HindeSight

www.hindecapital.com
Nov 2013



"The concept of capital is the fundamental concept of economic calculation, the foremost mental tool of the conduct of affairs in the market economy. Its correlative is the concept of income."

Ludwig Von Mises, 1949

"The future is unknowable, but not unimaginable."

Ludwig Lachmann, 1956

"The heads of many companies are not skilled in capital allocation...a critical job that they may have never tackled and that is not easily mastered. To stretch the point, it's as if the final step for a highly talented musician was not to perform at Carnegie Hall, but instead, to be named Chairman of the Federal Reserve."

Warren Buffett, 1987

"Technological revolutions and financial bubbles seem to go hand in hand."

The Economist, 2000

It's getting hot up here! Equities are they toast? We have rung the bell and called time on global equity markets, albeit we are selectively selling key indices.

We love the Internet, Social Media, Gaming, and software applications designed to run 'ideas' on smartphones and tablets. We love their creativity and productivity but we don't love the public valuations of their stocks. They have entered into the 'APP'mosphere.

Similarly small capitalised stock indices have seen skyrocketing returns that are on a par with the Internet 1.0 bubble of 2000; and key European stock indices have run far ahead of potential earnings. These are all exhibiting signs of failure.

However the large US capitalised indices, S&P500 and Nasdaq are still in trend- up mode but they too are in the zone to fail based on long-term profile distribution, albeit we have not witnessed a trend exhaustion signal as of yet.

What has propelled so many of these stocks higher – the power law of internet adoption rates, corporate debt growth, and credit availability are the first factors that spring to mind:

Technological innovation is radically changing our economic system. New network hierarchies are being created. These are intangible in nature and this makes it difficult for markets to price the value of capital in this new format. We hope to explain what capital is and how it is being transformed by this new production.

Disruptive financial engineering and freely available excess credit this past decade has convened at a time of this radical technological change in our generation. Both factors have arguably never been felt together on a global scale. It is this which makes investing so challenging.

We propose that stocks are ultimately amplified by too much credit in the system which manifests itself in financial capital valuations that are too high. The risk in an environment of such nominal growth is the economic system overcomes the debt-deflation pressure of the past 5 years as credit continues to the chase the dragon of higher prices in the hope of a return. The Misean 'crack-up' boom is always a fear.

Markets are where buyers and sellers simultaneously agree on price but disagree on value. There is subjective value and then there is objective value. Subjectively we object to these values. **We believe the impact of the perpetual money machine has begun to run its course. We believe we are in the zone of failure for many indices. We suspect equities globally will experience a 10% correction over the next 3 - 6 months as a minimum guide.**

Market Signals

Transcendent Technology

- **Bubble Act**
- **Chasing the Dragon Revisited**
- **Technological 'APP'mosphere**
- **The Value of Debt**
- **Capital (Trans)Formation & Allocation**
- **Capital APPlication Today**

Market Signals

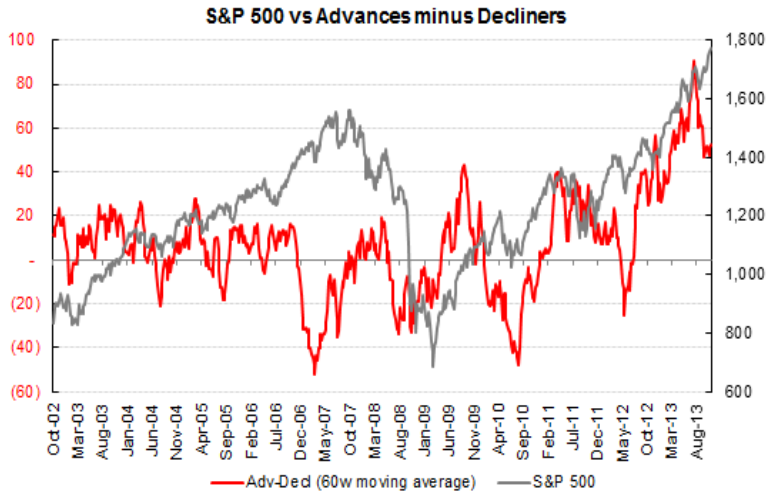
The NYSE market is exhibiting a high valuation, but it is a meaningless observation in isolation. To determine if values can fall with price correcting, we have to observe the internal behaviour of the market. We observe trend signals for any loss of momentum. We are beginning to observe some sell signals on a Hinde Trend System. We have also witnessed some more anecdotal signals.

The NYSE stock market capitalisation to GDP based on flow of funds data shows valuations are at the upper end historically, notwithstanding the 2000 Tech bubble.



Source: Variant Perception

Breadth of market participation is falling for now:



Source: Variant Perception

BID 'Less'

Did the auction of fine arts tell us so much more than the price of a piece of art – did it portend the end of the equity swoon which began with the up-swing from the 2009 lows?

The NYSE stock ticker for Sotheby's the auctioneer of fine arts, antiques and collectible and offerings is appropriately named BID. But perhaps it should be named BID 'Less' after this week's price action.

BID's stock price has been exhibiting an exorable rise along with the 'real assets' it brokers. It is considered the market vane of the uber-wealthy's spending temperament. Those very same 1% who drive 80pc of stock price action. A falter in BID's stock price could portend so much more?

Sotheby's and Christies who have enjoyed a near-duopoly in the fine art auction just began the Autumn auction season in earnest. The season has turned cold already with sales are far below expectation. Some 25% lower to be precise and with 12 out of 46 pieces unsold at the latest auction alone.

The Week That Was:

Sotheby's BID 'Less'



Source: Hinde Capital, Bloomberg

On 4th November 2013 Steve Cohen's legendary equity hedge fund SAC pleaded guilty to five counts of fraud. Federal prosecutors imposed a record fine of $1.8 billion and banned SAC from managing client money. Although not found guilty himself, Cohen is being pursued by the SEC in a civil case for "failure to supervise" which if confirmed would see him reaching for his backpocket again.

On 6th November 2013 Steve Cohen popped down to Christie's New York art auction to flog some art. Coincidence? Some would say he is a 'forced' seller. For sure he's been creating a bad 'impression' it would seem of late. A piece came under the auctioner's gavel, "Mann und Frau (Umarmung)" by Schiele – it received no BIDs. It was BID 'less' as we say in market parlance. It is rumoured to be owned by Cohen. The wolf-pack has turned on it's own. No 'tainted' pictures for me.

Sotheby's stock has taken the hit. Christies is privately owned by french luxury entrepreneur Francois Pinault and is thus is not listed on the bourses. In 2012 Christie's sales totalled $6.27bn whilst Sotheby's totalled $5.4bn. However in Q1 2013 Sotheby's had a net loss of $22.3mm despite a 25% increase in sales. Guaranteed reserve prices and tigher margins from new comers have squeezed these market players. So one can say that with sales down 25% this Q4 Sotheby's losses will almost certainly deepen.

Sotheby's BID 'Less'



Source: Hinde Capital, Bloomberg

Even if the Q3 results come in better than expected ie less of a loss, we would fade this. Sotheby's is the target of activist Dan Loeb. He sees a great brand. He recognises that although the firm has volatile sales and falling commissions he also sees the 400 mm plus in receivables and the real estate portfolio that can be monetised. The market knows all this.

TWTR - A Cheeky Bird Flies

On 7th November 2013**:** TWTR NYSE: A 'Cheeky' Bird flies but 'Dogs' bark?

Twitter IPO's and a blue bird flies into bluesky territory. TWTR IPO-ed at $45.10 and touched a high of $50.09, so far at the time of typing. As a market comrade quipped '**forty-five dollars and ten cents a share --- AND I@VE STILL GOT 100 characters to GO!!! (Jeeeez)'**.



Guess he doesn't own it! Courtesy of IG Index (spread betting firm) one could speculate on the market capitalisation or value of Twitter pre-IPO, in what is known as the 'grey' market or 'blue' market in this case. 1 pt represents $100mm change in the market cap. The market on the 13th September valued the stock at $33bn. Twitter said it would have 547.7mm shares outstanding on the IPO day so the price was equivalent to $60 per share. By the 14th September the price fell to $25 - $27 range or $14bn in value.

