MELLON ON THE MARKETS

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By Jim Mellon

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Sweltering in my Spanish hideaway, I have followed the Greek saga with interest – but not surprise. As expected, a Eurofudge emerged at the last minute, with a sort of elaborate money laundering exercise, in which Greece gets very little money, is forced into quasi reforms, and the creditors can pretend that they get repaid. Which they won't! Ever!

Robert Reich, former Labor Secretary in the USA has written a damning account of how Goldman Sachs helped Greece to fiddle its accounts to get into the Eurozone in the first place, and in the process added to its debt and allowed the country to pursue a scheme of mass patronage and reward, early retirement and ouzo drinking subsidised by the Germanic speaking countries of the benighted Euro Reich.

Greece has learnt that the Zone of Misery is like Hotel California – you can check in, but you can never, ever check out. That is, until the whole edifice falls into the sea. As I said last month, I am a buyer of Greek assets – the stock market will surely be buoyed, when it reopens, by diaspora buying and acquisitive corporates. Sometimes, even the lousiest investments look too cheap. To reiterate, **Hellenic Petroleum** and **Hellenic Telecom** are the ones to go for.

So Greece – and the Euro – lives for another day, but the repercussions are large. The debt trap that Greece has been in for a while is now one that Italy and possibly France find themselves in; this means that because those countries are in effect in a deflationary bust, and notwithstanding ludicrously low interest rates on their sovereign bonds, they won't be able to repay their loans in the long term, and the percentage of GDP represented by debt will keep rising.

This would probably be OK in a country like Japan, where almost all debt is held by locals, but now that the ECB is basically buying up all the government debt of Europe, it creates a potentially black hole someway down the line. But, hey, who cares, if it's a long way off?! (Not.)

Meantime, the **Euro**, only just over a year ago as strong as an ox against the US dollar, has continued to fall, though as usual the pundits suggesting parity post Greece have got it wrong. The Euro, to my mind, is approaching buy territory, particularly for British investors, where the strength of the pound is baffling in the face of our own enormous twin deficits. Buy Euros while you can!

The Euro's weakness has of course been a great boon to exporters in the Eurozone, particularly German ones. But the remarkable thing is that, partly as a result of the single currency's weakness, European companies now export half of their turnover, and about half of those exports are to non-EU countries, making Euro companies the most globalised in the world. In contrast about one third of US companies' turnover is represented by exports, and in the Emerging Markets, about 38%. This makes some Euro stocks relatively attractive, and I will mention a couple of names at the end of this missive.

So, in brief I think the Euro is reaching a bottom; it might be around the 1.05 level against the dollar, and our option strategy is pitched at this level. But, if you have the stomach, I would actually start buying euros against the pound and dollar right now.

On the subject of currencies, I think that the **Japanese yen** is cheap; and the Economist Big Mac index backs this view up. Japan doesn't need a weaker currency, and I think comments from officials are pointing towards a 120-122 level against the dollar, versus about 124 now. It's not a lot, I know, but every little bit helps in FX.

I remain a committed buyer of the **Nikkei**, which keeps going up, and my new target for the index is 25,000. Buy any dips, and in terms of stocks to buy, my long term favourite is **Fanuc** and I am holding. By the way, it's curious that Nikkei, owner of the index, has bought the FT, owner of the FTSE index. I wonder what will evolve from that.

Generally, the forecasts I made at Master Investor have been OK to great, with one exception, which is **silver**.

It's down, and Gavekal have pointed out that when silver falls sharply it normally signals bad economic things, including a US recession. I don't think that is going to happen, but certainly the economic news is not particularly positive. China is faking its numbers, and probably grows at 3 to 4 percent this year, with bad implications for Australia, where I remain short the AUD against the USD. This has been a great trade, and I see AUD trading at 65 cents in the not too distant future.

Perhaps in revenge for the second test results, one commentator even suggests that Australia may be the next Greece. That is an exaggeration, but it is true that Australia is basically a rentier economy, with millions of people sitting around the big mine. When the main customer of the big mine has issues, the rentiers have double trouble.

Meantime, I nurse my wounds in silver (and remember, silver has antibiotic properties) and hold. Some event somewhere will jack it and gold up big time within a year.

Mea culpa on that one.

But there was a silver lining – **Apple**. A conviction short at Master Investor, it fell by 7% in one day last week, after disappointing sales guidance. Now, the company continues to churn out cash, and people are buying iPhones in droves.

But the point is that Apple is totally dependent on the iPhone, and there is good quality and cheap competition out there, particularly from Huawei, the Chinese company. Meantime, Apple's main growth market, China is having issues (and by the way, I didn't like the Chinese market, which has suffered the biggest bust of any market in recent history). A new iPhone will come out later this year, but Apple's best days are behind it. And as for that watch – mine made one outing from its box to be put right back in it, one day to be sold on eBay as a historical novelty. Bloody useless.

But there is no doubt that technology –and I don't mean from Apple– is really on the accelerating path. Every day, there are newly developed or approved drugs in life sciences; I really like **immunotherapy**, and I hope to have something for investors to look at in the near future. This week, a new generation of cholesterol drugs was approved in the US and Europe – the so called PCSK9 class, developed by Regeneron/Sanofi and Amgen. Combined sales of their products could exceed $10 billion per annum, putting these drugs in the super bestseller category with AbbVie's TNF Inhibitor Humira and Gilead's HCV drug Harvoni.

