Plunder

With France at the forefront this week, we figured it quite apropos to start off with something from Frederic Bastiat. He was one of France's more famous economist's, well known for his essays and free market spirit. Here is one of his more epic quote's, **"When plunder becomes a way of life for a group of men living together in society, they create for themselves in the course of time, a legal system that authorizes it and a moral code that glorifies it."**(Frederic Bastiat)

We tend to agree with a lot of what guys like Bastiat stood for, especially his views on legal plunder, redistribution and especially his thoughts upon the duties of government. He often said that the main purpose of government is to protect the rights of individuals to life, liberty and property! Sound familiar? Anything else creates a dangerous breeding ground for malfeasance and of course legalized plunder. We can't help but wonder what Bastiat or even Adam Smith would think of the current state of affairs considering our global **central banking cartels (CBCs)** have all but taken over every asset class out there. If it's no wonder why **active asset management is under fire**, look no further than CBCs, they are both savior and destroyer. A paradox that we would hope resolves itself in the near future, for the CBCs seem to be having their cake and eating it too. Call it unnatural, artificial, a bubble whatever your mind may fancy, but the reality of it is and as we have spoken many times before, the CBCs have pushed all their chips onto the table and for all intents and purposes, **"are all in."**

Some of you may be asking yourselves, well why is asset management (hedge funds) under fire because of this? Well, basically fundamentals have been tossed out the window and when you charge 2 and 20, people expect just a little bit more. This is why passive index investing seems to be all the rage and we can’t help but think the retail crowd always bears the brunt of the costs when things do finally turn, and they always do turn. For now, its trendy to pretend one can simple invest passively, and why blame them? The CBCs have their back and there is nothing going to stop their **"plundering ways!"**

Wait, lets define this word that Bastiat so often used. Merriam Webster describes the word "Plunder" as follows:

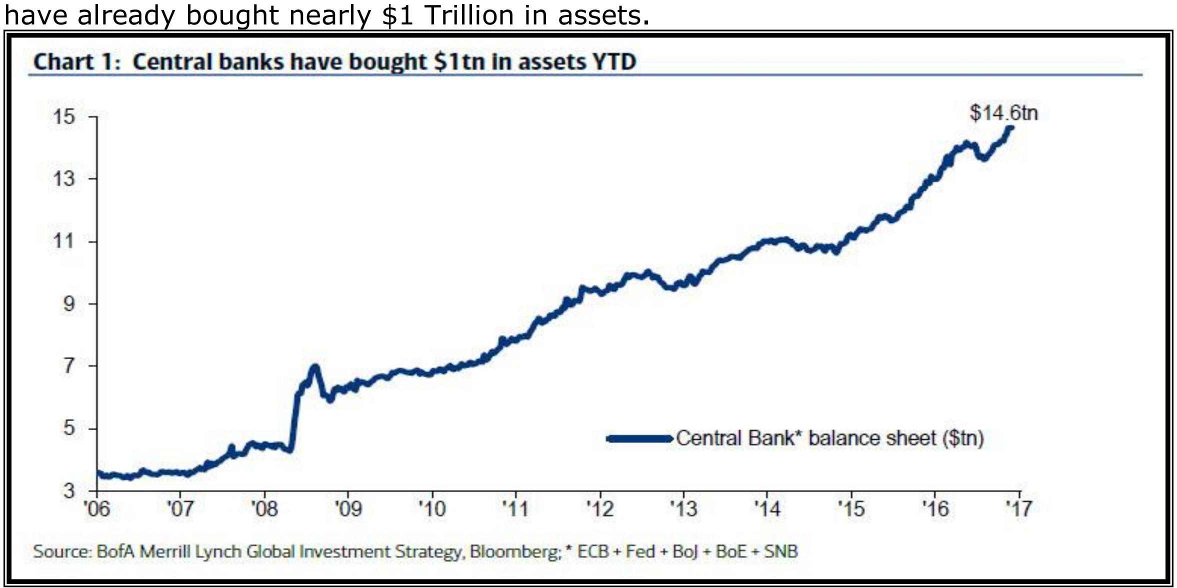
1. To take the goods of by force (as in war)
2. To take by force or wrongfully

