

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

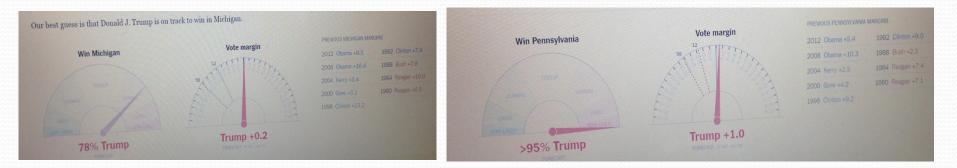
- Did the polls predict it?
- IBD (most accurate last 3) got it right.
- Trump Team believed Michigan and Pennsylvania were in play. They were right.
- Electoral strategy paid off.
- Lots of well-known people got it wrong overconfidence.

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

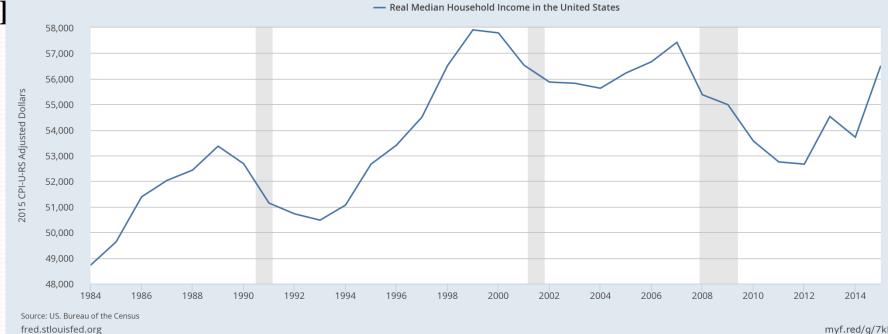
The World Economy in 2016

Screen Printed

| Screen Printed | | | | | | | | | |
|---------------------|---------------------|-------|-------|---------|-------|-------|-------|---------|-------|
| 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

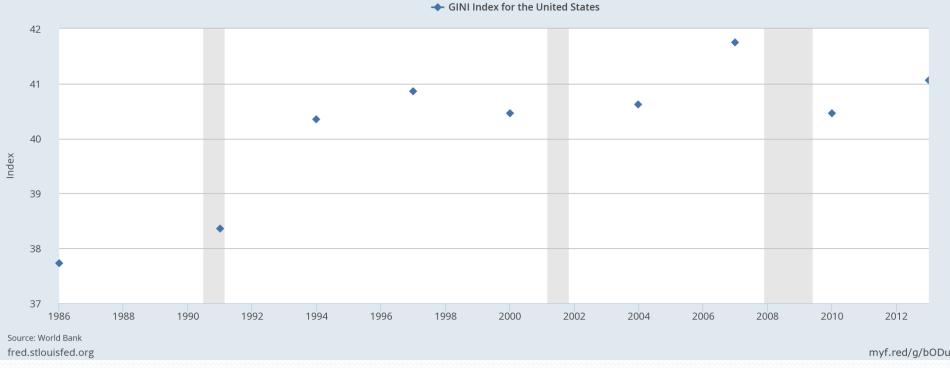
The U.S. Economy Leading up to 2016 (Growth in



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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)



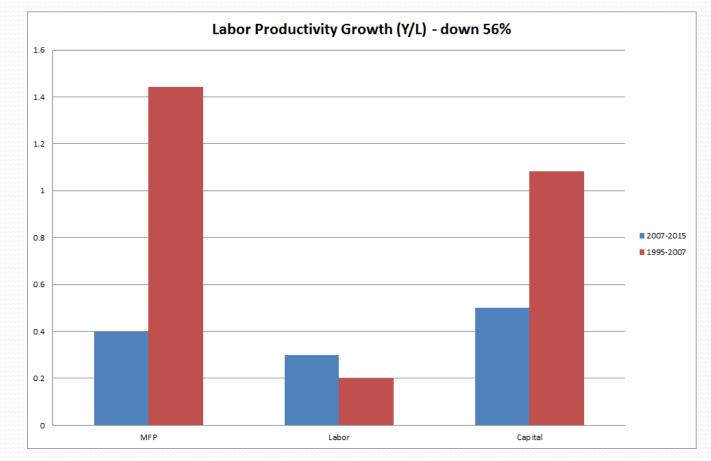
The U.S. Economy from 2007 – 2014 Why under trend growth?

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 |

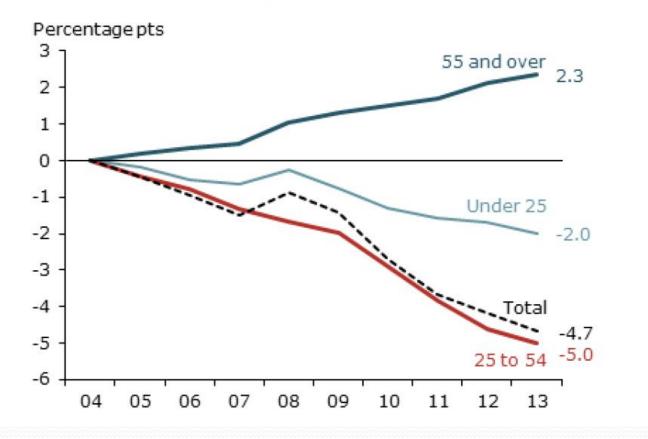
Source: Hall (2016)