TWTR Market Cap (Value 1 pt = $100mm)



Source: IG Index

TWTR IPO opened at $45.10. So the IPO buyers got a near double and TWTR got a market capitalisation to outstrip Facebook's IPO mkt cap, who have $10bn in revenue and $2bn in net income.

So an opening price of $45.10 for TWTR that cheeky little microblogger and would-be mobile advertiser values the company at 30x est. sales revenue, whilst Facebook trades at 12.2x. Cheeky indeed.

To put this into perspective Yahoo! not the darling of the market is valued at $33bn plus and generates $1.5 bn in adjusted earnings. TWTR has no earnings but losses and will only grow into this kind of earnings stream if, and only if it emulates its competitors by the year 2020 plus. A lot can go wrong in that time. For instance the central banks taking away free money or the market pricing it for them, forward guidance or no forward guidance.

However if we were the CEO of TWTR we would try to emulate the Google model and become a venture capitalist, but that pre-supposes that they have free cashflow, which they don't and won't have for many years. But take Google, they have been paying higher and higher mutliples for their investments all bouyed by this elixir of central bank money. At some point a CEO needs to think best about how to get a return on his capital. Sometimes that involves returning it to your shareholders.

TWTR – A Birdy Flies



Source: Hinde Capital, Bloomberg

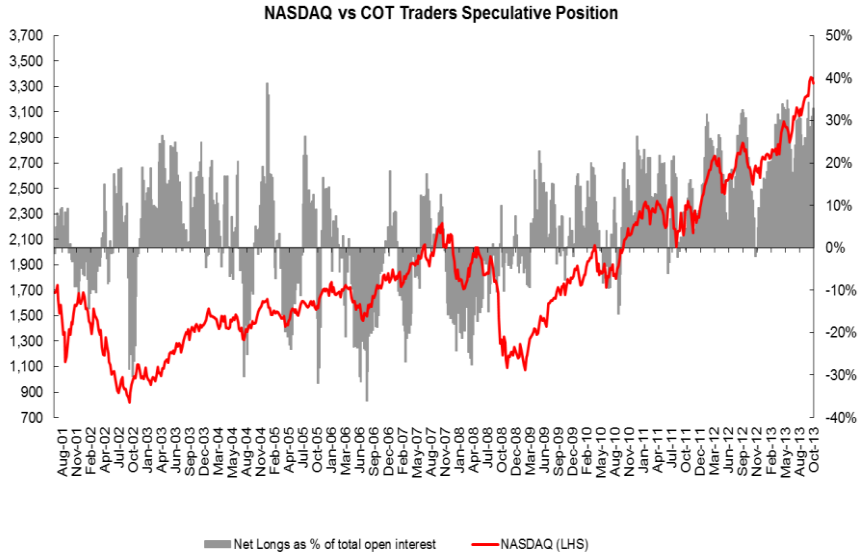
GOoGGLE EYED Valuations

We understand the power of numbers. We subscribe to power laws – aggressive adoption rates. We see the development in online-advertising and its relationship with these numbers. Ultimately although we like to have a sense of 'value', somebody else always has another view. By definition that makes a market. The intangible nature of tech capital is really a function of positive network externalities ie how big can their network get that drives cashflow? This is a really tough one to pin down.

We observe multi-scaling of power laws to look for instability in markets and hence potential trend movements, cessations or consolidations. Some indices are exhibiting signs of instability, which could lead to trend exhaustion and dramatic failure of rising markets.

Thurs 7th November potentially marked the day we began a correction phase in key markets. In Europe Draghis cut rates but can't recall when asked when it the cut comes into effect. Hmmm, the man with the bazooka had an off day with his hand on the trigger. Equity indices spiked across the board to new highs but soon corrected. US GDP improved but that's old news. We can cite lots of remote nonsense as to why they have likely peaked for now. As our Variant Perception partners put it best in their latest monthly – this is 'As Good as it Gets'.

Internet valuations are not like the Tech bubble days but the rate of acceleration of some of these companies is nothing short of staggering. They are well run sophisticated companies in many cases, but they are enjoying the fruits of our central bankers work. Hot money has been driving prices and valuations too high too fast. Speculators are record long Nasdaq observing the past decade.

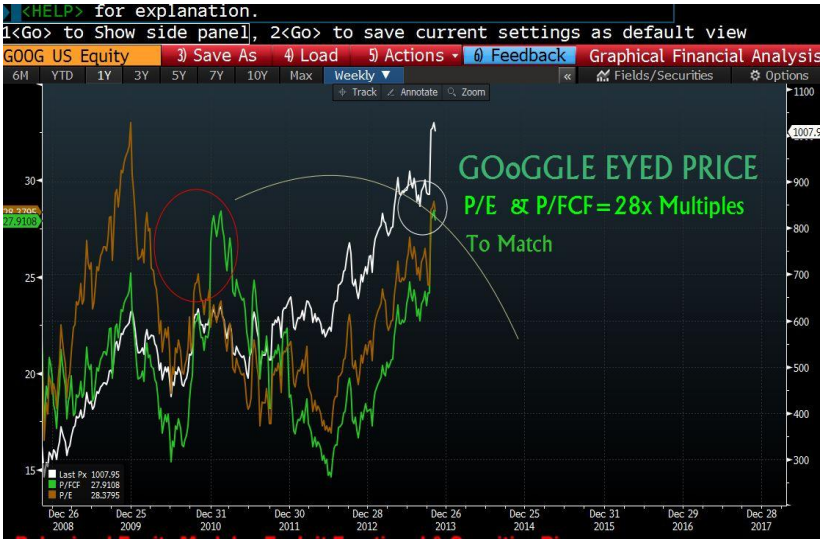


Source: Hinde Capital, CFTC

Facebook, who aim to connect everyone in the world, currently connects a billion and sports a market capitalisation of $120 bn, and a trailing P/E of 112 to sport its ambition.

Google Inc a mature but insanely dynamic company is valued at $340bn market capitalisation but with $50 billion in revenue per year it is not a company to scorn easily especially as it owns all our writings and "images" online.

GOoGGLE Eyed Price



Source: Hinde Capital, Bloomberg

Sure we envisage long-term winners of well-established entrenched (anti-trust) companies but not all will still be here in 10 or even 5 years. One thing about the winners, when they get too big the state likes to get a share of their pie or meddle in their business. GOOG has already had to fend off "anti-trust" allegations and its tax affairs have been under intense scrutiny.

ShutterStock Back to Earth

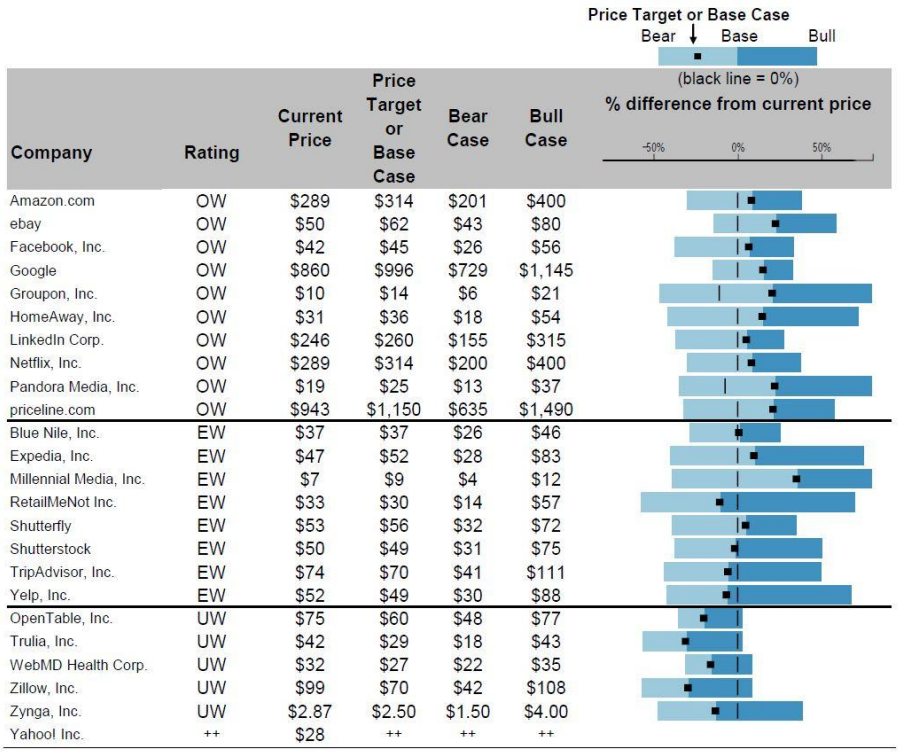


Source: Hinde Capital, Bloomberg

Shutterstock Inc. the online global market place for commercial digital imagery is up over 240% in a one year, sporting price to cash flow over 30x and immense (in)tangible book value of 23x. Its CAGR is 17% which puts on target for $3bn plus valuation. There is no room for error here. If we put the mega-Internet players to one-side ie FB, GOOG, AMZN etc, these digital franchises are open to a key risk. The 'democracy' of the net means it has low barriers of entry. This applies to Shutterstock.