Ok so the CBCs are not doing it by force, in terms of war, but one can make an argument that the governments nor the people really have any say and when one entity acts against another, could be construed as force. So it's not war and spoils, but rather oppression perhaps. Instead, lets for a moment focus upon wrongfully. It shouldn't be any secret that CBCs are private for profit entities. Some will say wait a minute, the Federal Reserve remits its profits back to the US Treasury. Yea it remits its excess profits after all expenses are accounted for, this includes, operations, payments of dividends on member bank stock and of course maintaining a surplus with paid in capital. Not to mention bloated and extensive payrolls as well as a lot of "other" items. Quite a lot of leeway for an entity owned by private banks, sort of sounds like guaranteed profits.

One other item to note is that the Federal Reserve **is not mandated** to transfer anything to the US Treasury, **the Federal Reserve Board of Governors** can suspend any remittances to the US Treasury **if excess earnings are insufficient** in meeting the aforementioned expenses.

Considering the size of the portfolio as well as the nature of its holdings, one can only fathom the mark to market losses the CBCs will take if both equities fell and interest rates rose. Yet as we have discussed so many times before, one can only take losses if the capital they used to invest came with a cost basis. Considering the CBCs inevitably have a **zero cost basis (print money from nothing)** it's very difficult to think they can actually lose money. Since their cost basis is zero, the term loss doesn't apply, so we can't look at things in the same manner as if the CBCs were a true private entity without the privilege to print money for free and buy any asset at will.

Michael Hartnett of Bank of America touched a bit on this this week, he had a great article which shows the extent of this CBC plundering. Four months into this year and the CBCs have already bought nearly $1 Trillion in assets.



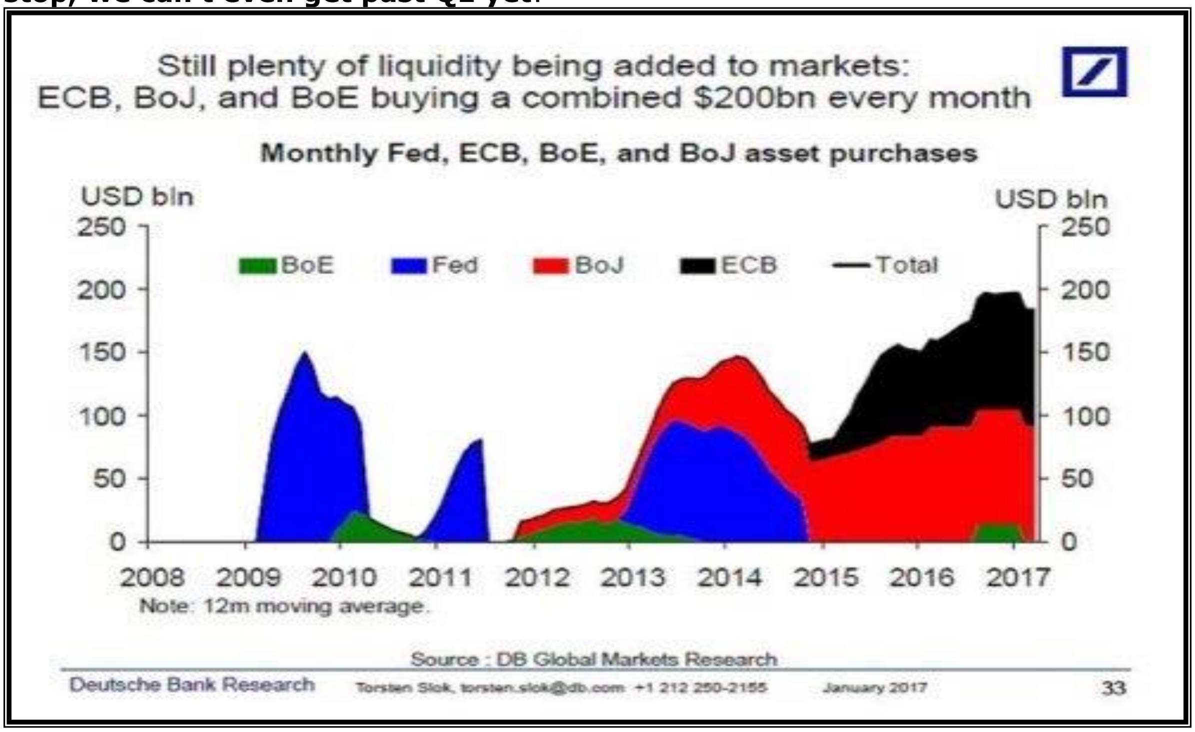
He tossed in this graphic which solidifies the asset purchase spree:

