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MELLON ON THE MARKETS

By Jim Mellon

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It's hard to believe that the year is almost half way over. There is definitely an acceleration in time as you get older; I feel my life careening towards its ultimate destination - but then I am cheered by the realisation that I have a good chance of living to over 100, and I take another sip of vino tinto!

A new book, *The 100 Years Life*, by Lynda Grafton and Andrew Ward, is about to come out, and explains how people will have to plan to work till 80 at least; that children born today will live to at least 105 (and that exceeds the then optimistic forecast made in *Fast Forward*); and that the old structure of education, career and retirement is broken.

This tallies with my own views that people will have to have multi-faceted careers, that education will never end, and that we will *always* have to stay one step ahead of the robots to ensure that we continue to have productive employment. It's interesting that the word "robot" comes from the Czech for *untermensch*, a pejorative description of a less valuable stratum of society. (Of course, if we are not careful, that *untermensch* category is less likely to apply to the robots, but to the people whose jobs are replaced by them.)

Next week, I am speaking at a big IOM conference on technological change and its effects - the ISLEEXPO - and I will be making the point that the best thing that the island can do is to promote continuous education, and to change its social contract to avoid having the population retire at 65 - and thereby end up with unsustainable pension liabilities.

I can tell you that what none of us wants to be is a long-term participant in the "gig" economy - driving Uber taxis, delivering pizzas or servicing Airbnb apartments - working till 80 with no security and no pension, and then having another 25 years to eke out a penurious old age.

What we *do* want to be is adaptable, curious and useful. And the way to do that is to read a lot, learn a lot and to be prepared to do a volte face over whatever fixed views we had before. **The old notion that doctors, lawyers, accountants and civil servants have jobs for life will soon be upended.**

No-one will be indispensable in the rising tide of automaton. But of course, in a world where production will be increasingly situated near the point of its consumption, and where all repetitive tasks - and, ultimately, more complex tasks - will be performed by machines, there will be plenty of losers.

This won't be made any easier by the Bernie Sanders types who advocate crippling levels of minimum wages – as I said at Master Investor 2016, if machines could speak, they would LOVE the idea of that. Minimum wages mean work minimisation. Machines don't talk back, don't need health care, and don't get sick. They *do* work all the time and their costs are coming *down*.

And I say, *if* machines could speak. Well, actually they can. While at the Milken in LA, I bought myself an *Amazon Echo*. It's a cylindrical speaker which you command using its fictional name, "Alexa", and tell it to do things.

"Alexa" buy me XYZ book (straight from Amazon, of course!), order me an Uber, and tell me the temperature in Sydney, what's the time in London etc. And it's a machine learning programme, which will just get better. Google has brought out its own, called Hello, and no doubt Facebook will too.

Oh, and the VR machines are about to flood our (virtual) shops. I am guessing **Sony (TYO:6758)** will be the biggest winner short term, because of the vast number of PlayStation 4 consoles out there – but there will be plenty to choose from. When you can look around houses and flats in VR; when you can go to places without travelling; when you can "be" at a concert without having to schlep to the venue: how many industries are about to be creatively destroyed?

Well, plenty.

But the path of uninterrupted progress has hit a bit of a roadblock. Have you noticed how your PC doesn't seem to need replacing – because the newer alternatives are more or less the same? That's because the Dennard Scaling (a fancy term for Moore's Law) has reached its limits. It isn't worth the money and power to try to improve semiconductor performance.

So we need a new form of computing, and I am getting very excited about Quantum Computing. It's a little way off, but boy, it's going to be big. The trick is that once QC can get to about 30 so-called Qubits (don't ask), they will move to a level of power and speed that will revolutionise computation. In areas such as aircraft design, drug discovery, and stock trading *everything* will change.

This QC will allow trillions of simultaneous calculations, allowing for drones to travel safely, to make autonomous vehicles a reality in the near future, and to power the Internet of Things with amazing precision, linking literally trillions of devices. The "old" order of coding, software designing and chip design will be swept away, and whole new industries will emerge. Artificial Intelligence, once seemingly decades away, will be with us soon – both a boon and a curse.

Those who can't see this future will become the unfortunates relying on state subvention for a basic existence. This is why I am convinced that ultimately there will have to be a Universal wage, which allows those who have been left behind by the tidal wave of innovation to enjoy a lifestyle substantially of leisure.

In fact, this will be necessary, as even the monopolistic tycoons of tech who will reap the vast rewards from spotting these trends, will recognise that they can't have *all* the money. They need consumers to buy their products, and to produce the "artisanal" products that they, as elites, will want to be seen with.

In *The Hunger Games*, the less fortunate didn't have votes; in most countries that are advanced, people do have votes and will use them to ensure some form of basic wage. But whether most people will have jobs as we know them, is another matter.

So, in summary, rethink your life plan. Expect to live a much longer life than the biblically prescribed one of three score and ten; don't expect to stop working till you are 80 (if you are lucky enough to have a job and to be qualified for the new world order); and keep learning. In fact, I believe that education, in manifest forms, will be a key and growing industry. And it is a big focus of our *Fast Forward Innovations Limited*.

On a more mundane note, **Critical Elements (TSX:CRE)** has gone up a lot since the Master Investor show, and I have been trimming. Lithium is crucial to battery production, and world battery production is expected to triple by 2020. That having been said, I am looking at new types of batteries which may not use lithium, so I will keep you posted on that.

There is so much to be excited about. Sony looks good, I still like the Nikkei, I am still short all negative yielding bonds, and I still think (and the market is edging towards my view) that the Fed will tighten faster than expected. Oh, and the precious metals, Gold, Silver and Platinum are a key part of the reflation world view that I have.

Brexit won't make any difference one way or another – with or without it, UK property is on the skids, and the pound is a little overvalued. The stock markets remain range bound and are likely to stay there (with the exception of Japan, which is my favourite).

Happy Hunting!!

Jim Mellon

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