

April 2018

The Perils of Prediction

by TriLake Partners' [resident astrologer](#)



Since time immemorial, man has sought to divine insight from the celestial positioning of stars. Perhaps, our ancient forebears thought, these giant balls of gas and the odd planet passing in front of them determine our personalities at the time of our birth. Of course, back then, they didn't know about gaseous balls and icy planets; they thought they were gods or deceased Lion Kings, benevolently watching the naturally warming and cooling flat earth. Perhaps, they further thought, the stars could predict the future.

The future! Wouldn't that be useful? I could decide the best day and time to venture off and hunt wildebeest or pillage the other village and find a bride who will bear me sons. The idea caught on and to this day, daily and weekly horoscopes are a mainstay of newspapers and magazines, reputable or otherwise. So in the best tradition of astrologers, chart-readers and self-proclaimed investment experts, we present The TriLake Horoscope:



ARIES, the Ram: 21Mar – 19Apr

You're finding it more difficult to ignore the blowhard posturing and just concentrate on the fundamentals. Yes, the synchronised growth continues but trade issues and geopolitical tensions can derail it all, right? Volatility has returned to the US stock market but other cautionary measures—credit spreads, yield curve slope, unemployment claims—remain subdued. The stars don't foresee the Volatility Index going back and staying below 13 until after The Orange One leaves office. Don't get caught up in that he-said-Xi-said back-and-forth; he's just trying buy political capital for the mid-term elections, at least until we're all distracted by the next season of Game of Thrones. Concentrate on long-term trends and durable businesses that will survive, if not thrive, through the intervening uncertainty.

TAURUS, the Bull: 20Apr - 20May

Many investors sell in May and go away, as they say. But not you! You're a perma-Bull, a Prophet of Boom, the Socrates of Equities. And so long as you maintain a long-term investment horizon, your sunny belief in capital markets will serve you well. You don't mind looking silly during downturns and see them as buying windows when you can increase your growing collection of securities. For Pete's sake, would it hurt you to hedge once in a while? If puts and reverse ETFs aren't your style, adding some long/short, market neutral or fixed-income arb exposure might help you sleep easier at night. Just don't ask the stars who Pete is; they will never divulge their users' private information. (Take that, FB.)



GEMINI, the Winklevoss Twins' Bitcoin Trader: 21May - 20Jun

Heed the words of your fellow Gemini Henry Kissinger who said to Walter Russell Mead of the Wall Street Journal a few weeks ago: "You must never forget that the unification of Germany is more important than the development of the European Union, that the fall of the Soviet Union is more important than the unification of Germany, and that the rise of India and China is more important than the fall of the Soviet Union." To this I add that the choice between buying Bosch or Geely is far less important than what you decide to eat for lunch today. Buy one or both, the stars don't care. India and China are long-running stories and are subject to dizzying run-ups and frightful corrections in the short-medium term. Take advantage of these times when the sentiment turns against them to accumulate values. As for lunch, TriLake Partners recommend the chicken biryani.

CANCER, the Indiscriminate Disease: 21Jun - 22Jul

You ought to be ashamed of yourself. According to the International Cancer Association, cancer kills more people every year than AIDS, tuberculosis, and malaria combined. With the inexorable ageing of the world's population, breakthroughs in radiotherapy and other interventions will bring hope to patients and returns to investors. This ageing coincides with longer lifespans in the developed world and changing diets in the emerging markets. Healthcare is an overarching requirement in all societies. Worried about trade protectionism? Healthcare funds can focus on domestic consumption easier than some other sectoral funds.



LEO, the Lyin' Campaign Manager: 23Jul - 22Aug

The stars are clueless on whether governments have taken concrete steps to deter trolls and hacks from undermining our electoral systems, power infrastructure, conduct of e-commerce, even the ability to discern truth from fiction. The technology side's breakneck speed has lapped regulations and controls. Well-meaning technology can always be subverted for nefarious purposes and some of these future subversions cannot be foreseen until they happen. Much work needs to be done, much money needs to be spent. The New Technocracy will claims its victims but the Patient Investor need not be one of them. Old investment ideas about defensive moats around business models remain relevant so keep away from the vulnerable ones with the sexy publicity.

VIRGO, the Virgin Airlines Flight Attendant: 23Aug - 22Sep

The stars have seen all the selfies you've posted of yourself in gorgeous locales like the Seychelles, Iceland and the ladies room of the Bangkok Hard Rock Café (the stars are looking at you, Patrick Lauener), contributing to the 8.27 trillion-dollar global tourism industry. And whilst you have seen more and more of them in your selfie backgrounds, only 5% of Mainland Chinese have passports. But the tourism boom is a global phenomenon. Instead of buying CTrip at 40x earnings, buy airports instead. Travelers may or may not stay in this hotel, fly that airline or visit those tourist traps, but they will definitely go through Customs and Immigration.



