V 2020

HOW MUCH TIME DO YOU HAVE FOR...

MACRO MEGATRENDS?

two

seconds

How do you catch the once-in-a-decade market moves that generate the biggest returns?

ONE MINUTE

What has been the greatest trade of the century so far?

Hint: Bitcoin is the runner-up.

Although it soared 100-fold, we'd argue that not even Bitcoin can compete with a different massive bull market that lasted longer, touched more asset classes, and enriched far more investors.

It began in 2000. While most investors were obsessed with Silicon Valley's tech stocks, an all-time megatrend was born on the other side of the world.

China was in the early stages of the biggest infrastructure buildout in history. The country began building highways, ports, bridges, factories, and power plants on a colossal scale.

All that building consumed stunning quantities of natural resources. To fuel its building binge, China consumed massive amounts of copper, iron ore, oil, natural gas, coal, zinc, and tin. This in turn created one of the biggest, longest commodity bull markets in history.

Over the course of this bull market, oil soared 650%, copper climbed 400%, iron ore gained 560%, and coal surged 630%.

Commodities, of course, are inputs into other goods. And so these huge price gains rippled through global stock markets, creating dozens of opportunities for investors to make multiples on their money.

For example, since the stocks of commodity producers are leveraged plays on commodities themselves, they staged massive moves:

- **Copper miner Freeport McMoran (FCX) soared from $5 to $40.**
- **Oil producer Suncor Energy (SU) soared from $4 to above $60.**
- **Iron ore producer Vale (VALE) soared from $1.60 to $30.**
- **Miner BHP Billiton (BBL) soared from $5.82 to $66.**
- **Gold miner Goldcorp (GG) soared from $2.15 to $46.**

We could go on, but you get the idea. The commodity bull market of the 2000s was a megatrend for the record books.

5 MINUTES

What exactly is a "megatrend?" There's no fixed definition, so we'll create our own:

A megatrend is a long, powerful, and all-encompassing move that throws off dozens of tradable opportunities.

One great thing about investing in a megatrend is it frees you from obsessing over every little price move. There's no need to get in at the exact bottom or get out at the exact top or pinpoint the exact right stock among hundreds. There's so much money up for grabs around a megatrend that as long as you understand the major forces driving it, you can profit in dozens of ways.

The field of market analysis dedicated to identifying megatrends is called "global macro." You've likely heard the term before, but you may not know exactly what it means.know exactly what it means.

Essentially, a global macro analyst analyzes the world. He or she takes everything into account: economic history, interest rates, business cycles, demographics, weather, oil prices, GDP growth, and wars.

These are the forces that shape history. They massively influence life in all kinds of ways.

They can influence when you buy a house… where you go on vacation… if you get fired… even how long you'll live.

Solid global macro analysis, for example, indicated that demand for healthcare services would soar under the new Obamacare law in 2010. As long as you had this general idea right, choosing the investments to profit from was easy. You could have bought a big health insurer like United Health, which went on to soar 825%. Or Cigna, which surged 630%.

Or you could have simply bought the IHI medical device stock ETF, which has climbed 335% since 2010. Or the RXL leveraged healthcare ETF, which rocketed from $10 in 2010 to over $100 in 2018.

The Obamacare megatrend of the 2010s has little in common with the commodities bull market of the 2000s. The key thing, however, is that solid global macro analysis would have alerted you to both.

Another powerful trait of global macro is it can alert you early to crashes, crises, and other nasty financial surprises. Great global macro analysts are masters at detecting dangerous bubbles in the markets.

In many ways a bubble is the inverse of a megatrend. When a bubble pops, fundamentals take a back seat to price movement. All stocks near the bubble are likely to get swept away in the bust. Even sturdy, profitable companies will plunge if investors associate them with the bubble narrative.

During the popping of the Nasdaq bubble in 2000, for example, practically all internet and technology companies fell out of bed. Although we all remember the pie-in-the-sky dot-com companies that never had much hope of turning a profit, there were plenty of solid tech businesses around then, too. Some, like Microsoft (MSFT) and Cisco (CSCO), would go on to become world dominators.

