

The Year Ahead

PORTFOLIO MANAGEMENT

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An Active Approach to Portfolio Construction and Management

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December 1, 2016

CANTOR FITZGERALD - THE FUTURE OF INVESTING AND RISK MANAGEMENT DECEMBER 1, 2016

 Thank you for coming. Thanks to Cantor Fitzgerald and Al Neubert and United States Commodity Funds.

A. M. A. Marken Bank

OUTLINE

- a. The 2016 Presidential Election
- b. What was hot (& not) in 2016.
- c. The Markets in 2016.
- d. The Economy in 2016.
- e. The Fed in 2016.
- f. The Expectations for the Market, Economy, and Fed in 2017.

The 2016 Presidential Election

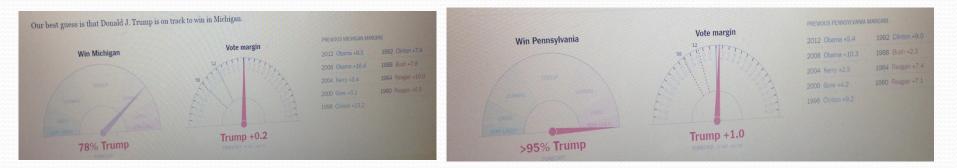
- Did the polls predict it?
- IBD (most accurate last 3) got it right.
- Trump Team believed Michigan and Pennsylvania were in play. They were right.
- Electoral strategy paid off.
- Lots of well-known people got it wrong overconfidence.

The 2016 Presidential Election

	Polls			
	Trump (+), Clinton (-)	Percent for Trump	Who was Right	Actual
National	-3.3	9%	IBD*	0.6
Florida	0.2	33%	Trafalgar,Remington	1.3
Ohio	3.5	100%		8.6
North Carolina	1	40%	Trafalgar, WRAL	3.8
Nevada	0.8	50%	Emerson, Gravis	2.4
New Hampshire	0.6	60%	Emerson, WNUR	0.2
Pennsylvania	1.9	20%	Trafalgar	1.2
Michigan	3.4	20%	Trafalgar	0.3
Wisconsin	6.5	0%	No one	1
*IBD was closest poll in prio	or 3 elections for President.			

The 2016 Presidential Election – Although News Channels were in shock – reality was available





The 2016 Presidential Election:

What might do well?

- 1. Banks (less regulation, tax reform, interest spread)
- 2. Pharma (no constraints on prices)
- 3. Consumer Durables (lower taxes)
- 4. Defense (pro defense)
- 5. Oil and Gas (less regulation, build jobs)
- 6. Coal

What might not do well?

- 1. Clean Energy
- 2. Crowded Yield Seeking sector (e.g. Staples, Utilities)
- 3. Bonds

The 2016 Presidential Election: What to Buy/Sell?

Table 1. Returns of Va	arious Investment Indic	es Before	and After Trump Elect	ed		
	Six Months Prior to Election November		November 7 - Novem	ber 15		
Banks	9.62%	0.43%	14.24%			
Pharma	-2.51%	-0.11%	3.30%			
Consumer Discretiona	ary -0.98%	-0.04%	1.92%			
Defense	7.09%	0.32%	8.19%			
Oil & Gas	-1.62%	-0.07%	1.75%			
Coal	59.28%	2.63%	18.32%			
Clean Energy	-1.89%	-0.08%	-7.51%			
Consumer Staples	-1.22%	-0.05%	-3.40%			
Utilities	-0.08%	0.00%	-4.38%			
Bonds	1.28%	0.06%	-6.34%			
*Six-Month Figures are normalized to 8-day period in 2nd column						

What was hot (& not) in 2016?

