INVESTMENT NOTES - December 10th, 2018

Written by Jane Siebels, Global Opportunities Fund

The markets had a rough week last week as all of you know. We continue to hold a large cash position (including government bonds it is well over 50%), however at the end of the week, we did add to our S&P 500 future and bought the Russell 2000 (small cap USD index). These were both purchased with futures. We did this for a number of reasons: 1. We still believe in a Santa Claus rally since the reasons for the previous week's rally- namely a US/China trade deal and a dovish Fed are still near term themes in our minds and we expect to see welcomed news on both fronts in the next few weeks. We happen to know the US Ambassador to China- former Governor of Iowa- Terry Bransted very well and believe he will be able to use the arrest of Huawai's executive as an effective bargaining chip (which we believe was the reason for the arrest). We also believe the Fed will be less hawkish with the unemployment number reported Friday and with oil prices still moving on the downside again this week even with a surprise agreement by OPEC on Friday. However, we expect to be bearishly positioned by the end of the year as our medium and long-term outlook is not favorable to stocks.

We have not added to our short FTSE 100 position. We are very pleased with our long UK Gilt with the currency covered into EURO. This is close to a 10% position in the fund. We believe the UK stock market is assuming a deal (or a smaller economic reaction to a hard Brexit than what the Bank of England is portraying). However, uncertainty is driving the bond yields lower and the currency is following.

Since everyone is talking about Brexit, US/China trade relations and the inverted yield curve in the US- we would like to take this opportunity to talk about something that is important to the global economy but not being spoken about as much: the oil price.

After peaking on October 3rd, oil prices began to fall. By December 1st, Brent Oil had moved off its October peak of $86.29 per barrel to US $58.59 per barrel. We have been conducting a long-term supply/demand analysis on oil similar to those we used in the Siebels Hard Asset fund when it was under our management. On the demand side, we feel the recent trends of weakness will continue which has been largely caused by weak economic growth outside the US and predicted weak economic growth worldwide next year. OPEC itself is forecasting a demand of 31.5 million barrels per day for 2019 which is 1.1 million barrels per day below estimated 2018 levels. Beside economic growth, governments are reducing their fuel subsidies which will lead to lower demand for imported oil and oil products. Lastly the growing number of electric vehicles on roadways will lead to a decrease in demand. The planned phase out of gasoline and diesel vehicles in Europe is becoming increasingly aggressive. For example, Norway is phasing out gasoline and diesel fueled vehicles by 2025. In September, 45% of Norway's automobile sales were all electric and if plug-in hybrids are included, 60% of all vehicle sales were electric. The impact of electric vehicles on liquid fuels in 2018 is predicted to be responsible for a 2% year-on-year decrease in demand. By 2020 demand reduction of liquid fuel due to electric vehicles is predicted to be 10%. So far this year, demand for diesel fuel in Germany has fallen 9%.

The supply side is also adding to oil price weakness. Saudi Arabia is in a precarious position as revenue channeled into the Kingdom's already deficit ridden budget decreases. The Royals are forced to choose whether to absorb the shock on the state's balance sheet or impose across the board cuts on fiscal spending which will be politically risky for the Royals who have been exoeriencing increased domestic discord. This is beside the toil that the credible reports that implicate Crown Prince Mohannad bin Salman in the killing of Jamal Khashoggi have created especially with the U.S. We believe President Trump's refusal to punish the Prince was influential in Saudi's hesitancy to decrease supply even though it is in their best interest to do so. The Trump administration wants lower prices for longer, partially to be able to pressure the Fed into a more dovish stance due to less inflation pressure.

For these reasons, we are selling our holding of Exxon. We continue to hold Royal Dutch Shell as their hedged position is still beneficial and cash flow is being driven into dividends and share buybacks instead of exploration.

We have also sold our position in Fanuc and will explain the rational next week.

Jane Siebels