But their bright prospects didn't matter one bit in 2000. Both companies got caught up in the tech bubble and soared to crazy valuations. Microsoft would eventually lose two-thirds of its value, and Cisco lost 90%.

Should investors worry about bubbles today? Well, US stocks are poised to set a new record for longest bull market in history this month. Meanwhile, according to most valuation metrics, today's market ranks as either the first or second most expensive in history. Just as standing water is a breeding ground for mosquitoes, today's market conditions are favorable to the forming of dangerous bubbles.

If you're interested in protecting your money from bubbles, you should check out a brand new free video in which *Macro Insiders* co-editor Julian Brigden takes you through his full blueprint for spotting them. Knowing how to identify and trade bubbles is especially important right now. As Julian puts it,

> *Markets have been manipulated with an awful lot of liquidity. And as we all know, central banks have expanded their balance sheets and shoved liquidity into all corners of the global investment markets. That's why we're on the lookout for what we call a "classic bubble" today...*

In this short video you'll learn what NOT to do during a bubble... how to use a "shoeshine boy moment" to your advantage... and whether the current bubble in Netflix (NFLX) is a good short opportunity.

This video is the newest in a series of "how to" macro videos that Real Vision co-founders Raoul Pal and Julian Brigden recently recorded together. Although we typically reserve most video content for paying subscribers, right now these videos are free to watch and require no login, even if you're totally new to Real Vision. Raoul & Julian are known as the macro analysis "dream team" behind Real Vision's popular *Macro Insiders* premium macro research service.

If you're interested, click on the links below to watch Raoul and Julian's macro videos for free:

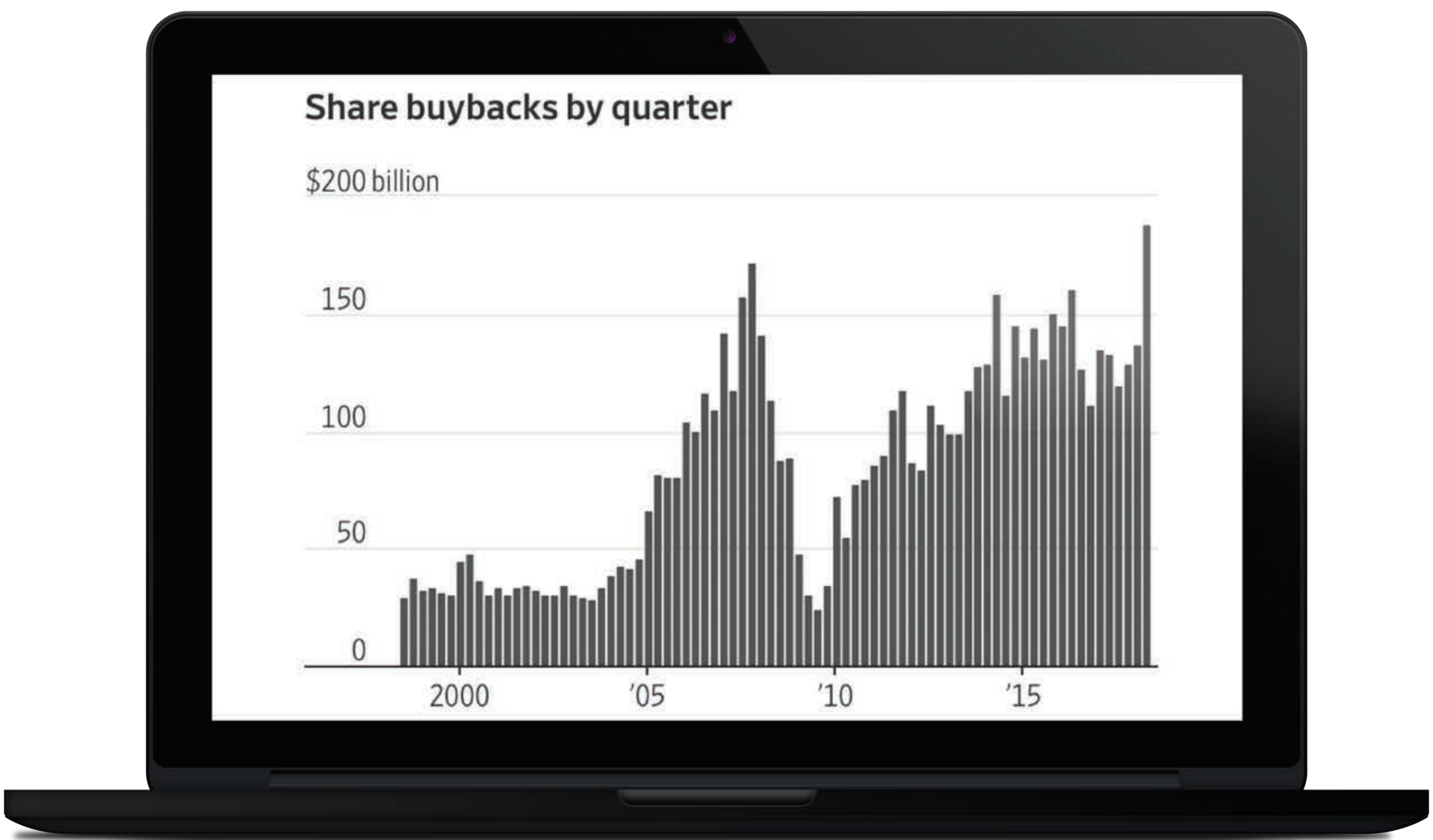
"Some of My Investing Secrets" by Raoul Pal

