Australian Standfirst

Trump's Bull Rally, 22nd Amendment & How The First American Republic Ends

December 2019 Edition

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Since June 1939, the Superman comic book series – now the most read US literary collection ever – has been synonymic with the American ideals of reticence (Clark Kent and his iconic glasses), virtue (reining in and confronting antagonists) and of course veracity (telling the truth while avoiding speculation and the circumvention of facts).

So, it was not insignificant that after precisely eighty years since Superman #1 was first published, DC Comics in collaboration with writer Brian Michael Bendis and artist Ivan Reis, announced this month that the flagship character would finally publicly reveal his secret identity to the world in Superman #18, in a story arc aptly titled, "*The Truth*".

The issue features a press conference in which Superman reveals to the world that he is Clark Kent and the actuality of the times in which we now live, calls on him to sacrifice the privacy of anonymousness for the surpassing acceptance of legitimacy.

continue over

Australian Standfirst

December 2019 Edition

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FUNDS MANAGEMENT

PHILANTHROPY

Such obvious allegory and parable serve to illuminate the dimensions of the issues facing the real-life America in 2020 and the importance surrounding collective decisions being made between privacy (Artificial Intelligence and Cybersecurity) versus those of legitimacy (Citizen representation superseding labour movements, in the case of Guantánamo Bay [Gitmo], *Habeas Corpus*, Quantum Supremacy, Pax Sinica tête-à-tête Pax Americana hegemonic wrangling's and of course, the ultimate imbrication of politics and finance found in '*Trumponics*').

- Cite:- Seismic Shifts In 2019, 16 January 2019
- Cite:- CEEMEA & US Dollar Liquidity Crisis, 9 October 2018
- Cite:- Taiwanese War & Markets Fallout, 30 January 2019
- Cite:- China's Space Silk Road, 26 August 2019
- Cite:- Military Conflict With China, 6 November 2019
- Cite:- Hong Kong Affects Backend Of Australian Wealth Management, 4 December 2019
- Cite:- Defence Complex Investments, 4 July 2018
- Cite:- Taiwan's Looming Crisis Is A Much Bigger Threat Than Markets Realise, 20 June 2018
- Cite:- US China trade wars are not the only problem for investors as tech fight looms, 9 April 2018
- Cite:- Trumponics gaining attention but its China that matters, 4 February 2017

Historically, while discussing forces at play in the real world, has helped those in financial markets navigate nearing economic trends, there has always also been an objective path forward, which has revealed itself when the story arc is flipped on its head, unpacking, "*The Truth*", by studying financial markets actions and heuristics to reveal verity.

The Faustian pact struck during the nadir of the crisis years of 2007 until 2009, saw broad debt transfer from the private and institutional sectors to those of Sovereign Governments (with the caveat of the US, which also saw Provincial Governments, such as California and its State Wealth Fund(s) temporarily harbouring said burdens), speedily following the *coup de théâtre*, we today dub, '*the credit crunch*'.

- Cite:- Let history lead to brighter future, 18 October 2014
- Cite:- A sober eye to the realities of our global boomcrash opera, 9 August 2014
- Cite:- Intervention can distort the markets, 5 September 2015
- Cite:- Surviving the US federal reserves monetary policy rollercoaster, 21 March 2015

As Ray Dalio masterfully portrayed via his, How The Economic Machine Works, September 2013 animation, this wholesale transference of debt to Sovereigns, in turn, forced Central Banks to add unprecedented levels of liquidity via unconventional monetary mechanics, broadly today known as Quantitative Easing, or QE.

The incipient move towards Central Banks managing liquidity in lieu of their original remit, which was to, in effect, smooth out the excesses of the (then thought to be) natural economic business cycle, reinforced the compromised nature of the debt transfers during the crisis years, today, inaccurately designated as the Great Recession or GFC (inaccurate because the crises was precisely that, a crisis but not a technical recession per se).

In toto, compounding years of unconventional monetary interference and public sector crowding, twisted what was previously thought of as unconventional to being then accepted as conventional and worse still, today requisite.

In short, market participants began to follow Central Bank roughshod and ignored the economic underpinnings which had governed real economy qum financial markets mechanisms preceding the twenty first century.

continue over

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December 2019 Edition

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EDUCATION

FUNDS MANAGEMENT

PHILANTHROPY

Consecutively, institutional market pundits, namely, Hedge Funds, began to champion and market, "factors" and further still, "multi-factor models", which they purported were financial models that employed multiple factors in their calculations to explain market phenomena or equilibrium asset prices points of differentiation.