On a less spectacular scale, the recommendation I made last month of **Synergy Pharmaceuticals** in the US worked out pretty well. It's up over 60% after its drug was approved. Chronic constipation sufferers rejoice!

In other areas of technology, the bandwagon rolls on. **Uber** raised money at a $50 billion valuation; it is now an UBERcorn! It is also ridiculously expensive and falls into a category of company becoming quite prevalent in the US. It's too expensive for anyone else to acquire, and it's not certain that there would be any upside in an IPO, as even the most demented US retail investor might baulk at a price demanded by Uber's venture capital owners.

But overall, while there has been a pretty maniacal level of activity in the venture capital area of the US – and now in Europe – technology stocks, at an average of about 26x in the US, are not as ridiculously expensive as they were in 2000, prior to the first internet bust. That's why I don't see a huge fall coming in US markets – but I don't see much upside either. The US market has barely budged this year; share buybacks, the sustaining factor in the bull market of recent years are declining; and overall earnings are declining, too, albeit modestly. This has been heavily influenced by the strength of the US dollar, as well as by the energy sector's collapse, but there isn't a lot of traction in many sectors of the US – and that's why I prefer Japan.

I also bought a little **China** when the blood was flowing in the streets, but that's purely a short term trade. (For those, please follow me on twitter at @jimmhk). And by the way also, I think **crude oil** might be due a bounce. Perhaps 5%. Most of the US shale producers are consumers of cash at current levels and Iranian oil won't flow in quantity for years.

The endless subject of discussion, of course, is when **interest rates** will go up. Who cares? They are going to rise, because the misallocation of capital that zero interest rates has caused with resulting falls in productivity is a disaster that even central bankers have recognised. That's why you should sell bonds (except possibly very long-dated US bonds), and particularly gilts and Euro bonds – most notably, the bund, for which I remain a big bear.

A couple of stocks to consider... notwithstanding my comments on Oz, there is a bit more to it than sybarites and mining. A company which is very interesting is **Rhinomed.** I hosted the CEO at my lair in Ibiza recently, and in between rosados, became convinced that their anti-snoring technology is compelling. Load up on a few.

On a somewhat different scale, the Dutch Bank, **ING** looks cheap to me, and although the equivalent of flagellation for banks, fining, is proceeding at an unceasing pace, they seem to have weathered their canings and now it looks like a good franchise. Remember, there is a price for everything.

I would also buy the German company **Siemens**, as a dull but worthy participant in new medical technologies, the transport revolution and even the Internet of Things. I made some money buying the DAX low and then stupidly shorted it prematurely, but I think it's range-bound and you have to pick your German stocks. **Kuka** remains a top pick in robotics.

I am getting more convinced that **solar** will be a vital component of energy supplies worldwide very quickly and I intend to do research on it and present you with ideas in the next edition. Alan Steel has asked me to speak to his clients in Edinburgh when I'm up there for the Festival, and after the talk Master Investor Magazine will provide a link to the slides.

Meantime, it's the weekend in Ibiza and a beach lunch beckons.

Happy Hunting!!

Jim Mellon

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Greece default: Why isn't gold budging?

http://www.cnbc.com/2015/07/01/greece-default-why-isnt-gold-budging.html

The state of gold is still very much a hot topic. Those expecting a golden lining to the euro cloud were left disappointed and confused following Greece's default. Ansuya Harjani looks at what the commodities analysts are saying about gold's non-reaction to the continuing Greek crisis. Many are putting it down to market confidence and its overall poor long-term fundamentals, but is that the full story?

The cancer sniffers: Dogs could be the best tool for diagnosis

https://www.newscientist.com/article/mg22730280.300-the-cancer-sniffers-dogs-could-be-the-best-tool-for-diagnosis

Cash, drugs, explosives, missing persons, and now cancer... A dog's sense of smell is 1,000 to 10,000 times more acute than that of a human being and their super-powers are now being employed to diagnose the early stages of cancer, long before conventional methods. Good dog.

Intel chief raises doubts over Moore's Law

http://www.ft.com/cms/s/0/36b722bc-2b49-11e5-8613-e7aedbb7bdb7.html#axzz3goUmWL6r

Moore's Law, the prediction made by Intel's co-founder that computing power would double every two years, has showed signs of slowing according to Intel's very own chief executive, Brian Krzanich, and may never return to the pace that has supported the tech advancements of the last fifty years. "Someday it has to stop. No exponential like this goes on forever", he warns.

The Higher Life: A mindfulness guru for the tech set

http://www.newyorker.com/magazine/2015/07/06/the-higher-life

Once the preserve of scruffy-looking folk who need to get over their gap-year in India and yummy-mummies with yoga mats who are yet to discover Valium and gin, meditation has hit the mainstream and we are all encouraged to take some time to wind down and find our inner peace. This article from the New Yorker looks at the new 'mindfulness app', Headspace, that is bringing meditation to the hectic world of Silicon Valley.

Google AI robot answers the meaning of life and tells humans how to be good

http://www.independent.co.uk/life-style/gadgets-and-tech/news/google-ai-robot-answers-the-meaning-of-life-and-tells-humans-how-to-be-good-10353668.html

If anyone's going to answer the meaning of life, we'd expect it to be Google. As for moral robots, working in this sector, I'm surprised it didn't come sooner. I'm pretty sure the first generation Furby had a better sense of right and wrong than half the market analysts who work for us. If you were wondering, the meaning of life is, according to Google's rather evil-looking automaton, "to serve the greater good". Humanity is doomed. Thanks, Google.