"How I Use the Dollar Cycle to My Advantage" by Julian Brigden

SEE YOU NEXT WEEK.

IF YOU ONLY LOOK AT ONE CHART

This is the NYFANG index which was created to track the insanely popular, and widely owned, FANG stocks (Facebook, Amazon, Netflix, and Google). Much has been made about the dramatic pullback in these names in the last few weeks. You can see that though the index is down 9.48% from highs, it is still up 23.85% YTD!



6 DEGREES OF CONNECTION

1 APPLE'S CLOSING IN ON A MONUMENTAL MILESTONE

Before the year is up, we may see the world's first trillion-dollar company. Apple (AAPL), whose market cap spiked to $973 billion after strong earnings, is roughly 3% away from claiming the title as first-ever trillion-dollar stock.

Although Apple IPO'ed in 1980, it has added the vast majority of its market cap in the last 10 years. Through the dot-com crash, the launch of the iPad, and the introduction of the iPhone, Apple remained a sub-$100-billion company. Amazingly, two-thirds of Apple's market cap growth has come since Steve Jobs' death in October 2011.

Apple's P/E ratio of 19 is quite a bit below the S&P 500's average of 24. In other words, Apple's size is by no means a result of investors bidding it up to lofty valuations. Apple is simply one of the most profitable and successful companies ever.

BUT AMAZON IS RIGHT ON ITS TAIL 2

Amazon's recent surge to a $900-billion market cap puts it just behind Apple in the race to a trillion. Amazon's growth in 2018 is one of the most amazing stories in stock market history. It started the year at half the market cap of Apple. In the last six months alone it has added $260 billion to its market cap – the equivalent of the total for its closest competitor, Walmart.

Amazon has grown to its current size thanks mostly to investor enthusiasm. Unlike Apple, its valuation is based mostly on future hopes rather than present profits. Even after the company announced blowout results last week, its stock price remains in the neighborhood of 100x earnings.

It's hard to believe Amazon started out as an online bookstore in the '90s. Today it dominates American retail, in large part thanks to its wildly popular Amazon Prime subscription delivery service.

