



CMEFS WEEKLY INVESTMENT NEWS

18-09-2020

Hello and welcome to this week's edition of Investment News.

Before we go into this week's discussion, let's see how the CMEFS Flexible fund has done for the year thus far as compared to the All Share Index (ALSI)

Fund	Last week Thursday	This week Thursday
ALSI	-4.35%	-1.97%
CMEFS Flexible Fund	+0.60%	+0.79%

Whilst we beaver away in the background setting up to take advantage of specific opportunities that will present themselves in the near future, I thought I might in the meantime share this interesting piece by world renown financial author John Mauldin on how he sees what is happening right now in the US from a challenge/opportunity point-of-view following on from their battle with Covid-19. (Emphasis my own)

1: The service economy has imploded.

We don't know when it is coming back. I am not going to argue the correctness of whether we should lock down or open up. I am simply talking about what is. And it appears that much of the economy is going to be locked down for some time. There is simply no telling when that part of the economy will normalize.

2: We have seen the largest central bank intervention, not just in the US but in many parts of the world, ever in history.

Clearly that is keeping markets up. Furthermore, governments are providing fiscal stimulus in an unprecedented manner.

In essence, the government borrowed money to give people the money that they would've earned in their jobs. Interestingly, not all of it was spent. We have seen a record amount of disposable income being added to savings. The US government is in a food fight over the next round of stimulus. Not that the purpose of this letter is to argue what is correct. Some amount will likely be determined. Your guess is as good as mine. But can we keep that up in 2021? How long? That is a major economic gravitational body, and we have no idea what it will look like this year, let alone next year and 2022.

3: Federal Reserve policy and, to some extent, government policy has short-circuited both [Schumpeter's creative destruction cycle](#) and moral hazard.

We literally have no idea how that's going to impact the future, but those are big deals. Companies with the lowest-rated junk bonds are refinancing their debt at lower rates. We are keeping zombie companies afloat. Is every company that accesses the market a zombie company? No, of course not. But many are.

4: Global trade is beginning to implode.

Like it or not, we truly live in a global economy. This is a global depression and it affects everyone. I was writing 20 years ago that the biggest threat to prosperity in the future would be protectionism and tariffs. I have made it clear that China is not a good actor, and we need to review our policies and our reliance upon them. But tariffs are just a bad idea, whether it's China or Europe or whatever country. Can we say Smoot-Hawley?

5: On average, six companies with assets larger than \$50 million have filed for bankruptcy every week since April.

This is going to increase and become a tsunami. Small local companies don't even bother filing because it's too expensive. Every one of them represents jobs.

6: The working class will be last to see the recovery.

Most of the jobs that are being lost are by the least-well-off in our society.

They can't work from home. Those with children have to figure out how to take care of them in case schools don't open... or if they don't want to send them back. Unemployment insurance won't cover the bills when the federal money runs out. This represents tens of millions of workers. Unemployment is not going to bounce back miraculously in the first quarter of next year. It is going to be a long, slow climb.

Now for some good news...

7: Entrepreneurs will re-emerge, and new ones will seize this moment to shine.

All those businesses going bankrupt or out of business? They are run by entrepreneurs who have the entrepreneurial bug. It is part of their DNA. I was talking to a Dallas restaurateur who is "down" to three restaurants. He is stretching his cash and hoping for another round of PPP. He will breathe easier when he can get his normally booming restaurants up to 50% occupancy. Depressed? Not at all. He believes this will all eventually normalize, and he will have the greatest opportunity he has ever had. He can see 10 restaurants in his future. This is the kind of vision that accelerates recoveries.

He and hundreds of thousands of other entrepreneurs throughout the country and the world look for opportunity. It's just what they do. They can't help themselves.

It will take time, and they have to figure out where the capital will come from. But I am convinced that entrepreneurs will be the ones to dig us out from this, not governments.

8: We are in the midst of The Greatest Transformation in history.

Elon Musk just launched **and landed** a massive rocket as a test. That is just a very visible example of tens of thousands of new technological revolutions happening all around us.

These disruptive technologies will truly change the world. I can't even begin to describe what is happening in the biotechnology and aging space. Artificial intelligence, robotics, self-driving cars, incredible advances in agriculture, shipping, quantum computers... you name it. The list is just too long. And it's growing.

We are about to witness history-making advancements... potentially in record-breaking time.

End of John Mauldin's piece on what is happening right now in the US.

And might I add, right here too as well as the rest of the world.

And speaking of record breaking time, I am noticing almost daily now that things are moving so fast that as you prepare for "one thing", circumstances are changing so fast that the preparation you are making needs to be updated with whatever these current changes to circumstances are, and then changed again after that.

So as always, hidden in amongst all of the seeming chaos around us lies great opportunity simply waiting to be discovered.

I hope you enjoyed the read.

Until next time then, do take good care of yourselves.

Kind regards, Nine, Charles, and all of us at CMEFS.