Analyst expectations aren't shy either. It's time to actively fade the bullish sentiment.

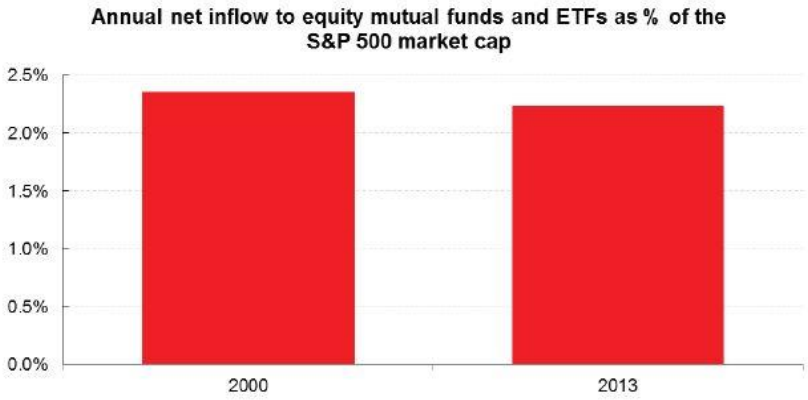
Analyst Price Targets - Net stocks



Company	Rating	Current Price	Price Target or Base Case	Bear Case	Bull Case
Amazon.com	OW	$289	$314	$201	$400
ebay	OW	$50	$62	$43	$80
Facebook, Inc.	OW	$42	$45	$26	$56
Google	OW	$860	$996	$729	$1,145
Groupon, Inc.	OW	$10	$14	$6	$21
HomeAway, Inc.	OW	$31	$36	$18	$54
LinkedIn Corp.	OW	$246	$260	$155	$315
Netflix, Inc.	OW	$289	$314	$200	$400
Pandora Media, Inc.	OW	$19	$25	$13	$37
priceline.com	OW	$943	$1,150	$635	$1,490
Blue Nile, Inc.	EW	$37	$37	$26	$46
Expedia, Inc.	EW	$47	$52	$28	$83
Millennial Media, Inc.	EW	$7	$9	$4	$12
RetailMeNot Inc.	EW	$33	$30	$14	$57
Shutterfly	EW	$53	$56	$32	$72
Shutterstock	EW	$50	$49	$31	$75
TripAdvisor, Inc.	EW	$74	$70	$41	$111
Yelp, Inc.	EW	$52	$49	$30	$88
OpenTable, Inc.	UW	$75	$60	$48	$77
Trulia, Inc.	UW	$42	$29	$18	$43
WebMD Health Corp.	UW	$32	$27	$22	$35
Zillow, Inc.	UW	$99	$70	$42	$108
Zynga, Inc.	UW	$2.87	$2.50	$1.50	$4.00
Yahoo! Inc.	++	$28	++	++	++

Source: MStanley, Bloomberg

Investors have placed the most money into stock funds since the technology bubble burst in 2000, according to investment research TrimTabs. Investors have poured $277 billion into stock-based mutual funds and exchange-traded funds through this year until Oct 25th.

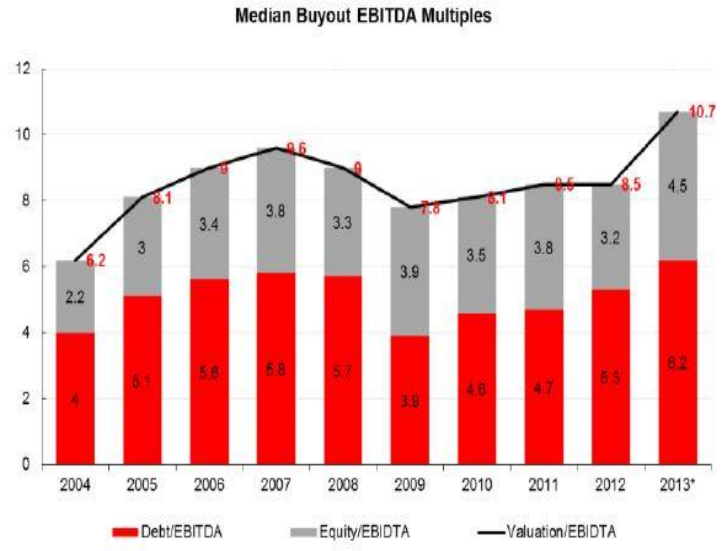


Source: Variant Perception, Trim Tabs

Venture Capital & P/E Buy-Out Multiples 'APP'mospheric

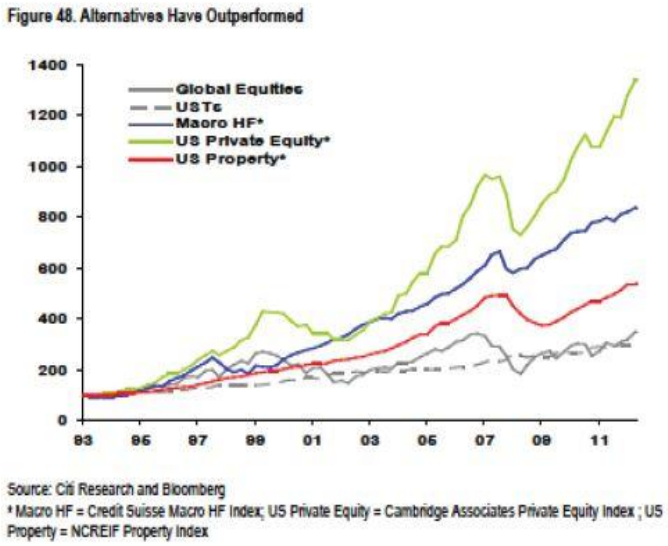
Pintrest Inc., Snapchat Inc all earnings deficient companies are valued by the Venture capitalists close to $4bn a piece. Pintrest, an electronic-scrapbook service has raised $200mm it doesn't need. Snapchat is about to raise some money - just because they can. Of course we have no idea the network effect for a firm that distributes personal disposable 'pictures' or if it can even derive revenue producing versions. We suspect like disposable nappies this fledgling could well be consigned to the bin. Of course in the meantime these puppies will no doubt float at some meaningless, earnings–less multiple or be bought out by competitors or by debt-fuelled private equity junkies.

The biggest beneficiaries of ZIRP and low volatility environment have been borrowers. These have subsidized the private equity space which you can see from the charts below have punctured the APPmosphere to and are heading into outer space as we speak.