LIBRA, the Balanced Portfolio Manager: 23Sep – 22Oct

So you still like bonds. After all, they hit your trifecta of a guaranteed rate, a guaranteed term and a guarantor you recognise. May your famous Libran insecurity serve you well and lead you to create more flexibility and optionality in your all-bond portfolio. And may your coupon income outweigh your duration risk over your time horizon. It's been a great thirty years for long bonds but unless you're an insurance company, perhaps you should cast a wider net and diversify. If your income requirements can be met by current investment-grade yields, congratulations. Not everyone has amassed as much wealth and some have had to move down the ratings scale in search for yield. It may still be distant but we're getting closer to the point when high-yield bonds become uncompensated equity risk.

SCORPIO, the Unemployed Fax Machine Salesman: 23Oct - 21Nov

Famously suspicious of everything and everyone, you smell a rat when you listen to anyone's advice, including mine. That's not a rat. It's a highly incentivised product pusher using last week's [Economist cover](#) to sell you something. Even the stars can sometimes find it hard to distinguish the signal from the noise, the Buffetts from the Blodgets, let alone find the time to read it all. Serious investors may be better served by independent managers—did I hear you say TriLake?—who sit squarely on the buy-side with their clients. Whilst independence may not necessarily impart superior skill, it does align your interest with ours.



SAGITTARIUS, Half-Man, Half-Horse, All-Stud: 22Nov - 21Dec

Congratulations! You may have just bought your last car with an internal combustion engine. All the horsepower you city-dwellers will ever need will soon (sooner than the EPA's Scott Pruitt thinks) be supplied by electric vehicles. The confluence of battery technology, the sharing economy, public and private concern for the environment is approaching. Combine that with the advances in autonomous driving and the sharing economy and you may soon convert your two-car garage into a bedroom for your mother-in-law. Or maybe a two-car garage with a charging station would be better. The stars have seen this coming for a long time. A [1911 article in the New York Times](#) reports that the "enthusiastic interest shown by the electric power companies in furthering the cause of the electric passenger vehicle assures a still greater use of these machines." Too early by more than a century, yes, but this time the stars mean it!

CAPRICORN, the Goat Cheese Aficionado: 22Dec - 19Jan

Capricorns' serious demeanour often hide their true nature: They're even more serious than they appear! They are unforgiving in their demand for craft and quality and will absolutely not settle for less (without a substantial discount). Whilst some speculate that the Millennials will be the first American generation to be worse off than their parents, the New Affluent of the poorer emerging markets are brandishing their discretionary wealth. And as the middle classes of the emerging markets move up from 2500 to 4000 to 8000 dollars of GDP per capita, so too does their demand for appliances, conveniences and experiences. Like smartphones, today's discretionary purchase may become tomorrow's household staple. Always remember that the GDP is not the stock market but it does provide some measure of a market's future long-term growth capacity.



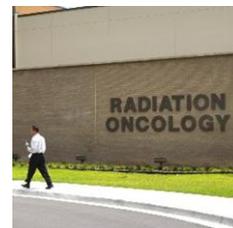


AQUARIUS, the Man Who Carries Water: 20Jan - 18Feb

The stars see a chance that water-bearing may yet again be a lucrative profession. Wars have broken out over lesser reasons—a pig, schnapps, Helen—than access to clean water. Driven by population growth in the emerging markets, regulatory and territorial battles, aged infrastructure, and—yes, Donald—climate change, global demand for water will increase by 10% a year over the next few decades. Investment in infrastructure, improved generation and distribution and clean-water tech will reward the patient Aquarian.

PISCES, the Fish Out of Water: 19Feb - 20Mar

It is no coincidence that Pisces always follows Aquarius; the man is carrying water after all. And as water provides fish the milieu for life, so do capital markets provide investors the mechanism to allocate their capital amongst real and financial assets that can grow over time. The stars believe that you are better off selectively weighing all the various risk premia that are always present in the markets and profiting from that consistent exposure over time instead of placing bets on predictions on asset price movements. TriLake Partners do not profess an unusual talent for prognostication. Nor do we claim better luck than others. We do however align our interests and sit squarely on the buy-side with our clients. We parlay our bank relationships into better pricing and seek a deeper understanding of your heretofore-unmeasured need for risk-taking. And maybe entertain with the occasional newsletter.



Oh no. There's always one in every crowd. You know the one. The one who must point out in a George Carlin voice: "Wait just a minute. I follow the Sidereal Zodiac. Where's Ophiuchus??" Just for that one, let me reposition my telescope and seek enlightenment from the constellations.



OPHIUCHUS, that One in Every Crowd: 4Apr – 27Aug

Of course the eventual tightening of liquidity in the US, Europe and Japan can be managed to minimise dislocations and smoothen the Road to Normal. Interest rates remain low and supportive of asset prices. With so many moving and interconnected parts though, the stars see a very good chance of policy error. It is futile to predict if and when such error will occur. Maybe not overnight or for the next month or even a year or two but exposure to capital markets will most likely continue to be rewarded by the commensurate return over time. Stay invested. Don't let fear paralyse you from taking the right amount of risk that you need but don't let greed lead you to take more than that.

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