Table 1: The liquidity supernova continues

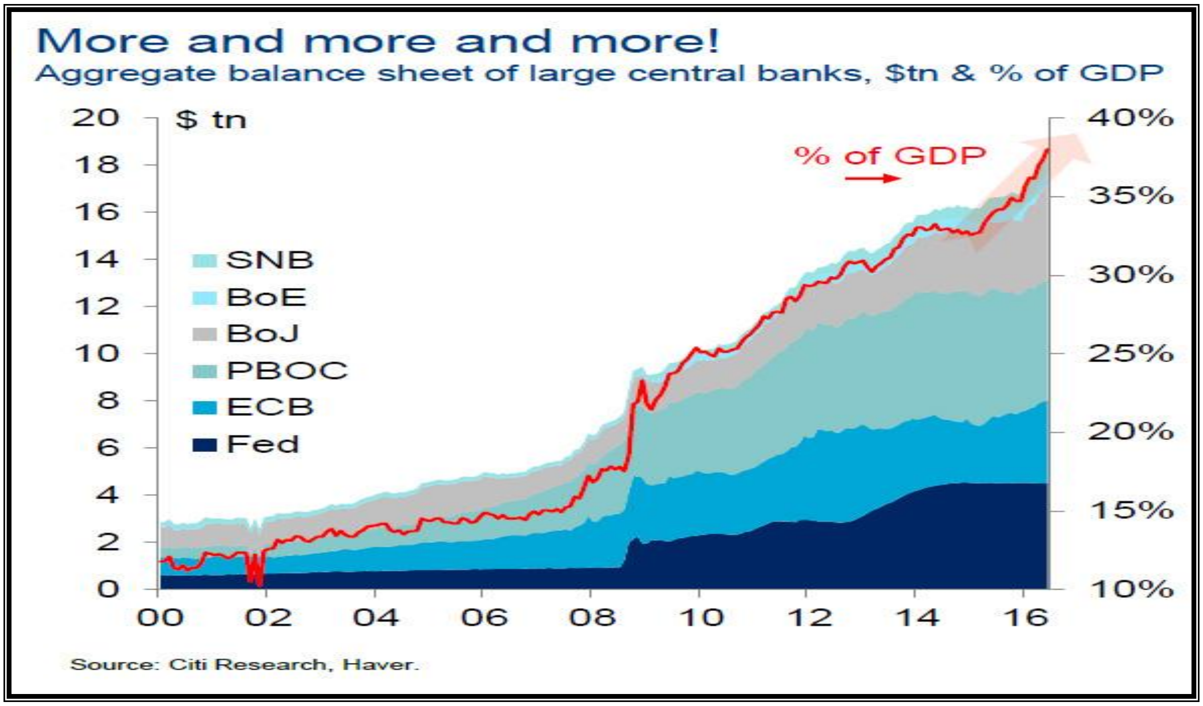
	Central Bank* balance sheet, ($tn)	Global FX reserves ex-gold ($tn)	Liquidity (CB bal sheet + FX, $tn)	Stocks	Bonds
	$ change	$ change	$ change	YoY %	YoY %
2007	0.7	1.3	1.9	12%	9%
2008	2.8	0.7	3.4	-42%	4%
2009	-0.2	0.9	0.7	35%	8%
2010	0.3	1.4	1.7	13%	6%
2011	2.0	1.2	3.2	-7%	6%
2012	0.8	0.6	1.4	17%	5%
2013	0.6	0.7	1.3	23%	-2%
2014	0.3	0.2	0.5	5%	1%
2015	1.1	-0.6	0.5	-2%	-3%
2016	1.7	-0.3	1.4	9%	3%
2017	3.6	0.2	3.8	22%	10%