Source: Variant Perception, Citigroup US equity analysis, November 2013

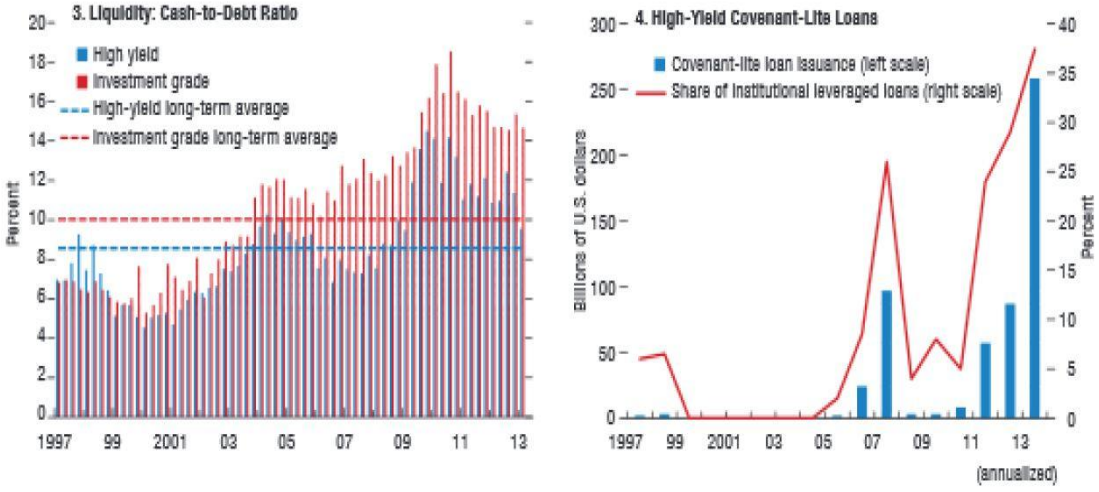
Valuations in buyouts are at a higher median multiple than the 2006 and 2007 top. Buyouts are now being done at 10.7x debt/EBITDA. **The estimated debt/EBITDA in 2013 is at a multiple of 6.2x and is the highest recorded in the last decade**. We love debt, especially when the return on debt is so egregious in the short-term.



Source: Variant Perception

Price and value trajectories such as these always observe the 'critical state of being' when a seeming innocuous incident breaks the fragility of the ascent. In short they come back down to earth with a bang. In the most recent Global Financial Stability Report (GSFR), the IMF raises an overdue red flag, in our opinion, pointing to the simultaneous decline in debt issuers' liquidity and deteriorating underwriting standards.

Cov-Lite Loans Abundant



Source: IMF, GFSR Oct 2013, Variant Perception

The taper, which never was, has led to a flight from duration risk in the medium term into the shorter duration high yield floating rate market. In essence borrowers have increased their appetite for leveraged loans which are by definition almost exclusively short in duration and floating rate priced off LIBOR. So high has been demand that covenant-lite packages have become de rigeur. Leveraged loan issuance is on track for $1trillion this year, over 65% of these reside with hedge funds and private equity junkets.

TechCrunchED

If ever we set up a tech company we would have to call it 'Rocket Fuel', unfortunately that name has been taken. The real and existing Rocket Fuel (FUEL: NYSE) works in the digital advertising space. It uses predictive modelling and sophisticated automated algorithms to observe advertising exchanges and discern trends on how to place ads in the right place, media and at the right time to the right people. Ironically it's the only company not actually skyrocketing. Unusual in this environment – unlike Snapchat it seems to us it actually does something really useful.

Let's not get distracted by real productivity but turn our attention to a company that really has sky rocketed – Netflix (NFLX: NYSE)

We think it 'ICAHN't go any higher'. This internet subscription service for watching your favourite TV shows and movies streamed to any device has huge growth potential. But competitors outside of US lurk in the wings. Like LOVEFiLM in the UK. The big risk is their content costs will rise and network players with more money could step-in to buy content from under them. Worse still, subscribers can leave easily if this content moves elsewhere.

It's had a high profile seller and volume reversal in price. It was a clear warning shot across the media net stock buyers to back-off. Netflix has a juicy P/E of 200x and is risen a staggering 600% in a year. This stock will target the $268 price below before or if any new high appears again. This is the target of the down distribution created on the reversal day.

NFLX – ICAHN't Go Any Higher



Source: Hinde Capital, Bloomberg

Small Cap 'TECH'-esque Bubble

Small Caps have topped out based on our trend exhaustion indicators and distribution objectives. We have earned the right in the 'E' of the P/E multiple to make that call. In 2009 to 10 we declared small capitalised equities or those equity indices with a small float i.e. few shares outstanding would be the beneficiary of the Central Bankers 'liquidity' jet hose. It's a theme we have spoken about many times in the media and discussed in our HindeSight Investor Letter.

Small cap indices have hit the 'skids'. Chinese, Japanese, European and US small caps have begun to correct. The Sornette log-periodic power laws have been working their mischief again, creating bubble behaviour. Once the price begins to exhibit a certain magnitude of oscillations around an exponential growth rate markets tend to hit a criticality state whereby they cannot rise anymore. The endogenous workings of the structure of the market, typically herding mentality of investors creates an inherent fragility for the market place. If one from the herd exits they all exit.

[If you want to learn more about this frame of reference take a look at our HindeSight Investor Letter April 2011 – Silver Criticality Why Silver Might Crash.]

We would comment using Sornette's bubble model provides a frame of reference to whether we are observing bubble behaviour. However when the bubble bursts the market can either crash or correct and trade sideways working the overbought nature of the market off. In a sense we move from trend phase to cessation and then enter a new price dynamic or regime which ultimately is sideways.

US Small Cap 'Bubble' Bursts?



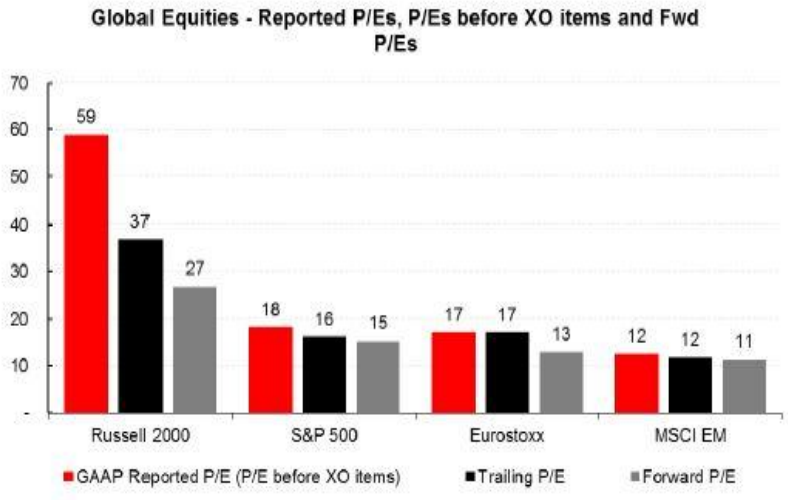
Source: Hinde Capital, Sean Corrigan Diapason, Bloomberg

US Small Cap Value or Not

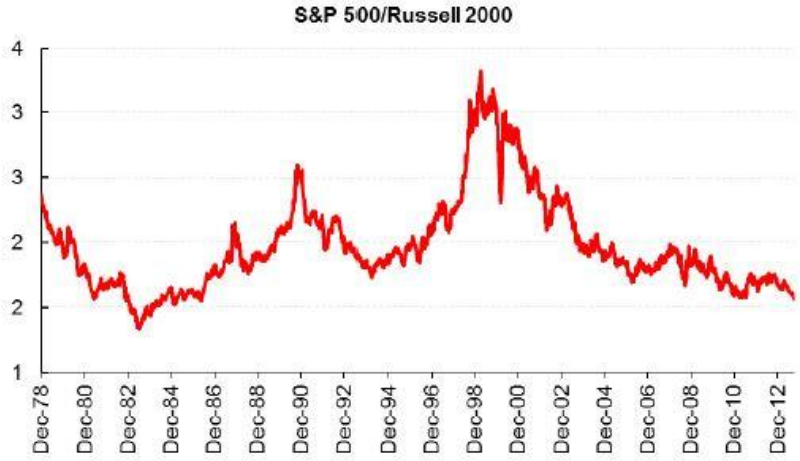


Source: Hinde Capital, Bloomberg

US small caps are very expensive relative to large caps. The multiples for Russell 2000 are astounding. Their bull trend began in 1998 and has lasted 15 years. The ratio of the S&P500 to the Russell 2000 is now at its lowest level since 1984.

