INVESTMENT NOTES: WEEK OF NOVEMBER 11-17, 2018

Written by Jane Siebels, Global Opportunities Fund

It feels like we are in no man's land this week. The markets had discounted the results of the mid-term elections. The two most perplexing areas of investment at the moment are oil and US equities:

Oil

The price of crude oil has decreased in the last few weeks from $78 to $55 per barrel. This would normally be stopped by an OPEC intervention which would be led by the Saudis. The Khashoggi affair however, has made it very difficult for the Crown Prince and the Saudi government to intervene. The Saudis would like to not attract attention and even more so- not make more economic enemies until the international furor decreases. An oil price spike due to an OPEC decision would not do them any favors.

The news that Russia and Saudi Arabia are cooperating on a number of issues is of more interest. It will be interesting to see how those two countries intend to set production policy which will occur outside of OPEC. America will be looking at this relationship very closely. Perhaps this is why yesterday WTI Crude dropped by 5% and Natural Gas rose by 2%. This looks like it might be a forced liquidation since trading relationships were also opposite normal to oil in USD and gold movements yesterday. This sell off in oil looks like a margin call in other words. Perhaps someone was short natural gas and long oil, a common play. This looks like a disorderly market which usually marks the end of a move. Oil is at major support levels at the moment. We continue to hold our Exxon but have traded Apache, which is more sensitive to oil prices and has a low dividend, to Royal Dutch Shell which pays a high dividend, has recently started a large buy-back program and has partially hedged their production.

The US Equity Market

The S&P 500 continues to trade like a bear market unable to mount a rally and a leadership change is taking place. The major concern for the US remains China. Dr. Henry Kissinger was seen recently in Beijing. He is 95 years old and doesn't make a trip from NYC to China for his health. He is probably working to make a deal, or at least set the foundation for a US/China deal at the G-20 meeting in Buenos Aires on November 30th. Any deal in BA, even a deal like the one President Trump made with the Europeans, might be enough to stop the bear market in U.S. equities. Also, the lower equities go before the meeting, the more pressure on the President to strike a deal. If there is no deal- equities will fall into year end.

We are positioned for a deal. Henry Kissinger and I have the same birthday (not the same year) and I believe in him. Alibaba, experienced the largest Singles Day sales ever with almost $29 billion in sales in one day. As we wrote last week, Amazon's Black Friday and Cyber Monday's sales are crucial. This is why we continue to hold these stocks although technology continues to underperform.

What we don't believe in is a Brexit deal. Therefore we are shorting the UK market and the UK pound. It is not in the narcissistic best interests of the Liberals or even many Tories, politically, to have a deal. Prime Minister May has been too weak and the EU has taken advantage of it. Even if the government says they are within a whisker of a deal, that doesn't mean the deal will pass. Jo Johnson's latest call for another referendum could be the final nail in the coffin.

Jane Siebels