Source: BofA Merrill Lynch Global Investment Strategy, Bloomberg
* ECB + Fed + BoJ + BoE + SNB; 2017 figures annualized as of 4/19/17

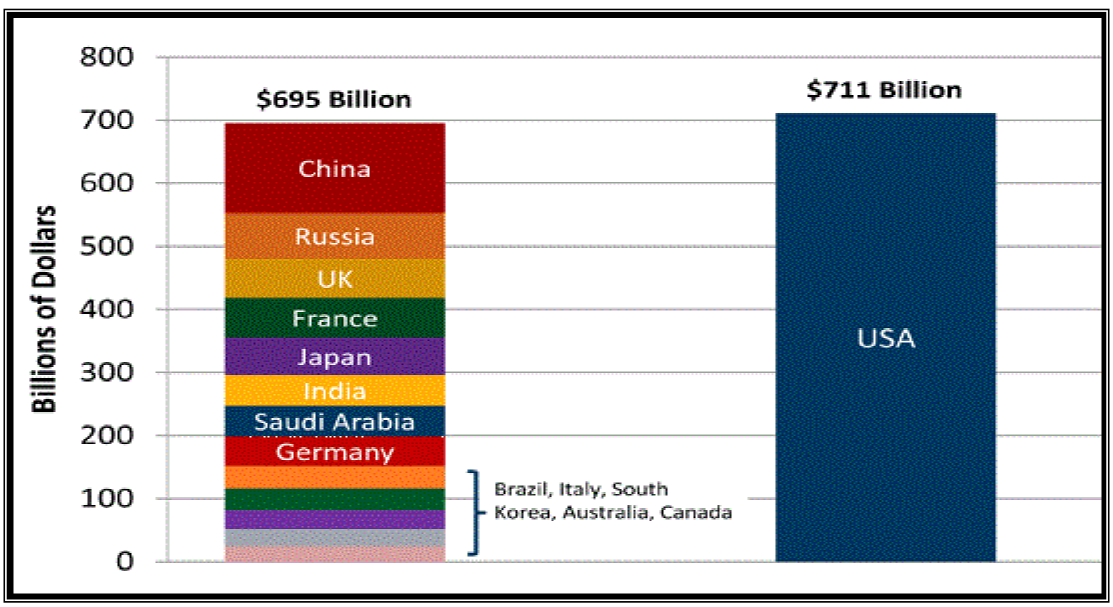
When we hear anyone talk of normalizing rates or shrinking balance sheets, **please, just stop, we can't even get past QE yet**:



This chart can answer anyone's question as to why this market nor any other financial market cares little about fundamental economic news and if any of your cohorts or other non informed associate tells you that employment is up, wages are up, earnings look good, simply say, **NONE OF THAT MATTERS!** The only thing that matters is pictured right here:



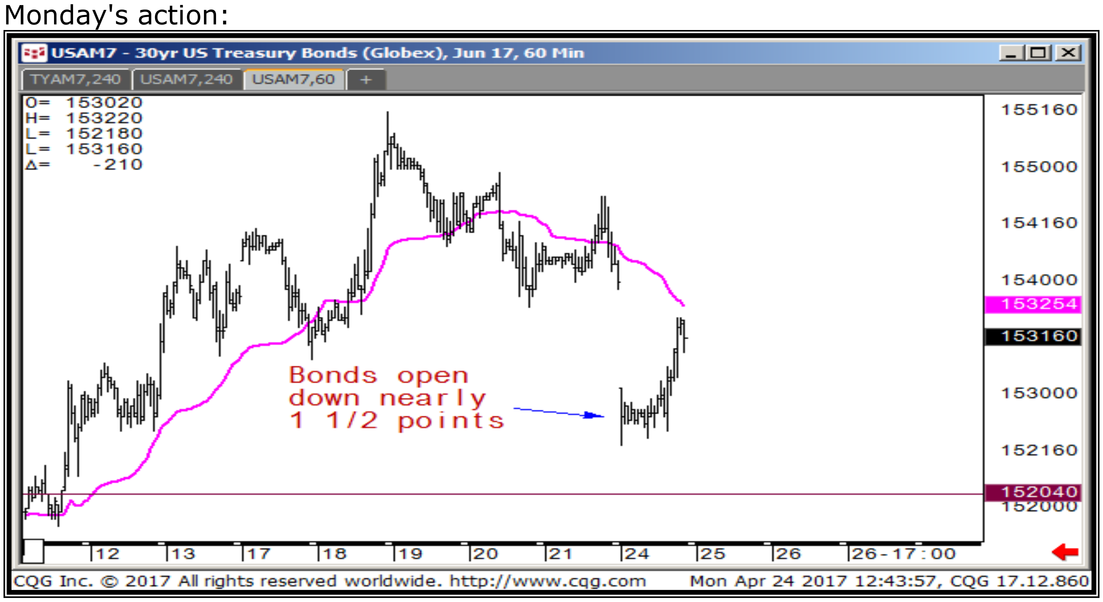
As you can see we point out things that the main stream media will never point out to you, because they do not want you knowing and they certainly do not want you to **understand** how the system really works. Bastiat was right then and is right now, **when plunder becomes a way of life, governments form the rules to justify it**. It's unfortunate but it's the reality of things. How else can we continue along unless we keep the status quo? Hell we haven't even touched on any politics but considering all the warmongering going on, we can't help but toss in this graphic from Charles Hugh Smith at oftwominds.com:



Yes it's true, the US spends more than all those countries combined. Of course the lobbyists and the defense contractors love it, but do the American people understand the consequences economically? Yes we understand a strong military and that is not something we are going to question, but as analysts, we have to question and try to quantify risk vs return. What are we truly getting from this $711 Billion? Is it maximized, is it efficient or is there a lot of it waste? (cough, chough)

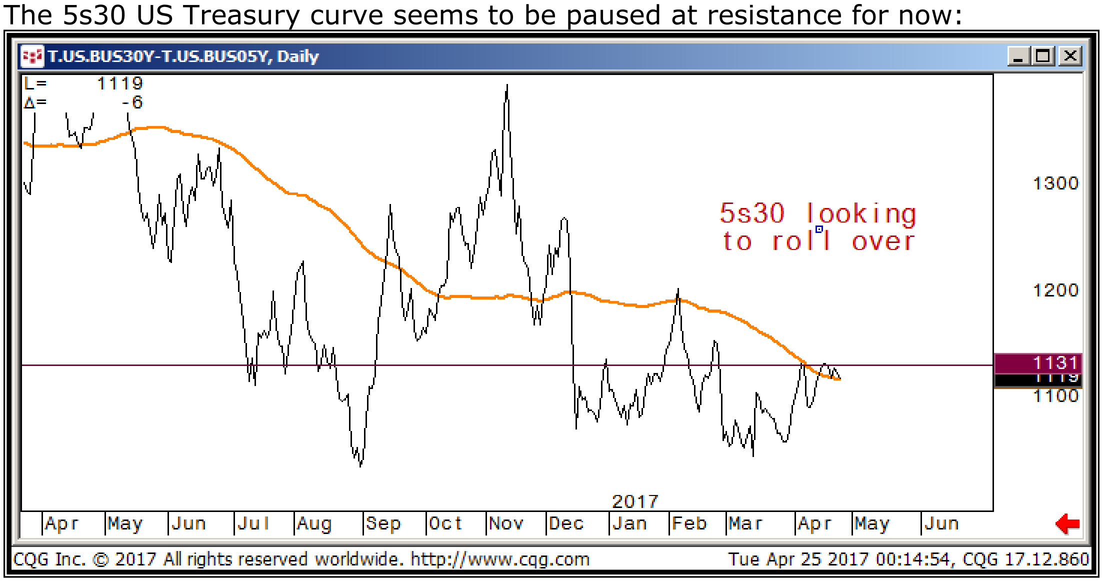
One doesn't have to question when one is not footing the bill, but generations of Americans now and in the future might start to wonder. We can't help but think that warfare wears many faces and one of those faces is military might, the other is economic cost. Weakness can be masked by anger and a show of force, but ultimately the foundations of a strong society are rooted in strong economic potential and prosperity. **Deficits and debt are not signs of a strong nation**. This is what has us a bit worried. That all this spending goes unchecked, fully facilitated by the CBCs themselves, foolishly by order and decree of the government. We want to be both strong militarily and economically and we think it prudent to discuss both spheres in the same sentence, don't you?