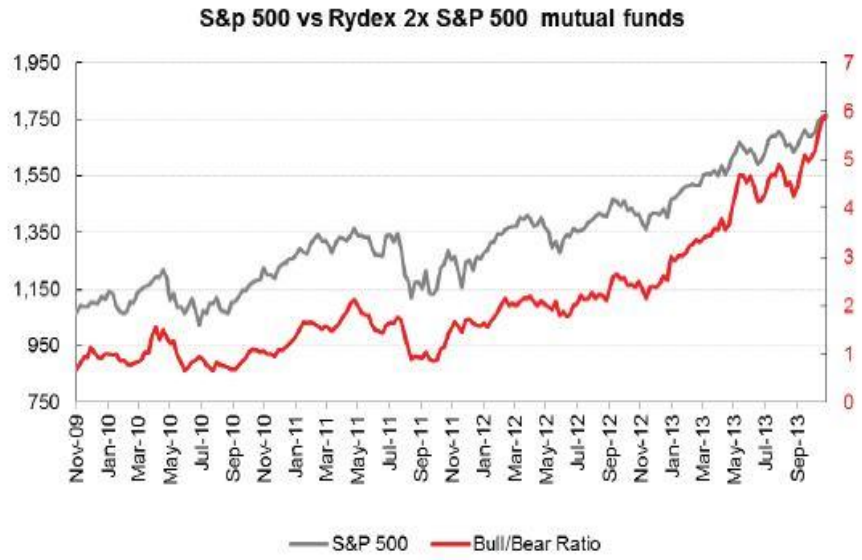


Source: Variant Perception



Source: Variant Perception

Investors are levering themselves aggressively to chase of small caps by pouring money into big cap Rydex mutual funds is now at an all-time high and rising at a parabolic rate. Investors have 6 times the money in twice levered ETFs as they do in straight long equity funds.



Source: Variant Perception

The Fair Value downside distribution target of the Russell 2000 is 780 from the 2009 up-trend.



Source: Hinde Capital, Bloomberg



Source: Hinde Capital, Bloomberg

Dogs Barking?

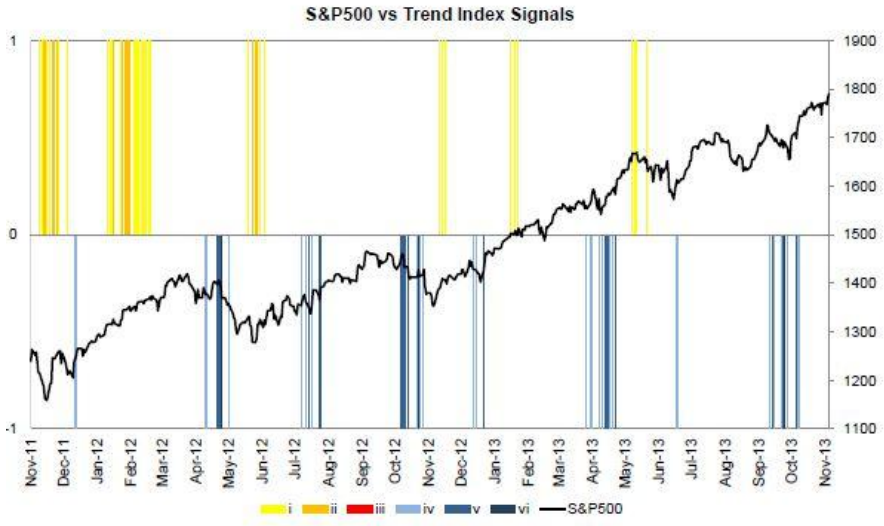
The Dow Jones Industrial leapt to new all-time highs on the ECB rate cut announcement only to collapse and reverse after strong US Q3 GDP numbers. Is the Dow wagging its doggy tail? We believe but our trend indicators for these big caps have not given a trend exhaustion signal quite yet. **Objects from 2009 lows have been made and the distribution downside profile targets 13,400 to 13,700 zone. Fair value would be near 11,800 to12,200.**

Dow Dog Bites?



Source: Hinde Capital, Bloomberg

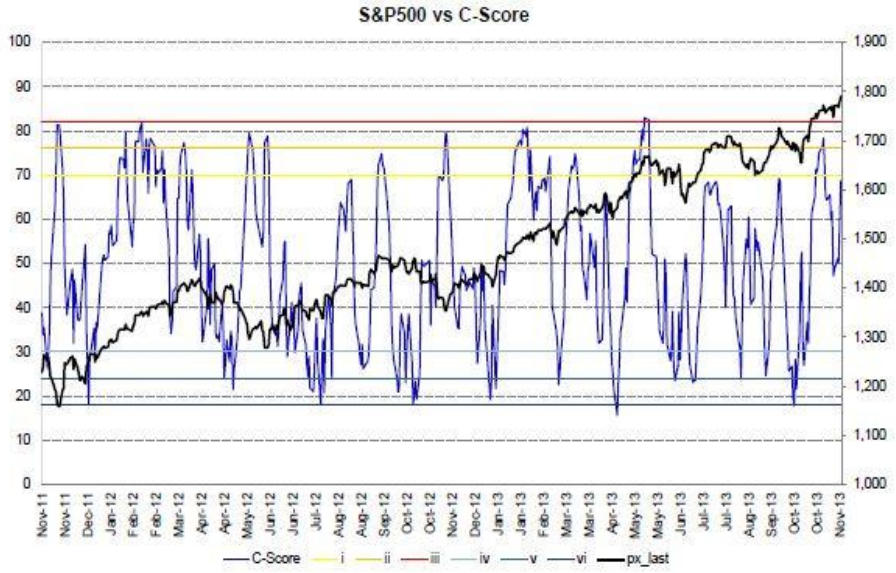
SPX – Watching for Trend Exhaustion



Source: Hinde Capital, Bloomberg

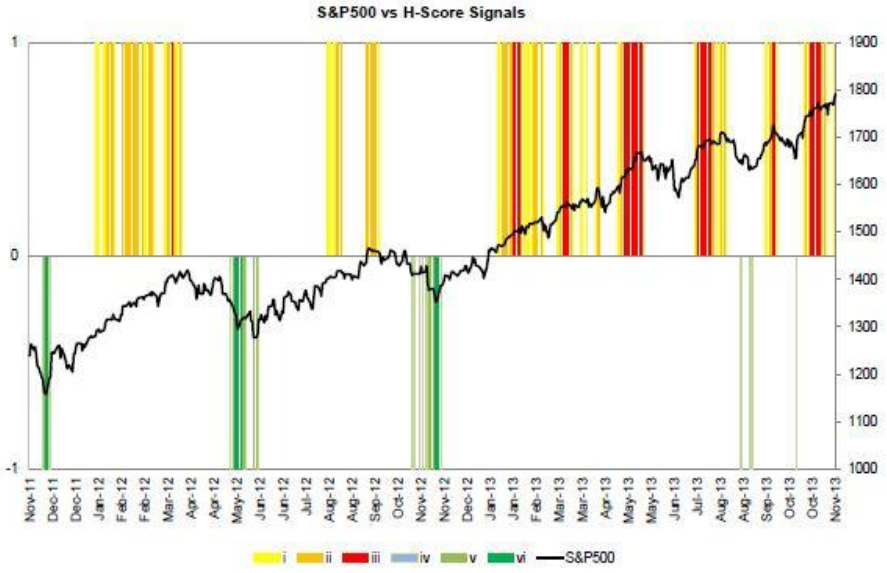
The chart before shows SPX trend signals. SPX has been trending since mid-October on our intermediate cycles. The blue line denotes trend ready and the yellow to red is trend exhaustion.

This chart shows how the strength of our trend is fading as new highs have been made on SPX (black line) but the C-score (blue line) has not made new highs.



Source: Hinde Capital

The SPX distribution target from 2009 lows was 1780 to 1850 we are now in the zone for long-term trend failure. A reversal from 1780 to 1810 is what we are watching for, as our longer time frame trend signal indicator is turning hotter even though the short-term signals are not so hot or exhaustive.