	Market Cap (Billions)	Last Price	Return in 2016 (%)
WINS US Equity	1.98	99.0	725
CLF US Equity	1.71	7.4	369
CC US Equity	4.12	22.7	328
CDE US Equity	1.84	9.8	294
GMRE US Equity	0.13	7.3	289
CWEI US Equity	1.95	111.5	277
FMSA US Equity	1.91	8.6	264
X US Equity	4.93	28.6	263
AKS US Equity	2.49	8.0	255
SXC US Equity	0.74	11.6	234
ADPT US Equity	0.22	10.6	-81
DVAX US Equity	0.18	4.7	-81
MRTX US Equity	0.12	6.0	-81
AVGR US Equity	0.09	4.1	-82
FNBC US Equity	0.12	6.3	-83
INFI US Equity	0.06	1.2	-84
NVAX US Equity	0.35	1.3	-85
IMGN US Equity	0.18	2.1	-85
TKAI US Equity	0.02	1.1	-88
GALE US Equity	0.04	3.6	-88

		2016 Return	Since Election
Equities			
	US Stocks	4.3%	2.1%
	Large	4.3%	2.3%
	Small	5.0%	9.2%
	Value	6.3%	3.5%
	Growth	2.3%	1.2%
	World Ex-US	-2.5%	-1.2%
	Emerging	12.7%	-5.3%
Bonds	US 1-Year	0.7%	-0.1%
	US 5-Year	3.9%	-1.8%
	US 10-Year	6.6%	-3.5%
	US 30-Year	12.9%	-6.3%
	US Treas Port	9.8%	-5.7%
	US Corp Port	8.3%	-2.1%
	World Ex-US	8.6%	-4.0%
	Emerging	13.6%	-4.0%
Real Estate	USA	0.4%	-1.6%
Commodities	Oil	-5.7%	1.4%
	Gold	19.8%	-4.3%
	Natural Gas	-13.3%	-2.9%
	Basket Commodities	4.2%	-2.9%

The Markets in 2016

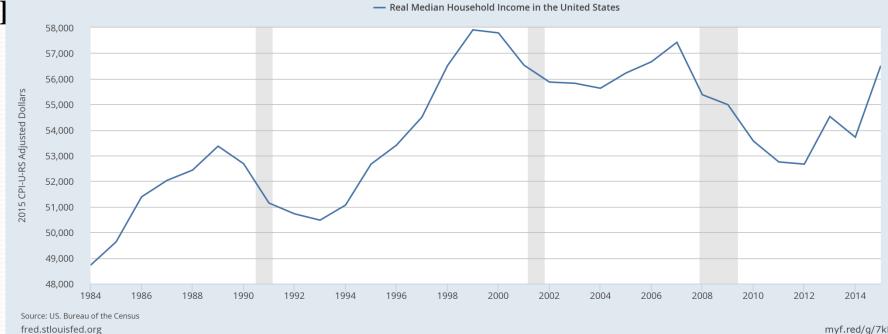
The World Economy in 2016

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99) Export To Excel	Global Economy Wate								Watch
	Annual GDP	GD	P	Surplus	s/Def	CP	I	Jobless	
	(BLN USD)	%YoY	Month	웅 GDP	Month	%YoY	Month	Rate	Month
1) Americas									
11) United States	17,947.00	1.50	9/16	-3.10	9/16	1.60	10/16	4.90	10/16
12) Brazil	1,774.73	-3.78	6/16	-9.42	9/16	7.87	10/16	8.20	2/16
13) Canada	1,550.54	1.30	8/16	-1.30	12/17	1.50	10/16	7.00	10/16
14) Mexico	1,144.33	1.95	9/16	-3.98	6/16	3.06	10/16	4.14	9/16
15) Argentina	583.17	-3.40	6/16	-0.55	6/16	14.30	10/15	9.30	6/16
2) Europe/Africa/ME									
21) Eurozone	11,539.74	1.60	9/16	-2.10	12/15	0.50	10/16	10.00	9/16
22) Germany	3,355.77	1.70	9/16	0.70	12/15	0.80	10/16	6.00	10/16
23) United Kingdom	2,848.76	2.30	9/16	-4.30	12/15	0.90	10/16	4.80	9/16
24) France	2,421.68	1.10	9/16	-3.50	12/15	0.40	10/16	10.00	9/16
25) Italy	1,814.76	0.90	9/16	-2.60	12/15	-0.20	10/16	11.52	6/16
3) Asia/Pacific									
31) China	10,866.44	6.70	9/16	-3.44	12/15	2.10	10/16	4.05	6/16
32) Japan	4,123.26	0.90	9/16	-4.98	12/17	-0.50	9/16	3.00	9/16
33) India	2,073.54	7.10	6/16	-6.85	12/16	4.20	10/16	7.10	12/15
34) S.Korea	1,377.87	2.70	9/16	0.80	12/17	1.30	10/16	3.70	10/16
35) Australia	1,339.54	3.30	6/16	-0.91	12/17	1.30	9/16	5.60	10/16
36) Indonesia	861.93	5.02	9/16	-1.76	12/12	3.31	10/16	5.50	2/16
4) World									