3 While Two Retailers Are Holding Their Own

Much has been written about Amazon's destruction of American retail. It's true that Amazon has eaten the lunch of tired old retailers like J.C. Penney (JCP) and Sears Holdings (SHLD). But at least two big retailers are doing just fine: Costco (COST) and Target (TGT).

Both stocks are trading near their all-time highs. It's no coincidence that both Costco and Target market to the American middle class. This is the holy grail of global consumers, and claiming even a tiny slice of it amounts to huge sums of revenue.

Costco in particular seems to have zeroed in on a sustainably profitable strategy. It is renowned for paying employees better than the industry standard, and its happy workers provide a great customer experience. 70% of Costco's customers say they are "very satisfied," according to a UBS survey. That figure ranks first among all retailers. Amazon sits in second place at 65%.

4 Are Credit Cards Fueling the Retail Boom?

Clearly, Americans are spending piles of cash at retailers these days. But a quick glance at the data shows a lot of this money is borrowed. Americans have now racked up $1 trillion+ in credit card debt – an all-time high. And last year they paid nearly $104 billion in credit interest and fees – also a record.

Any data point you look at suggests the same conclusion: Americans are addicted to debt. According to the New York Federal Reserve, US household debt reached $12.73 trillion in 2017, surpassing the 2008 peak of $12.68 trillion.

Gen-Xers are the most indebted generation; they carry an average credit card balance of $7,750. Millennials sit at the other end of the spectrum. They're often characterized as frivolous spenders, but the data doesn't back up that narrative at all. The median credit card balance for Millennials is just $4,315 – nearly the lowest of any age group.

5 HIGHER INTEREST RATES WILL ONLY MAKE THINGS WORSE

Like most interest rates, the rate on credit cards is tied to the federal funds rate. Whenever the Fed hikes this rate, your credit card's interest rate will almost certainly rise along with it. Nearly all general-purpose credit cards in the US carry variable rates tied to the "prime rate." The prime rate, in turn, is tied to the Fed's benchmark rate.

Since December 2015, the Fed has hiked its benchmark rate seven times to 2%. Meanwhile, in the past five years the average APR on a credit card has risen by 300 basis points, to 15.5%.

Simple math shows that not paying off your credit card every month is one of worst financial decisions you can make. Carrying a balance of $10,000 means you're essentially flushing $1,550 in interest a year down the toilet.

6 AND RISING RATES ARE ~~BAD~~ GOOD FOR STOCKS

The Fed is expected to continue hiking rates through this year. Conventional wisdom holds that rising rates are bad for stocks. Does the data back it up?

Nope.

Since the mid-'90s, there have been 11 periods where the 10-year yield moved meaningfully higher. The S&P gained during all 11 of them! In fact the biggest interest rate spike in that timeframe occurred from October '98 to January '00. The 10-year Treasury surged 2.6%, and the S&P posted a monster 45.8% return.

With US indexes at all-time highs and valuations very stretched, there are plenty of reasons to expect weak stock market returns going forward. But contrary to popular belief, rising interest rates are probably not one of them.