Source: Hinde Capital

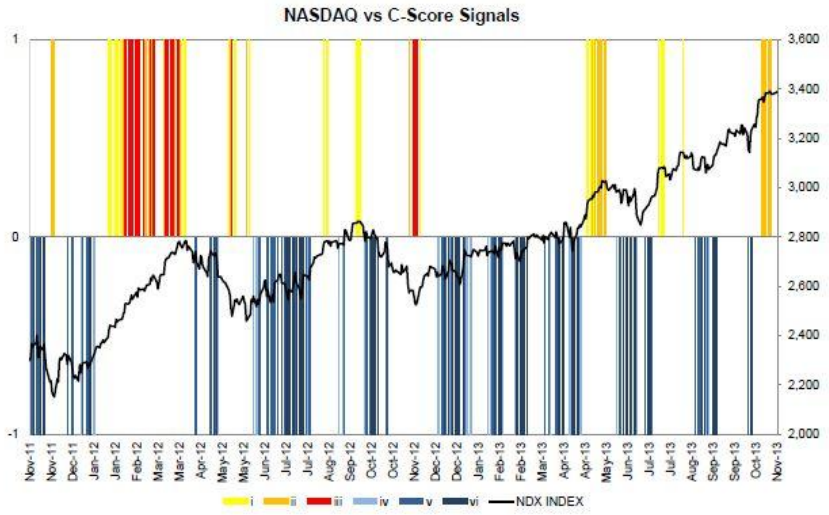
The Nasdaq 100 has begun to exhibit classic failure behaviour, with erratic up and down price reversals in consecutive days. We are likely in the last surge that sees us top out in a 3400 to 3500 zone. If we can't get stay above 3,415 for one week then the objective of 2009 up-trend has been met**. We are looking for 3200/ 3160 short term but fair value downside distribution target from the 2009 up trend is 2760 to 2450** although the longest line (most time spent at one price) is moving up to 2765/25. This is significant target and support.

Nasdaq 100: 2,760 next?



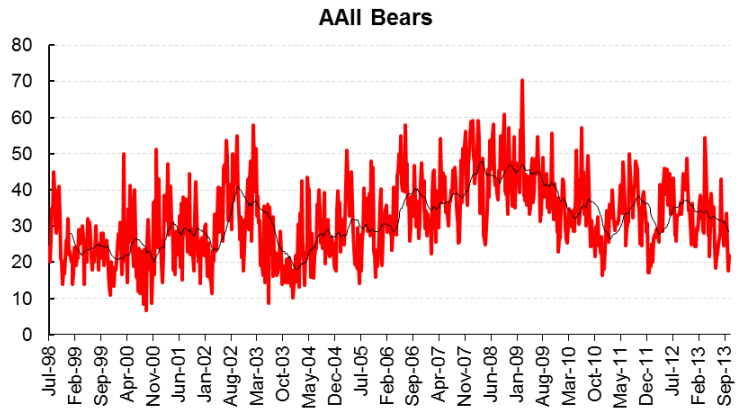
Source: Hinde Capital, Bloomberg

The Nasdaq 100 intermediate signal is beginning to move towards trend exhaustion.



Source: Hinde Capital, Bloomberg

The Dogs are biting at the bears who look totally disinterested! Bear sentiment is non-existent. This chart doesn't quite do it justice but we are at new low for the decade for this reading.



Source: Hinde Capital, Bloomberg

e^3 european equities exponential

We love talking about rates of exponential. The exponential function e is a mathematical constant that is the base of natural logarithm. e = the sum of the infinite series. Think of reinvesting dividend coupons and after 20 years you have a yield born out of this exponential. European stocks and Espana especially have seen their P/E growth rise so dramatically in the last year that EPS growth would have to defy gravity to meet such heady expectation.

Spanish beta based on Variant Perceptions Equity leading indicators clearly shows the IBEX has priced in all the 'good' news, or rather 'the better than really bad news'.



Source: Variant Perception

The Fair Value distribution target for IBEX is 8,200 to 8,500. We currently trade at 9,700 or 15% above this zone.

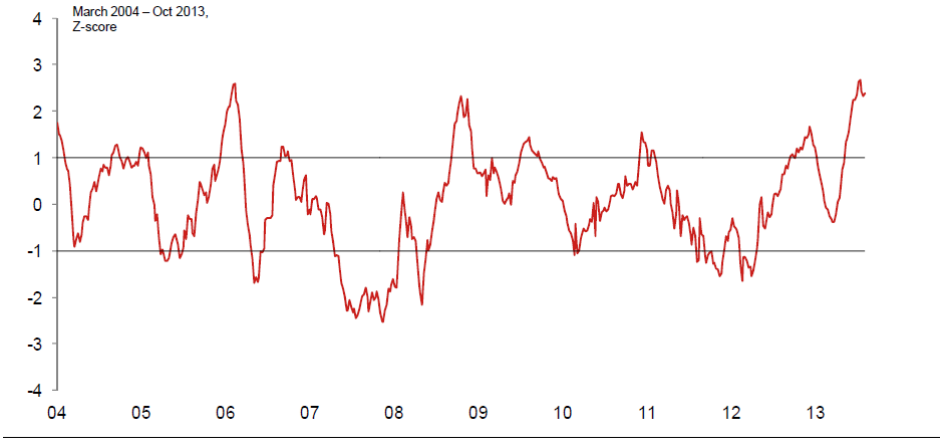
IBEX – Espana Reversal Top



Source: Hinde Capital, Bloomberg

According to Nomura investors have aggressively bought European equity funds. Over last 16 weeks, investors have bought USD 26bn, representing 3.5% of current assets under management, according EPFR weekly reported data.

European Mutual Flows/ Sentiment



Source: Nomura Strategy Research

The mid Cap 50 DAX (MDAX) has risen 295% or 34% annualised since the 2009 lows. Year-to-date it has risen 50%. It's topped and the distribution target (profiles on lhs of chart) targets 14,500 on this index. **A 10% correction is the short-term distribution forecast with an intermediate fair value distribution target for retracement of the 2009 trend coming in at 10,200 some 34% lower.**

Mid-Cap 50 Dax REDUX 10,200



Source: Hinde Capital, Bloomberg

Transcendent Technology

We are experiencing a major paradigm shift in society. Society is transforming its behaviour in light of the Internet 1.0 and Internet 2.0 revolutions. These have indelibly altered the way we think, behave, and how we interact socially and in business. Whenever economies are impacted by a 'technological' innovation there is invariably a transformation in the manner in which capital is transmitted through the economy. Invariably credit is made available to the sectors which have created or embraced this new innovation as rates of return far exceed the cost of this credit. In time too much credit is made available premised on over-valued capital, as reflected in the public stock prices – the financial capital of firms creating or even benefiting from this revolution.

Often such a transformational period induces a lower cost for businesses which enables providers of credit, central banks and their network of commercial and investment banks to keep the cost of credit lower than would otherwise be 'natural'. It is the mixture of excessive and freely available credit which provides a volatile cocktail for the pricing of these firms, especially the higher their stock prices rise.

In this century economies are experiencing the unusual concoction of globally low interest rates and radical innovation which has altered the way we manage our global economy. We believe it is not so easy to understand value in a world where firms have seemingly exponential positive network externalities. We use every tool at our disposable to observe how agents in the market interact to price assets. We run algorithms to observe the endogenous behaviour of the market process to determine if prices can continue to rise or fall. Subjectively and even empirically we believe valuations have priced-in too much future cashflow for equities 5, if not 10 years forward.

We would contend there has been a perfect storm of an intangible productive boon at a time of a 'pseudo'-capital boom which has exacerbated the value of equities globally. It is the intangible impact of money and credit creation itself which makes the pricing and valuing of risk assets so hard.

Bubble Act

"All undertakings, presuming to act as a corporate body, raising, transferable stock…transferring…shares in such stock, either by Act of Parliament or any charter of the Crown, and acting under any charter…for raising a capital stock intended…by such charter…and acting…under any obsolete charter…for ever be deemed illegal and void."

Statute 6 Geo.I.c.18, "for restraining several extravagant and unwarrantable practices herein mentioned," - it was called the Bubble Act of 1720. This Act, far from being the first piece of legislation to regulate the new financial innovation of the era, was merely a sleight of hand by the English state to sustain the flow of funds into the public vehicle that helped finance the government's debts. The irony of this Act was that it largely helped exacerbate the *first truly global financial bubble* in stock prices in London, Paris and the Netherlands. The most notable subset of this bubble was that of the South Sea Company (SSC) stock bubble of 1720.

The SSC was a joint-stock company, and its official purpose was to undertake trade with Spanish America (South America) on which it was granted monopoly rights. We would note that a ship barely left the London docks. Its real purpose, however, was its use as a vehicle to consolidate the UK's government debt. **The problem always seems to start with debt...**

In the late 17th century the debt of the English state had been expanding markedly due to a series of wars with the French. The then Chancellor of the Exchequer, Robert Harley, decided to embark on new ways to improve the ailing government finances. This oddly spawned a period of intriguing financial innovation, in a similar vain to the change in financial intermediation we have witnessed this past decade.