Australia 61 2 9777 8600 Brazil 5511 2395 9000 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2016 Bloomberg Finance L.P. SN 114576 EST GMT-5:00 G819-1464-0 18-Nov-2016 22:53:59

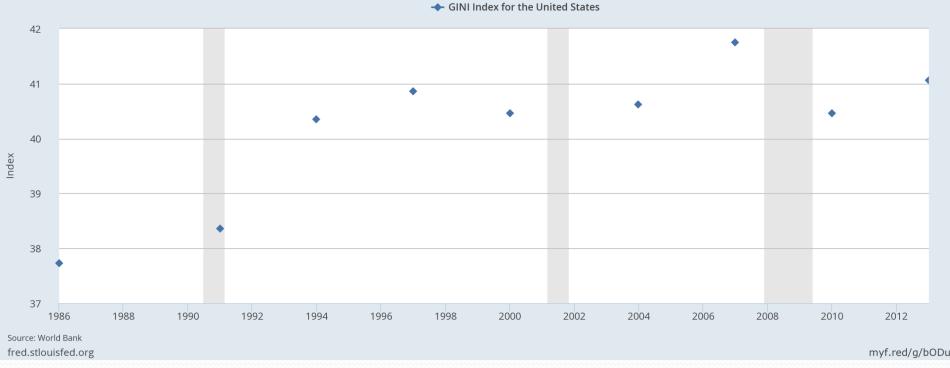
The U.S. Economy Leading up to 2016 (Growth in



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Table 1. Annualized Change in Median Household Income USA **FLORIDA** PENNSYLVANIA OHIO MICHIGAN 2007-2015 -0.20% -0.87% -0.64% 1.09% -0.50% 1998-2015 -0.15% -0.27% -0.33% 0.73% -1.18% Source: FRED and Bureau of the Census

The U.S. Economy in 2016 (Income Distribution)



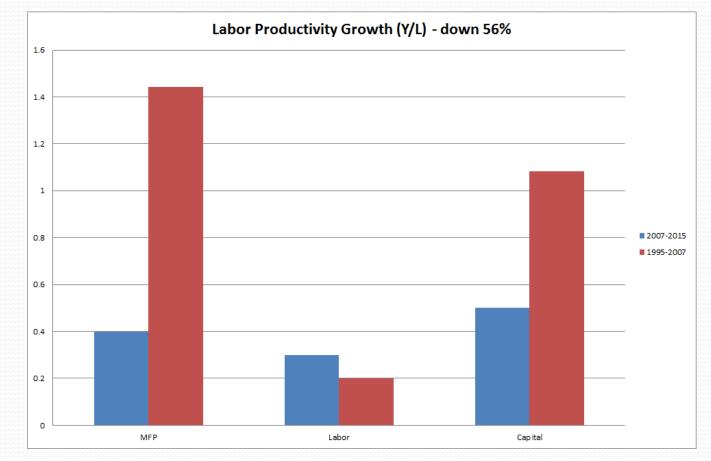
The U.S. Economy from 2007 – 2014 Why under trend growth?

Contributors to lack of growth: TFP, Capital, Labor Participation, and declining working pop.

