MONOGRAM

NEWSLETTER *A Fool's Gold*

August 2018

Market overview.

The MONOGRAM fund returned +1.4% in July, bringing 2018 year-to-date (YTD) net return to -1.0%.

In July Global Developed Equities (MSCI World Index) were up 2.7%, Non-US Developed Equities (MSCI EAFE Index) 3.4% and Emerging Market Equities (MSCI EM Index) 2.8%. US Investment Grade Bonds were flat, US High Yield Bonds gained 1.2% while continued losses of -2.3% were observed in Gold.

A Fool's Gold.

As a house we are fully dedicated to maintaining our systematic investing approach with robust, well-proven strategies diversified across major asset classes. In our increasingly fragile and unpredictable world, is there any other sensible way to allocate capital?

The overall degree of uncertainty - as opposed to measurable volatility such as the infamous VIX index - must surely have reached new heights around the globe given that a large array of political and economic events has been conspiring to create a fog of meandering and dysfunctional decisions and indeed *reversed* decisions with little regard to generally accepted economic theory and practice. Let us look at the most obvious example, trade wars.

One thing we do know is that trade wars cause suffering on every side involved, and beyond, as global real income and wealth falls, and the banal simplicity of 'fake' economic facts and non-theories can offer no solace to the poor people of the planet whose activities are being hindered if not destroyed.

The law of comparative advantage is one of the first tenets students learn in economics courses at both school and university, and though overly simple, it contains the solid truth that countries are better off when concentrating on producing goods for which they have a *comparativ*e rather than *absolute* advantage.

The last few decades have offered the most obvious of empirical results supporting this truth with world trade growing several times faster than world GDP.

But the Trump administration is also overlooking another very simple economic fact, which – if acknowledged – would benefit its citizens across the board: exporters from the rest of the world receive '*only'* bits of paper, IOUs, namely dollar bills (actually bank transfers) in exchange for *real* goods, such as German cars. So one contrary view is that Trump through new tariffs is impoverishing US citizens by denying them the ability to exchange their paper for real goods! Surely, to maximise the well-being of US citizens they should absorb as many real goods as possible to achieve as high a living standard as possible? After all, most other countries cannot do this as they do not themselves print dollars.

All-in-all, there is a real threat of dislocation in the world, both real and financial, because of the lack of basic economic understanding at the heart of the US government. Politics is expensive.

So what now? What about our portfolio? How does this affect our asset allocation decisions? If it is already well-nigh impossible in relatively 'normal' times to accurately forecast the market and consistently beat it with active asset allocation, what hope can we have now, in such a bizarrely malfunctioning economic and political environment?

The robust way forward must be well-researched and clearly understood rules of investing that have been tried, tested and refined in previous eras of 'not normal' investing contexts… such as this one… when rule-driven strategies such as MONOGRAM's have managed to fare well and prosper[1,2].

Guessing the future – because that is what the alternative is – is a fool's gold and an unnecessarily poor alternative to our rule-driven approach.

Portfolio positioning.

Our momentum factors started signalling a defensive stance in late May/early June, triggering our strategy to sell out of Emerging Market Equities and non-US Equities and to allocate instead to the most defensive of Equities – US Equities; as well as to raise the allocation to Cash from 0% to 25% at the beginning of July.

In August, the allocation in our portfolio remains unchanged. We continue to be invested in Cash, US Equities, US Investment Grade Bonds and US Short Duration High Yield bonds.

About MONOGRAM

MONOGRAM Capital Management is an investment boutique founded in 2014 and headquartered in London. We take an innovative empirical, evidence-based approach to investing and believe there are fundamental, identifiable, persistent, and exploitable sources of return; risk is the permanent impairment of capital (peak-to-trough drawdown) and not volatility in its various forms.

There are two options for investors to access MONOGRAM's investment strategy. Investors can invest in the Luxembourg Domiciled MONOGRAM Fund or in MONOGRAM's bespoke segregated managed account, provided the investors meet the minimum subscription requirements. Further details are available on request.

For further information on MONOGRAM or to invest, please contact Milena Ivanova on **milena.ivanova@monograminvest.com** or **+44 (0)7931 776206**.

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Recipients should appreciate that the value of any investment, and any income from any investment, may go down as well as up and that the capital of an investor in the Fund is at risk and that the investor may not receive back, on redemption or withdrawal of his investment, the amount which he invested. Opinions expressed are MONOGRAM's present opinions only, reflecting the prevailing market conditions and certain assumptions. The information and opinions contained in this document are non-binding and do not purport to be full or complete.

[1] *212 Years of Price Momentum (The World's Longest Backtest: 1801 – 2012), CHRISTOPHER GECZY and MIKHAIL SAMONOV*

[2] *A Century of Evidence on Trend-Following Investing, AQR Capital Management, LLC, 2014*