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MELLON ON THE MARKETS

By Jim Mellon

Fast changing views for a fast changing world

This missive is being written on the Edinburgh to London train, as I return from a full week at the Edinburgh Festival. My friends Alan and Fran Steel of Alan Steel Asset Management, Scotland's most successful IFA (Independent Financial Adviser), asked me to speak to a selection of their clients during my visit, which I was more than happy to do.

Electric dreams

Aside from longevity, which is my theme du jour (and beyond), I commented on how I saw returns in different asset classes panning out over the next year or so. I pointed out how excessive the valuations of so called FANG (Facebook, Amazon, Netflix, Google) stocks are at the moment, with **Tesla (NASDAQ:TSLA)** a particularly glaring example. That particular vertiginously challenged stock capitalises each car it sold in 2016 at around $880,000, which compares to a capitalisation of just $5,000 per car sold at GM.

Mr Musk, bright though he is, will essentially have to sell all of the electric cars bought in the US for the next decade to come anywhere near justifying his company's valuation. Even he admits that the valuation of Tesla (and by implication Netflix, Facebook, Tencent, Alphabet et al) is crazy, and yet he has his begging bowl outstretched at every possible opportunity – in fact he just raised $1.5 billion in debt last week, adding to the monstrous amounts that have been hoovered up to sustain his electric dreams.

In my opinion, all of these sorts of stocks should be sold pronto – and if you don't believe me, read Elizabeth Kolbert's article on the internet in the most recent edition of the New Yorker magazine to get confirmation. She doesn't credit me, sadly, but I have been banging on for a while about how the big internet behemoths should be regulated as the monopolies that they are – and also made to pay for the data that the aforementioned Liz describes aptly that they extract and recycle.

The road to perdition

There are going to be tears before bedtime – in fact, a floodtide of them – when the Silicon Valley companies get the shakeup that is surely coming their way. Oh, and in the case of **Google (Alphabet) (NASDAQ:GOOGL)** and **Facebook (NASDAQ:FB)**, there are distinct signs of a slowdown in advertising trends in the key youth markets that they currently dominate. The lesson for investors will be a harsh one, but investing in the status quo is a sure road to perdition.

And that brings me to Neil Woodford, who I have never met and who by all accounts is a great guy and obviously a super smart investor. It won't have escaped the eagle-eyed attention of the Master Investor readership that Neil has been having some difficulties recently, with one Woodford Management company after another getting beaten up in the stock market. Our very own Evil Knievil, the best short seller in the UK and my co-owner of the as-yet-to-be best horse in the UK, Evergate, foretold of the travails of **Provident Financial (LON:PFG)** with timely precision.

On one day last week, Provident fell by 70%, which for a FTSE 100 company stuffed in many of the portfolios of the established fund managers is some going. My point at Alan's event was that Evil, amongst others, had noted that Provident's business model was outmoded and was being disrupted, and that was its undoing. If, as a fund manager, you sit there and imagine that the BPs, Unilevers, Nexts and all the other blue-chip stocks will merrily grind out growth and dividends ad infinitum, you too, like Neil, will one day be undone.

Fast-changing views for a fast-changing world

In this fast-changing world fast changing views are required; reading is required, analysis is required, hard work is required. We will do some of it for you at Master Investor, but suffice it to say that there is no company, no management, no financial instrument that is invulnerable to shock, and particularly now when we see the FANGs and their ilk at ludicrous levels.

I read an article last week that suggests the price of oil would fall to zero in the next twenty years; the author thinks this is a very bullish scenario for the big oil companies, because they will stop spending on exploration and will do what big tobacco companies have been doing for years – extracting cash and paying big dividends. Maybe, maybe not. But what I like about this author's work is that it represents a non-static view of the world. The author is challenging conventional wisdoms – firstly, the belief that there will always be a market for oil, and secondly that a low oil price is bad for the oil majors.

That sort of thinking is why we have to all redouble our efforts to review and refine our portfolio strategy. As for myself, I said in March at the Master Investor Show that this would be the year for gold; it has just broken out of an important upside barrier and I see $1,350 an ounce by the end of the year – at the very least. My gut instinct is to buy almost anything related to gold and silver and to do it now. My friend JY Sireau has been super keen on Bitcoin for the past while, and boy has he been right. It may be gold’s turn now.

I am also sticking with my view that the Nikkei/Japanese market is the best major market out there, and I also think sterling is now highly undervalued against the euro. I have been bullish on the euro dollar pair, but now I think it looks exhausted and the dollar might have a bit of a bounce – against everything except sterling and the Japanese yen.

In terms of company shares, I note that **Gilead (NASDAQ:GILD)** is today buying **Kite Pharmaceuticals (NASDAQ:KITE)**; Gilead looks amazingly cheap to me. I also like **Editas (NASDAQ:EDIT)**, the leader in CRISPR technology.

The book (*Juvenescence* – Fruitful Publications) is less than a month away, and it would be great if you could pre-order it. My share of the royalties is all going to charity.

Happy hunting!

Jim Mellon

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