Component	Shortfall, percent
Total factor productivity	4.4
Capital input	4.0
Population 16 and over	2.2
Labor-force participation rate	3.6
Hours per worker	-1.7
Ratio of private to total hours of work	-0.1
Labor quality	-0.6
Private real GDP	11.7

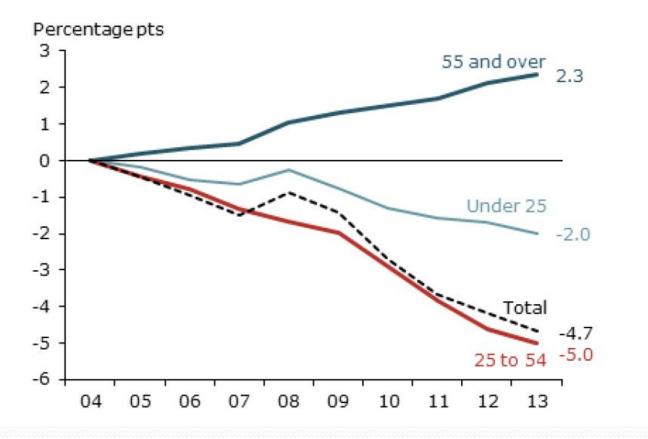
Source: Hall (2016)

Productivity down 56% (TFP – 72%, Capital – 54%)



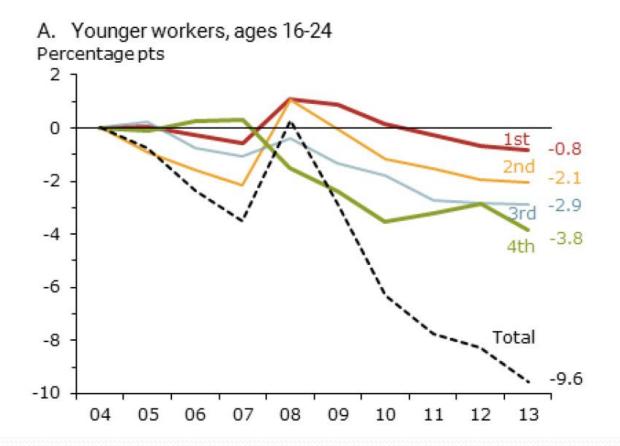
- Labor Force participation at 62.7% (2015) compared to average of 2001-2008 (66%). Equivalent to 8.2 million people.
- People to work could lead to growth.

Contribution by age group to changes in labor participation



Source: FRBSF

Change in labor force participation by household income quartile



Source: FRBSF

The Fed in 2016

Low interest rates and negative interest rates still were good trades in Germany and USA



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Gain/Loss

Show Dividends

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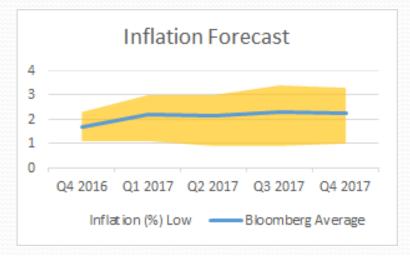
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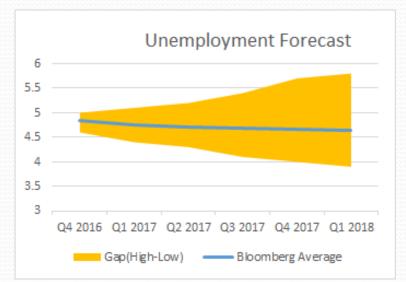
The Fed in 2016