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



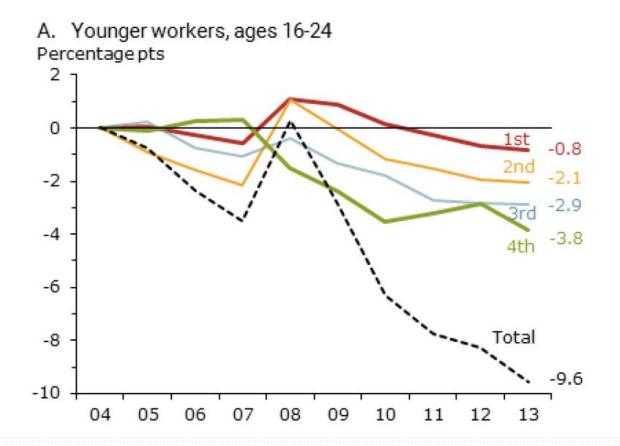
- Labor Force participation at 62.7% (2015) compared to average of 2001-2008 (66%). Equivalent to 8.2 million people.
- People to work could lead to growth.

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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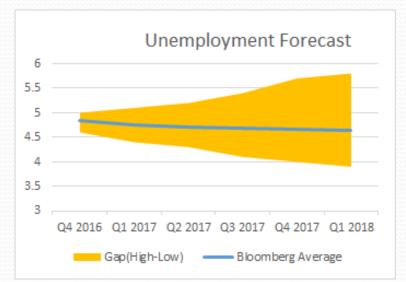
The Fed in 2016

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

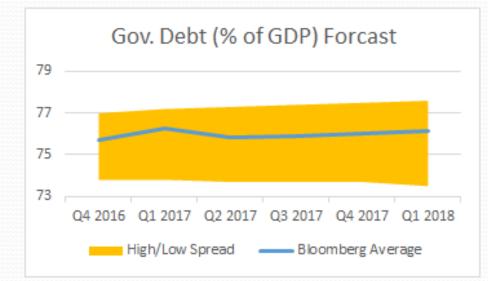
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| 99 Model Options → Page 1/1 Taylor Rule Mod | Vi Export butu | | | | | t Rate Probability |
| 1) Taylor Rule Model 2) Forward Looking Est 3) Model Performance 4) Outlook Matrix | United States | | trument <mark>Futures</mark> | s: Fed Funds | ▼ FED Eff | ective Rate 0.41 |
| ✓ Taylor Rule Estimate 2.50 | 1) Overview 2) F | uture Implied Pr | obability | | | |
| Z Taylor Rule Estimate 2.50 Current FED Rate 0.50 | Current Implied | Probabilities | | 3) Ad | ld/Remove | |
| Spread (FED - Taylor) -2.00 | Dates OMeetin | g 🔍 Calculatio | n C | alculated 10/26 | 5/2016 🛱 Based | on rate0.25-0.50 |
| | Meeting Prob | Of Hike Prob | of Cut 0.25-0.5 | 0.5-0.75 0.75-1 | 1-1.25 1.25-1. | 5 1.5-1.75 1.75-2 |
| Next Meeting 11/02/16 14:00 | 11/02/2016 | 17.1% | 0.0% 82.9% | 17.1% 0.0% | i 0.0원 0.0 | 8 0.08 0.08 |
| 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 |
| Australia 61 2 9777 6000 brazil 5511 2395 9000 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 652 2977 6000 Japan 61 3 3201 9000 Singapore 65 621 2000 U.S. 1 212 313 2000 Coppright 2016 Blomber 9 Finance L.F. | Historical Analy | ysis for Meetin | 11/02/2016 🔻 | 4) Add/I | Remove ! | |
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The U.S. Economy in 2017 (What Experts Think)

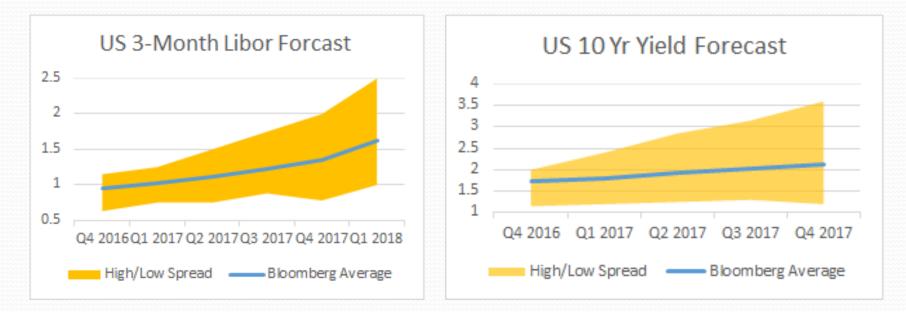




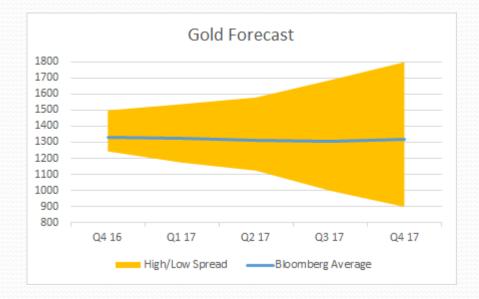




The U.S. Economy in 2017 (What Experts Think)



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!

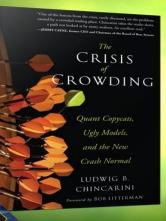
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Management

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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.

Linking the 2008 financial crisis back to the 1998 crisis of LTCM, *The Crisis of Crowding* shows how banks, hedge funds, and other market participants repeated the sins of the past and how the collapse of Lehman Brothers led to market insanity thanks to the irrational behaviors of buyers and sellers in the crowded space.

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