This advertised sophistication rang bells for buyside Sovereign, Provincial and Pension [Superannuation] Wealth Funds, who viewed themselves as guardians of purpose and custodians of amassed wealth, which had just been mauled via rehypothecation missteps, vanishing liquidity traps (blamed on short sellers, to be discussed momentarily) and synthetics (i.e. CDO's, CLO's, et cetera) imploding during the preceding 2008 to 2012 years, with also with fears of a double-dip credit crisis flaring, exacerbated further contagion fearmongering aligned to Grexit.

- Cite:- Greek exit need not be a tragedy, 5 June 2012

Short selling was prohibited across a vast swath of developed market exchanges as an unfounded precaution for fear the practice was fuelling traps and vanishing liquidity pools.

Our Posthumous Patron, Prof. Michael McKenzie, published an anthology of peer-reviewed papers evidencing that short selling in fact, added to and aided liquidity, solely by means of serving the price discovery process and allowing long and short selling to ascertain, value, quicker and more accurately.

- Cite:- The Impact of Short Selling on the Price-Volume Relationship: Evidence from Hong Kong, 25 July 2003
- Cite:- Hole in the Wall: Informed Short Selling Ahead of Private Placements, 16 March 2013
- Cite:- The Trading Behaviour of Institutional Owners and Short Sellers Around Earnings Announcements, 18 June 2009
- Cite:- Naked Short Selling and the Market Impact of Failures-to-Deliver: Evidence from the Trading of Real Estate Investment Trusts, 19 April 2010
- Cite:- The Determinants of Short Selling: Evidence from the Hong Kong Equity Market, 6 October 2012
- Cite:- Short-Selling and Credit Default Swap Spreads — Where Do Informed Traders Trade?, 9 June 2019
- Cite:- Michael McKenzie brought pragmatism to investing, 18 April 2015

These unproven but popular multi-factor models roared throughout equity, commodity and fixed income alternative managers (hedge funds, et al) during the halcyon days of 2012 through to 2016, up and until March 2016, when one factor, the momentum factor, imploded, bringing down a vast majority of these alternative managers in a sequence of one (technically referred to as delta one, or δ or Δ).

In borrowing Hans Christian Andersen's infamous reference, these alternative managers revealed they, the Emperors, had no clothes and in practice, had all been crowding into the exact same factor and thus same trades and directional flow.

- Cite:- No recession in US but bears hold high ground, 13 February 2016
- Cite:- Global investor bond ladder a sound bet as numbers swirl, 11 June 2016
- Cite:- Volatility signals a way forward for the farsighted, 10 May 2016
- Cite:- Global investor coming months volatile for multiasset investors, 9 April 2016

March through to October 2016 was the nemesis for multifactorial hedge fund managers, who all scrambled to remodel, rather than admit they had all been following one single factor, momentum.

Australian Standfirst

December 2019 Edition

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EDUCATION

FUNDS MANAGEMENT

PHILANTHROPY

Our Australian Future Fund copped a beating during this window, predominantly for this reason (over-reliance on hedge funds and the crowded trade).

The unexpected accession of Donald Trump, on Tuesday, 8 November 2016, provided these impaired alternative managers a narrative and a metaphorical horse to tie their carts to and thus was born, the **Trumponics** trade.

Trumponics and the delta one Trump bully rally thereafter, was and continues to be the hyperconverged bond, equity and cash instrument momentum trade which reignited on 9 November 2016 and shows no signs of retracing any time before Tuesday, 3 November 2020 (US Presidential Elections).

- Cite:- Bloomberg: global rally leading up to 2020 elections, 21 November 2019
- Cite:- Bloomberg: We Are Not Chasing the Rally in China, 4 March 2019
- Cite:- Bloomberg: Powell Brings Business as Usual, 27 November 2019
- Cite:- Will the instosdriven Donald Trump rally last long, 6 December 2016
- Cite:- The US sharemarket will fly higher sooner but watch out for later, 19 November 2016
- Cite:- Trumponics gaining attention but its China that matters, 4 February 2017

But in the search for verity and to reveal what Trumponics and market machinations may inform us about the real world, it is important to focus in on how unconventional monetary policies, interference and the allowance of ever-increasing distortions wreaks havoc not only when financial sanity returns but also for society en-masse, socially, politically and as Superman examples, ethically.