October 26, 2016 – Fed hike at 73% After election, - Fed hike at 98%

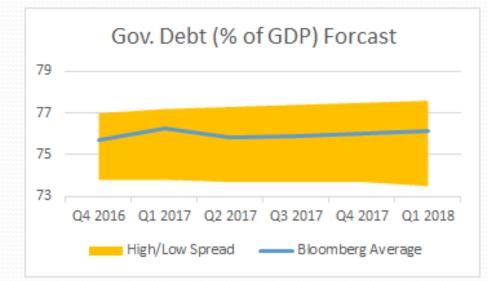
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Economists Survey 0.50	12/14/2016	72.5%	0.0% 27.5%	61.1% 11.5%	i 0.0% 0.0	8 0.08 0.08
11:56 ■ Spread: FED - Taylor -2.00 = 5	02/01/2017	74.28	0.0% 25.8%	59.0% 14.5%		울 0.0울 0.0울
	03/15/2017	77.3%	0.0% 22.7%	55.1% 19.8%		
	05/03/2017	78.8%	0.0% 21.2%	52.9% 22.1%		
2007 2008 2009 2018 2012 2013 2014 2015 2016	06/14/2017	82.5%	0.0% 17.5%	47.4% 27.5%		
Taylor Neutral Inflation Okun Rule Fs =Real Rat + <mark>PCF +</mark> + Aloha *(Infl - Targe)]+ Beta * Facto *(NATR - Unemp	07/26/2017	83.5%	0.0% 16.5%	45.6% 28.7%	8.0% 1.2	
Rule Es = Real Rat + PCE + Alpha *(Infl - Targe)]+ Beta * Facto *(NAIR - Unemp . 2.50 = 2.00 + 1.00 + [0.50 •(1.00 - 2.00)]+ [0.50 • 2.00 •(5.00 - 5.00)]	09/20/2017	85.5%	0.0% 14.5%	42.1% 30.7%	i 10.5% 2.0	
	11/01/2017	85.8%	0.0% 14.2%	41.6% 31.0%	i 10. 9 % 2.1	
Adjustment for Policy Inerti = [Rho * Prev FED Rate] + [(1 - Rho) * Taylor Est. 2.50 = [0.00 * 0.50] + [(1 - 0.00) * 2.50	12/13/2017	88.6%	0.0% 11.4%	36.1% 33.1%	14.9% 3.9	8 0.68 0.18
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The U.S. Economy in 2017 (What Experts Think)

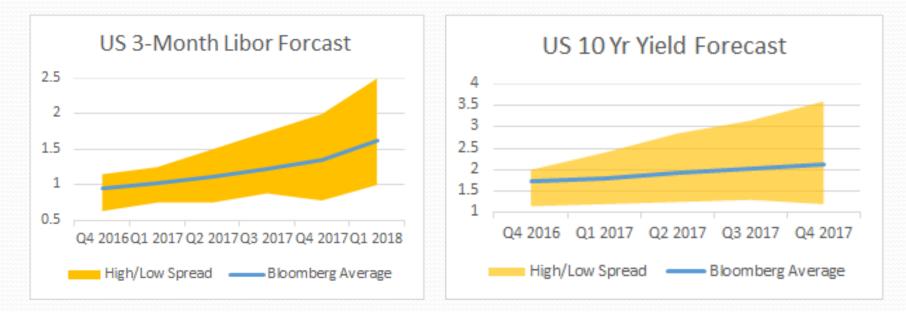




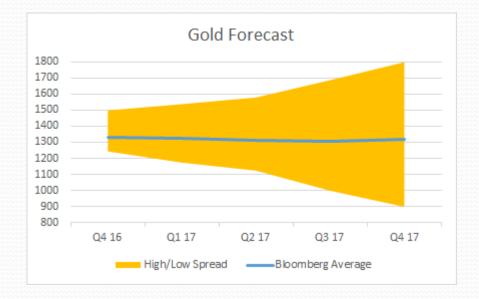




The U.S. Economy in 2017 (What Experts Think)



The U.S. Economy in 2017 (What Experts Think)



Summary

- 1. Most forecasts didn't change after Trump was elected.
- 2. Despite movements, I might load on some of those ideas earlier, short debt, and ...
- 3. Surprise of next 3 years, lower taxes and lower regulation might boost economy.

Open Discussion

1. Referendum in Italy on December 4, 2016? Effects on Euro? The Fed?

• Dr. Ludwig Chincarini Ph.D., CFA

- University of San Francisco
- United States Commodity Funds

For more information : Buy the Books!

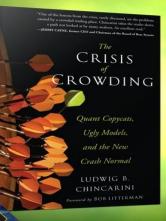
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A unique blend of storytelling and sound quantitative analysis, *The Crisis of Crowding* explores the circle of greed from homeowners to real estate agents to politicians to Wall Street.

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