THE SNIPPET

THE S&P 500 ETF HAS NOT CLOSED BELOW ITS 200-DAY MOVING AVG IN 526 TRADING DAYS, NOW THE LONGEST RUN IN HISTORY. $SPY

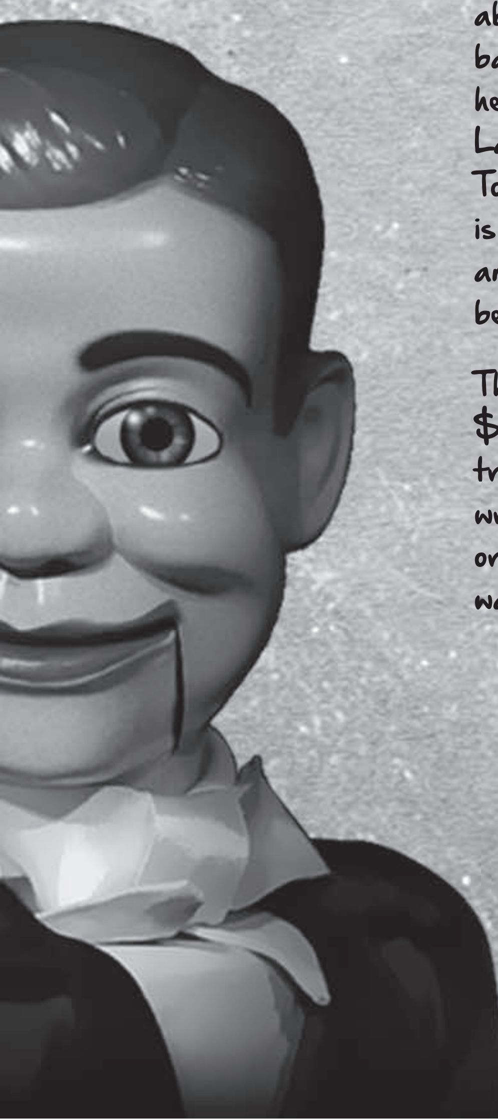
(NOTE: TOTAL RETURN, INCEPTION 1993).

Ask Milton

question

Milt, you haven't said much about Tesla (TSLA) recently. What do you think of the latest developments?

answer



This situation has gotten too absurd, even for a connoisseur of market absurdities like me. Let's see... we have Tesla begging suppliers to give it back some money so it can turn a profit. We have CEO Elon Musk calling a heroic Thailand cave diver a "pedo," which is apparently slang for pedophile. Last week the New York Post published a story titled "Elon Musk is a Total Fraud." And now Steve Eisman, the guy who pulled off The Big Short, is betting against Tesla. He'll join Jim Chanos, all-time great short seller and friend of Real Vision, in shorting it. Needless to say, you don't want to be on the opposite side of a trade from these guys.

Then we look to the chart, and... nothing. TSLA is still trading right around $300, as if everything is just fine. The faith of Teslarians seems to be truly unshakable, all evidence be damned. To me this thing has epic blowup written all over it, but you'd have to be a real adrenaline junkie to go short or long. I'll be keeping my money far away from this absurd situation, watching from the sidelines with a bucket of popcorn.

Milton

Do you own Tesla? Tell Milton why at 2020@realvision.com

6xW + 1H

What's hot on Real Vision this week...

WHO

Real Vision audience favorite Michael Green speaks with Josh Wolfe, Silicon Valley venture capitalist and founding partner of Lux Capital.

WHAT

A unique and visionary conversation between two great investing minds.

WHERE

Michael Green brings his usual eagle-eyed view of the macro picture, and he and Wolfe examine China's role in shaping the future of technology.

WHEN

Green and Wolfe peer into the near future, when technologies like 3D printing will completely rewrite the rules of global commerce.

WHY

Because the bread and butter of Wolfe's venture capital firm is understanding advances in hard sciences like physics and chemistry. This gives Wolfe a close-up and realistic view of tech that you won't find anywhere else.

HOW

At Real Vision we often keep it simple. For this interview we put two of the smartest guys in a room, turned on the cameras, and listened very carefully. The result is a compelling conversation full of unique insights about the future of investing in tech.

WHAT PEOPLE ARE SAYING

"Spectacular. Been a RV subscriber for a year and have to say this was hands down the best interview I have seen. Two brilliant minds in Mike Green and Josh Wolfe. I am very much looking forward to when these two get together again."

— REAL VISION SUBSCRIBER DOUGLAS B.

REAL VISION™
WHAT IS REAL VISION?
Real Vision™ is a NEW KIND OF FINANCIAL TELEVISION.
We're on a mission to DISRUPT THE WHOLE DAMNED SYSTEM that keeps the best insights, information and analysis behind the closed doors of Wall St. boardrooms.
We BRING YOU ACCESS to the smartest brains in finance, the biggest new investment themes and hottest trades.
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