Ok enough of the education, let's get to last week's action. There wasn't much considering it seemed as if many were playing it safe with the big Sunday event (French Election). We never imagined a French election would have so much influence, maybe it really doesn't, maybe it's merely an excuse, but anyway last week seemed to be quite subdued and that gave us an answer for that. The election went most likely as expected as we know nobody would get a majority and that a run off on May 7th was to be expected. Marine Le Pen of the National Front and Emmanuel Macron of En Marche the social liberal party were the two top finishers. The equity markets took this as a risk is back on event as Macron took down 24% to Le Pen's 21%. The bond markets opened up about 1 full point lower on Sunday. **We saw a curious trade late Friday afternoon, as someone was a willing and able buyer of the weekly bond 154 puts, around a 1000x**. This option settled out of the money and someone by 4pm was willing to pay 4 to 5 ticks for it. We can't help but wonder if they exercised them, but considering Sunday nights open in the bond future, they made out quite handsomely, here is the chart of the bond open and Monday's action:

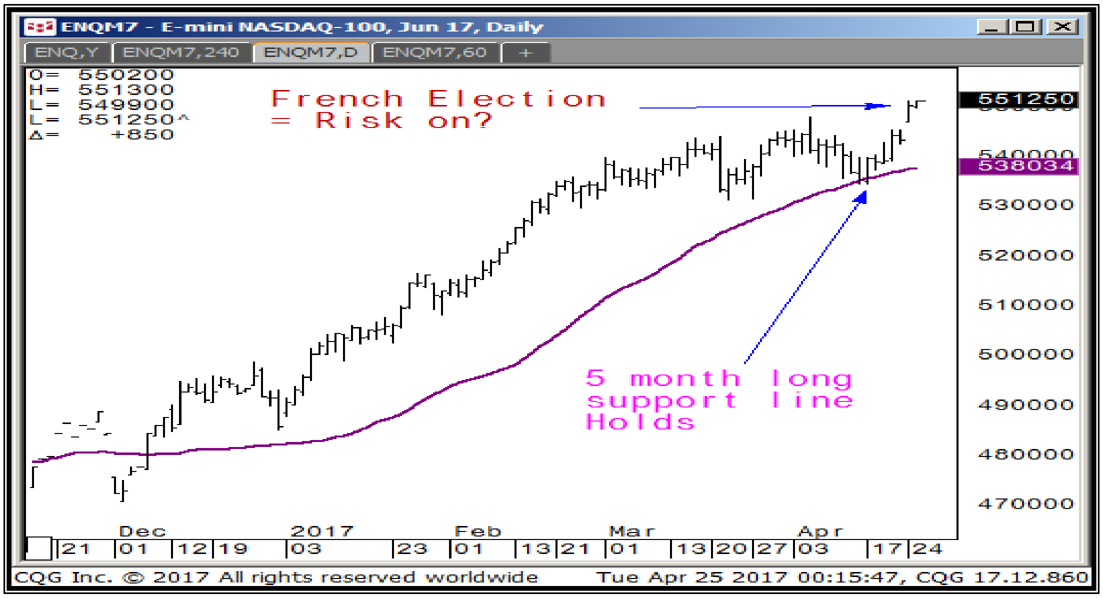


10yr yields rose as well:

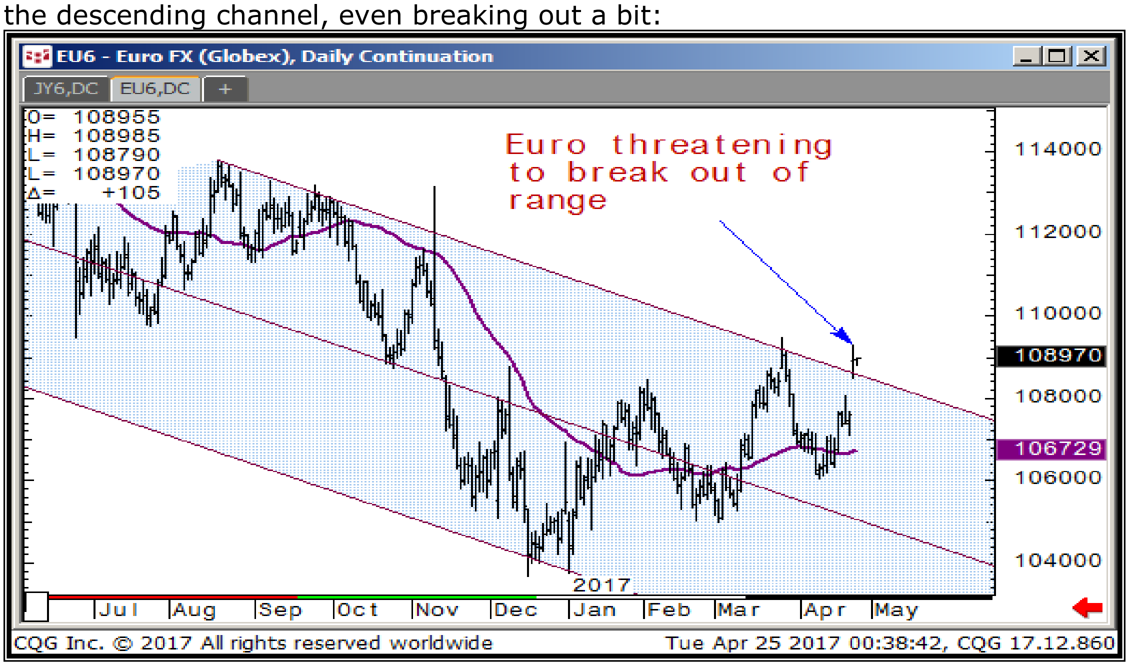
The 5s30 US Treasury curve seems to be paused at resistance for now:



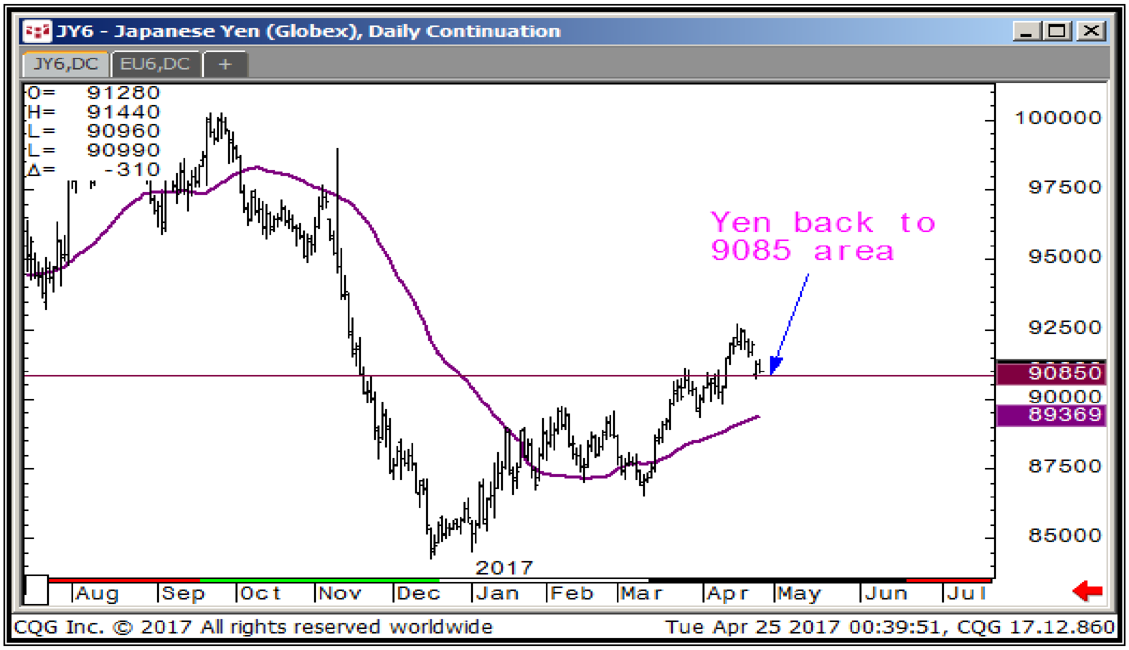
The Nasdaq market resumed its uptrend and bounce from support line:



Moving to currency land the Euro has been in a steady climb and finds itself at the top of the descending channel, even breaking out a bit:



As for the Yen it fell back to the 9085 support area:



As always we strive to bring you unique information and present it in a manner in which we hope to inspire you to think deeper about the financial markets and economics in general. **We view information as the key to any successful investment and the deciphering of information, is at the forefront of making sound choices.** We know you have many choices and are inundated with a lot of useless data. We hope that you find the things we discuss as interesting and as straight forward as possible. This is all a part of a unique alternative investment approach that separates itself from a static buy and hold or as we like to say, buy and hope style of investing. Thank you for taking the time to read our weekly missive and we hope you continue to walk the journey with us. We leave you with Friday April 21st settlements. Bitcoin continues to rise as does the Nasdaq market with Gold and Silver not far behind. Crude was the big loser on the week and we figured only a matter of time before the Mideast tension bid wore off. Cheers!

21-Apr		Weekly	Weekly	YTD
Instrument	Price/Yield	Net Change	% Change	Change
US 30yr Govt	2.89%	1 bp	-0.5%	5.2%
US 10yr Govt	2.24%	1 bp	-0.3%	8.1%
US 5yr Govt	1.76%	0	0.1%	8.7%
JUN Bond	154-05	0'05	0.1%	3.7%
JUN Ten Yr	126-02	-0'00+	0.0%	1.9%
JUN Five Yr	118-21+	0'01+	0.0%	1.2%
JUN SP500	2347.5	20.00	0.9%	5.1%
JUN DOW	20503	89.00	0.4%	4.2%
JUN Nasdaq	5442	83.00	1.5%	11.8%
JUN Nikkei	18650	245.00	1.3%	-1.8%
JUN Dax	12085.5	(43.50)	-0.4%	5.1%
Shanghai Comp	3173.15	(102.81)	-3.1%	2.2%
JUN WTI Crude	$49.62	(3.98)	-7.4%	-11.5%
JUN Gold	$1,289.10	5.30	0.4%	11.4%
MAY Silver	$17.86	(0.65)	-3.5%	11.2%
JUN Dollar Index	$99.88	(0.58)	-0.6%	-2.4%
JUN EURO	107.24	0.70	0.7%	1.4%
JUN YEN	91.770	(0.13)	-0.1%	6.7%
Bitcoin (BTC)	1,236.49	49.58	4.2%	29.7%

Finally, we will decidedly end our notes with our reaffirmation of the growing need for alternative strategies. We would like to think that our alternative view on markets is consistent with our preference for alternative risk and alpha driven strategies. Alternatives offer the investor a unique opportunity at non correlated returns and overall risk diversification. We believe combining traditional strategies with an alternative solution gives an investor a well-rounded approach to managing their long term portfolio. With the growing concentration of risk involved in passive index funds, with newly created artificial intelligence led investing and overall market illiquidity in times of market stress, alternatives can offset some of these risks.

It is our goal to keep you abreast of all the growing market risks as well as keep you aligned with potential alternative strategies to combat such risks. We hope you stay the course with us, ask more questions and become accustomed to looking at the markets from the same scope we do. Feel free to point out any inconsistencies, any questions that relate to the topics we talk about or even suggest certain markets that you may want more color upon.

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