The government had been relying on the privately owned company the Bank of England to help it manage most of the loans to government. The state had also sought to raise money through 'tontines', a form of lottery but these public financings did not catch the imagination of the public anywhere like the SSC.

In 1719, the SSC decided to emulate the French's Mississippi Company which funded the Crown finances and that of the BofE which both received stipends from managing the state debt. The company officers proposed to Parliament the conversion of the entirety of the state's outstanding annuities into SSC stock. Along with the Mississippi company this was likely one of the first debt-to-equity swap of its kind.

All owners of English debt, redeemable or irredeemable (perpetual), would be required to surrender this to the new company in return for shares of the same amount. The new investors would receive an annual dividend (paid by the government). They would also have a liquid market for their debt (now stock) and potentially participate in the 'profits' from the New World trade routes. The state was happy because the debt had been consolidated at a cheaper financing rate, and any debt rollover worries swept aside. The investment was effectively sold to investors as a government backed scheme. So they were even happier. They would fund the exploration of trading routes and the government would back-stop it, giving it an implicit aura of respectability.

There was one major catch. The company whilst promoting trade to the South Seas of the New World had no intention of embarking on such activities. Why would it? The intention was to encourage more and more investors into SSC and as the share price rallied the amount of monies the company had to return (effectively loan) became easier to manage as the value of the company grew. The directors were a revolving door of the establishment and parliamentarians who were favoured *gratis* stock, in return for a indefinite facility of debt financing from the government.

Sounds all so familiar doesn't it? Government sponsored entities peddling leveraged products ('Ponzi' schemes) and the Treasury and the central bank (SSC) funnelling money back and forth in rising amounts of quantity and falling amounts of quality. Quantitative and qualitative, those words 'ease' out of our mouths. There is nothing new in banking and bubbles. Bubbles are still an 'act' happening today.

Chasing the Dragon Revisited

Fast forward a few centuries and once more there is treasonous bubble talk. For the best part of this year many investors who have sat on the sidelines have grumbled equities are too rich, as if this 'fits all' indictment was a statement of fact that applies to all indices and sectors, whether it be developed, emerging countries, small, big gap, tech, semi-conductors or cyclicals. Of course, as investors we have to be more discerning, and selective in our assessment. But judging by the near rise in all indices, even allowing for the odd laggard, it would seem the overall direction has been uniformly higher.

In our HindeSight Investor Letter February 2013 - The Central Bank Revolution II Chasing the Dragon we wrote:

"The impact of zero nominal interest rates to fund central bank 'easy' money has merely induced financial participants to look for higher income or yield by which to meet investment objectives and or desired rates of return needed to maintain the rising costs of living. (Nominal wages have not kept abreast of inflation.) Unfortunately this has entailed taking on greater risk."

"Nowadays investing has little to do with fundamentals and is all about liquidity. **Our liquidity indicators have been supportive for a potential re-rating of equities and with little participation it takes little imagination to see how aggressively they could move in the first half of 2013.**

The real Austrian Monetary Supply (AMS) was growing 7% annualised rate faster than nominal GDP, which we suggested would produce on average a 15% re-rating in global equities in the first half of the year. What was remarkable was equities in the developed world tacked on another 5% to this number."



Source: HindeSight Investor Letter Feb 2013, Variant Perception

At the start of the year we laid out our reasons why we envisaged a solid equity performance in developed markets was in the offering. We weren' t enamoured with stocks because we perceived they had value just that simply we felt the liquidity juggernaut would keep the junkies 'chasing the dragon' yield, that correlative of capital returns.

We were uber-bullish on Japan - the Jasdaq and Mothers Index, and less so on the Nasdaq. We were much more sanguine on deficit countries in the emerging markets where we perceived a deflationary shroud would weigh on the Bretton Woods II current account relationship. EM stocks have since had a tough time after a positive start to the year.

Whilst there is a commonly held belief that since 2009 global ZIRP and QE has provided the impetus for the perpetual rise higher in equity prices, there is a undoubtedly a difference of opinion about whether this reflects sustainable economic growth or is merely a cosmetic illusion. Perhaps it would be more appropriate to say a 'cosmic' illusion of growth in light of the high equity valuations. **We believe the rate of 'economic' rebound is merely a nominal surge in pricing which the markets have amplified through application of leverage in the corporate sector.**

Of course there are those who have noted that equities would benefit from a number of factors:

- A slightly better than 'uncertain' world see a re-rating of assets as geopolitical tensions eased.

- The fracking boom will provide untold reserves of cheap carbon energy and improve margins and global productivity.

- Significantly the US as reserve currency holder would become less dependent on expensive OPEC and Middle Eastern oil.

- In fact quite the reverse would be likely, with the US likely to import oil and gas to the rest of the world.

- This in turn will fund if not shrink its monstrous liabilities. (The jury is out on whether shale gas and oil are cheap, abundant they may be, but not necessarily cheap).

Let's accept the cheap energy thesis for argument's sake. Unfortunately this does not help explain why internet stocks are skyrocketing. It doesn't explain why small capitalised equity indices around the globe have almost universally eclipsed the rise of the Internet bubble of 2000. We suspect this last fact is one little observed by most investors.

People will have more disposable income for sure in a cheap energy era, but tech isn't energy intensive when we last looked. **Although we personally do not believe we are experiencing the euphoric mania of the late 90s tech boom, this derivative, the Internet 2.0 'APP'lication of the net, has produced comparably alarming valuations.**

We suspect the reason why this doesn't feel like a mania is because the Kuhn paradigm shift had already been experienced. In 2000 the Internet 1.0, we will call it, the net was an unknown quantity. There was an excitable 'uncertainty' about the future earnings of companies embarked on this technology. It was truly a left-field innovation of global proportions.

The Internet 1.0 and 2.0 revolutions have altered how we work, interact, even sleep - it's touched every part of our lives. However APPs are not the 'New New' Thing as Michael Lewis' book on the birth of Netscape so aptly described. They are merely the derivative, so the shock effect is gone. Nonetheless they are shaping lives in a way that is still uncertain, and any stock of a firm involved in this sector offers the volatility of returns commensurate with such an 'unknown' quantity. The late Barton Biggs used to write his Morgan Stanley research recounting his daily dialogue with Joe the plumber who insisted why Tech stocks did have value. Of course, Barton was humoursly more circumspect and were he alive today we are sure he would be now.

Technological 'APP'mosphere

Technological revolutions are invariably accompanied by 'bubble-like' patterns in the corresponding stock prices of firms that are involved in the creation or employ that technology. We have all witnessed various bubbles. After all there have been so many these last few decades. Recent examples were the 'tronics' boom of the early 1960s Nifty Fifty stocks, the biotech revolution in the 80s, and of course the 'internet / tech craze' of the late 1990s.

The problem is we seem to have got inured to them or we have accepted that the state will 'make it right.'

There is a line of a thought that speculative bubbles such as these have been examples of markets functioning well under 'uncertainty'. This makes some sense to us as we described earlier. We interpret this as meaning that new technologies are characterised by a high degree of uncertainty about their future productivity which leads to higher 'betas' or volatility in the price of observable stocks involved in the technology. However as time passes and cashflow expectations become realised, invariably these stock prices gyrate and fall precipitously, as the adoption of the new technology doesn't command the earnings expectations priced in.

Internet 1.0 bubble was born out of Arparnet which was created in 1969 with the funding of the US Defence department. Arpanet ceased to exist in 1990 when Tim Berners-Lee of CERN, released the World Wide Web. Netscape Communications was the first Internet IPO in August 1995 but it wasn't until 2001 that the old economy - the bricks and mortar one - merged with the new. AOL and Time Warner conjoined to create the first truly 'clicks-and-mortar' company. Since then the growth of web servers to some 30 million plus has helped cement the 'click' economy as indelibly part of our economic landscape. In the interim those early tech stock prices had plummeted or gone bust and for those left they began to rebound as quantifiable revenue streams provided a barometer for stocks to be priced appropriately.

We are now experiencing the 'APP'lication of this internet technology not just through APPs but through advances in information and communication technology which is driving innovation in how we conduct businesses as a whole. We have witnessed new business models – on-line and on-demand services, banking and digital payment systems, virtual meeting places and job boards. Likewise the explosion of social networking has altered how we manage our time and interact with each other. The net has quite literally spawned a derivatives of technology – a plethora of hardware; ipads, tablets and smartphone devices. These in turn enable us access to the software of the smart APPs through WI-FI or mobile airwaves. Of course this exponential rise in processing has accelerated gains in all sectors of the economy from agriculture, medicine to manufacturing and industry.