> “ and thus was born, the Trumponics trade. ”

Quantitative Easing (QE), in conjunction with equity and bond market hyperconvergence, has reengineered what we today view as, “risk on” and “risk off”.

The careful relationship and tradecraft displayed by savvy money managers has and should remain, ascertaining when to deploy capital towards risk assets in expectation of upswings and when to batten down the hatches, when the edge of the precipice or preponderance of evidence signals otherwise.

- Cite:- US Equities Still Place To Be For Growth, 17 April 2019
- Cite:- Bull Rally And Not A Recession, 11 September 2019
- Cite:- Late-cycle opportunities in new cancer treatment, 12 October 2019
- Cite:- Risk On 2019-2020, 23 October 2019

This degree of manipulation and distortion has, now affected the real world by, in effect, disconnecting real economies (and societies) from financial markets and the Faustian Pacts which began in 2008 have resulted in market participants (namely institutional hedge funds) following Central Bank signalling and not, as is the natural state of equilibrium, those emanating from real economies themselves.

- Cite:- ‘End The Fed’, 24 September 2019
- Cite:- Death Knell Of Private Banking In Australia, 17 July 2019
- Cite:- Intervention can distort the markets, 5 September 2015

- Cite:- Bad new days of big government, 16 May 2015
- Cite:- Invest from a platform of knowledge, 14 June 2014

Evidence for this was seen June this year when a quorum of market and commercial pundits rang alarm bells, calling a recession nearing, solely on the basis that the US 10 Year yield curve had, "inverted"; leaning on the argument that since The Korean War, every time this event occurred (inversion of US bellwether yield curves), a US recession swiftly followed.

This was a false alarm and goes towards evidencing the misunderstanding surrounding Trumponics, QE and economic analysis post the Great Recession.

- Cite:- How The Inverted Yield Curve Affects Australia, 20 June 2019
- Cite:- Inversion Reversion Subversion, June 2019

Notwithstanding, a Risk-On and tactical tilt into Stateside assets should not be confused for confidence in the American system during the era of Trump.

Donald Trump has all but won the 2020 Presidential elections (despite the reality we are still ten months out) and hardly hidden the fact that he and his campaign have genuine intentions of repealing the Twenty-Second (22nd) amendment of the US Constitution, limiting a Presidency to two terms, which was passed by Congress 21 March 1947 and subsequently ratified 27 February 1951.

- Cite:- Donald Trump's Official Instagram Account, "Trump 2024", 11 September 2019

Akin to Superman requiring the acceptance of legitimacy, so to will President Trump, not only too win in November of 2020 but thereafter, pass via a supermajority (requisite 36 States) a repeal of the 1951 Twenty-Second amendment.

To reveal this verity, one financial and one economic heuristic will help shed light on how this series of seismic changes unfolds.

The financial imprimatur of Trumponics is embedded in the presumption that under President Trump's term(s), the Executive branch and now the monetary arm (via way of bullying via twitter) of the US Government will not get in the way of the liquidity tap first turned on during the GFC but left untightened under Trump.

2018 saw markets challenge this presupposition by "crowding into" treasury bill markets, crowding already oversized public sector market players.

- Cite:- The one question investors need to ask themselves, 31 January 2018
- Cite:- Rising bond yields have many consequences. Here's what you should watch out for, 28 February 2018

2019's inverted yield curve scare was evidence that this was in turn, a bluff of the market and that the natural mechanics which formerly linked the economic business cycle to fixed income dependency, has long ceased (or atleast, decoupled).

Institutional market participants, predominantly investment and private banks, now have an open and vested interest to leave this imprimatur uninterrupted, and in so doing, afford themselves another nine (9) years of a Trump Presidency and potentially nineteen (19) years of the current

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December 2019 Edition

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EDUCATION

FUNDS MANAGEMENT

PHILANTHROPY

uninterrupted bull cycle expansion.

The economic heuristic which emboldens those who support Trump politically is the reaction to Climate Change sciences as "#*fakenews*".

To appreciate components of this resistance and resentment it pays to unwind the clock to the late 1960's.

Like much, if not all applied economic and financial principles, the concept of "*Globalisation*", was first borne out of the New England (East Coast) varsity community, and the basic precept for this concept was an extension of Adam Smith's original, "*invisible hand*" intellection.

