Revolution

<https://www.foreignaffairs.com/articles/united-states/2015-04-20/precision-agriculture-revolution>

This article by Jess Lowenberg-DeBoer for *Foreign Affairs* looks at the evolution of agriculture from the roots up. Starting millennia ago with the very first humans to sow and nurture plants to the Industrial Revolution that paved the way for modern farming, to the present day, where a fast growing population and depleting resources mean farmers now have to rethink traditional methods. Humanity is at an agricultural crossroads. Precision and efficiency is key, from the way crops are harvested to the very DNA of the plants themselves.

The Hottest Startups That Have Launched So Far This Year

<http://uk.businessinsider.com/best-startups-that-launched-so-far-in-2015-2015-5#ixzz3bRBPcms8>

Looking at factors like funding, growth and investor interest, Maya Kosoff compiles a who's who of this year's top start-ups with some surprising contenders. From the live streaming app Twitter bought before it was even launched to a start-up that mines bitcoins using a chip implanted in your phone, these are the promising start-ups to look out for.

Survival Of The Fittest Means Men Are the Healthier Sex At 100

<http://www.thetimes.co.uk/tto/health/news/article4476464.ece?shareToken=39f7de9ab034333f7f0ef28934123e69>

We all know women tend to live longer and it's true that there are far more lady centenarians out there than men, but a recent study published in the *Journal of the American Geriatrics Society* (a riveting read I'm sure) showed that the number of people living past 100 has risen considerably, with the rate of men rising by 30%. It also showed that men over 100 were less likely to suffer from chronic illness than their female counterparts, meaning overall centenarian men are the healthier sex.