Globalisation in both principle and intended application was supposed to be an arrangement, whereby, the People's Republic of China, escaping the Cultural Revolutionary and Great Leap Forward blunders, joined the global economy, akin to how South Korea and Japan had during the 1950's (then referred to as the *Roaring Tigers*), and agreed to, in reality, become the manufacturing hub for developed markets, with the understanding that via incremental cosh-push inflation, they too thirty years forward would become a consumption led economy, alongside other developed economies.

The concept relied on Smith's assumptions that the invisible hand knew how best to allocate resources (capital, time and people) and that in stage one, developed economies such as the United States, Canada, Australia and Britain, should strip away inefficient sectors of their economies (such as Reagan gutting Detroit, Thatcher the coal mines and Whitlam decimating all of Australia's heavy-industry) and in stage two, reallocate – via the magic of the invisible hand – these resources to more productive uses (e.g. advance sciences, education, research & development, et cetera).

China's paramount leader, Deng Xiaoping, visited Texas in 1979 and in practice, began this Sino-American accord towards a globalised economy.

Fast forwarding nearly forty years on, globalisation ran off the rails predominantly because of one all-important reason – we in the West completed stage one very expediently and effectively, stripping away onshore heavy industry and manufacturing across our respective geographies but we failed miserably at even beginning, let alone completing stage two, which was to see those now freer collective national resources, reallocated to their superior and more productive uses.

How this relates to Climate Change, #fakenews, Trumponics, Trump and the clear path towards Republican victory in November 2020, is that Rust-Belt State populations vividly recant being sold on the proposition of Globalisation during the late 1960's and early 1970's and they were presented with this precept under the guise that elite varsities (universities) had found a way to embrace change and improve their living standards.

continue over

Australian Standfirst

December 2019 Edition

Simplifying Global Investing, Elevating Funds Management and Empowering Australians with clear Financial and Philanthropic Education.

EDUCATION

FUNDS MANAGEMENT

PHILANTHROPY

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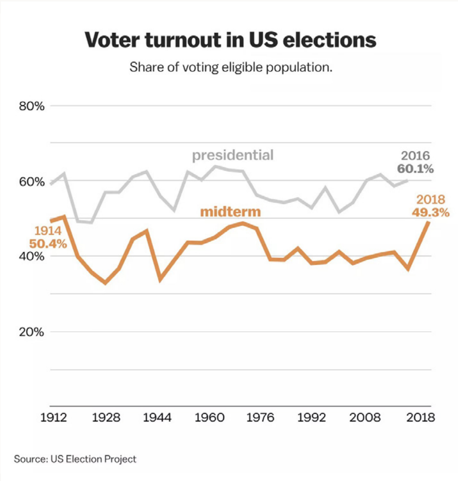
Thirty years on, many of these communities are now bordering on dereliction, members of these communities are unemployed or significantly under-employed (cite:- [Bloomberg: Powell Brings Business as Usual](), 27 November 2017), an opioid epidemic linked to mental health and poverty stresses has caused more civilian fatalities than any other source of crisis since the Spanish Flu influenza pandemic of 1918 and the National Rifle Association (NRA) has successfully pivoted their messaging to pitch AR-15 semi-automatic assault rifles to civilians employing the pitch, "*you're unemployed? No longer the provider for your family and loved ones? Well, you can still be their protector. You may no longer be able to be the provider but man up and be their protector...*".



Resentment is evident on both ends of the political spectrums, with only one in three registered Democrats voting during the 2018 mid-term elections and one in two Republicans.

Rust-Belt Americans lost faith in "elites" espousing academic precepts from Universities which had previously (in their reasoning) tricked them into accepting Globalisation as a positive development for every day Americans.

When these constituents now hear that "97%" of all scientists and universities unequivocally believe climate change is real and caused by human actions, it is understandable to reason why they may not only today be dubious but mistrusting, bordering on resentful.

To coal miners and investment bankers alike, Trump and Trumponics represents their bulwark to what they see as unwelcomed interference and more is astir than mere pork-barrelling or partisan politicking, a complete divide has ruptured the indispensable nation.

Napoleon Bonaparte taught us that all empires die of indigestion and that the fragility of a Republic is tested when, "The Truth", is set aside for the surpassing acceptance of legitimacy.

Yours,
Stirling Larkin
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Asset Management