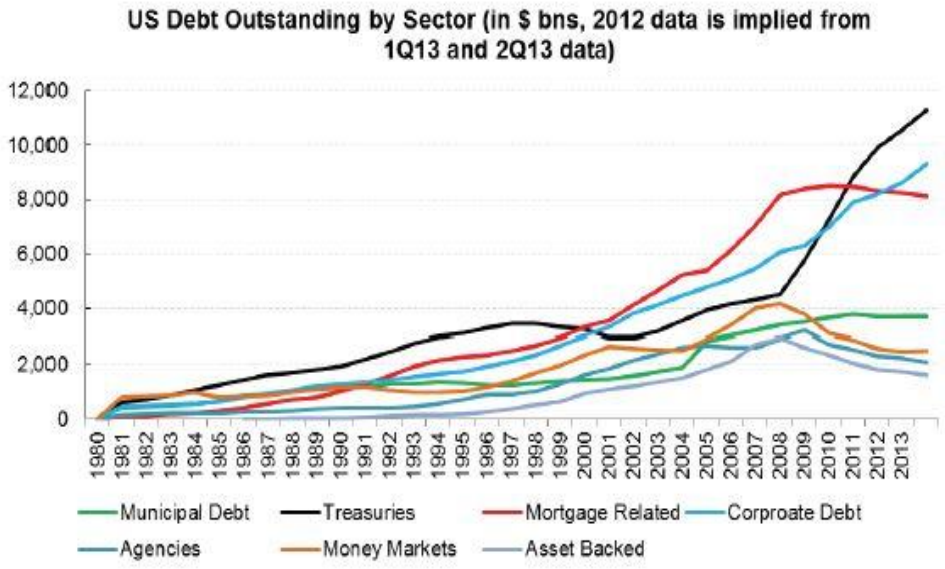
The evolution of this technology and the ability to adequately price depreciation of obsolete assets as new technology keeps getting smaller and faster makes pricing future cashflows of firms difficult. This in turn makes it harder to price the economic returns of a nation because this innovation now defines our economies to a large extent. Clicks-and-mortar has merged almost fully. We are still ascertaining the benefits which are continuously evolving. So there is an intangible nature to our economy. It is not quite clear how to price intangible capital. It's really quite heuristic based, in other words, subjective.

The 'Value' of Debt

When too much credit is freely available in a low rate environment, good ideas become bad ideas as too much 'capital' migrates through the producer to consumer chain. It is called a misallocation of capital, whereby income can neither sustain the return on capital invested nor service the debt that underpins the idea.

If the antecedent of higher asset prices is a function of nominal price rises, ie those driven by money supply, then this helps create a pyramid of credit underpinned by assets where the income needed to fund them is not sufficient. Then this merely sets the stage for a greater economic collapse feeding on this reflexive behaviour of economic agents both in the financial markets and the real economy.

Prices will rise, not real output and this will erode private sector margins, killing growth.



Source: Hinde Capital, SIFMA

So what is value? It seems a simple enough question doesn't it? It's such an all encompassing statement after all. Indeed value theory involves examination of so many disciplines, philosophy, ethics, economics to name but a few. They have one essential ingredient pertinent to them all - choice. All human decision making is a choice or a human preference.

"To live is for man the outcome of a choice, of a judgement of value." A truism if ever we heard one. Ludwig Von Mises so phrased it best.

In economic theory, let's call it market theory, because after all we are discussing the market place, where a myriad of human interactions take place. People have preferences to act or not to act and we utilise means over a period of time in order to achieve desired ends. As human beings we chose between various opportunities offered of choice. We prefer one alternative to another.

It would be fair to say we have a scale of wants or values in our minds before we arrange our actions. On the basis of such a scale we assign a higher value, ie more urgent wants and we leave

unsatisfied what is of lower value, ie, what is a less urgent want. Urgency implies a temporal horizon.

Classical economists, think Smith, Ricardo, Mill, unlike Austrian economists objectified value based on prices (although they did make a distinction between natural and market prices). They assigned an intrinsic value to a good, ie the value was contained in the item itself - which was simply the cost of production (or the factor price).

This is its natural price, which could be at odds with the market price which is the price offered by buyers and sellers in a competitive auction, let's say, and not determinant on just its intrinsic price. This market price provide us with an insight as to the true or open market value.

So one can see price is not the same as value. Value is linked to price through the mechanism of exchange. When an economist observes an exchange, two important value functions are revealed: those of the buyer and seller. Just as the buyer reveals what he is willing to pay for a certain amount of a good, so too does the seller reveal what it costs him to give up the good.

The price offered is not just a measure of subjective value; it is also a means of communication between buyer and seller. The offer is an expression of the buyer's opinion, which the seller is free to reject. If they accept it a value judgement has been made. Praxeology, the study of human action, casts no aspersions on whether the 'acting man' is rational or irrational, it is indifferent to the conflicts of schools of dogmatism and ethical doctrines, and it is free from preconceived ideas and judgments. It is in this subjectivism that the objectivity of this economic science lies, ie it has no value judgement of its own. It just tells us that human behaviour is integral to understanding value in the market place.

Any study of the market place* and value would not be complete without touching briefly on this concept of rational behaviour. Rational expectations as bound in Eugene Fama's Efficient Market Hypothesis flies in the face of praxeology and human action. Fama's belief, and his flaw we would state, requires that agents in the market have rational expectations; that is to say they conform to true statistical expected values of the random or normal bell curve distribution, as ascribed by Gauss. If this past decade of asset price behaviour alone is not evidence to the contrary of such rational expectations, with markets exhibiting bubbles and thus power law distributions, then the debate ends right here.

We believe it is essential to acknowledge and comprehend the role of individuals and their collective behaviour in the market.

Behavioural finance which encompasses the social, cognitive and emotional aspects of individual decision making acknowledges that market prices and value have their roots in human action. Soros' reflexivity theory is such an example. He made a very pertinent statement which helps us to clarify what value is:

"People base their actions not on reality but on their view of the world." Market pricing is a two-way feedback loop between information of the individual and the market price. It is a circular reference to the relationship between cause and effect. Take the interaction between beliefs and observations in a marketplace. If traders believe that prices will fall, they will sell, thus driving down prices, whereas if they believe prices will rise, they will buy, thereby driving prices up. 'Self-fulfilling prophecy' is another term you could ascribe this to.

If only markets were so simple. * In truth the market is not a place, a thing or collective entity. It is a process.

This act of distortion can reinforce behaviour that as George Soros described are fertile fallacies, no more the basis of reality than merely one's interpretation of reality. Soros's ideas on interactive feedback can lead to first self-reinforcing cycles (booms) and then self-defeating cycles (busts). In both cases there is an endogenous structure of imitative behaviour by agents in the market. We observe self-organised criticality, whereby the market can be thought of as hierarchical structures which are self-similar and build to such a point whereby fundamentals (intrinsic value) and market value are markedly wide. Determining the critical point for a reversal of this trend is the basis of much investment proprietary work, including our very own.

Benjamin Graham, from his book the Intelligent Investor wrote: "Buy during periods of pessimism and low prices; sell during periods of optimism and high prices."

If one was to take him at face value (excuse pun) then this seems an unhelpful premise. How do we know when something is low in price without a concept of value? We can show you hundreds of gold mining companies priced at 0.20c that looked low relative to historical price series. Many have now gone to zero as they had no value.

Capital (Trans)Formation

So for an investor this idea of price offers no insight to value. **To understand value you have to understand that capital is a function of human interaction with the time value of money.**

We need to understand what capital and money is. What is the true value of a manufacturing (producer) good, a resource good, a piece of nanotechnology, an 'APP' or IT software? How can we value it and plan production safely when we do not know the true worth of the unit of account that measures it ie the worth of the numeraire. It is no secret that the US reserve currency has lost almost its entire value from a century ago and with money in such an amorphous and corruptible state, value will be a shifting condition.

Mises was also known as a liberal economist and by exploring the work of Liberal economists, more specifically Austrian Economists, one can outline how a debased numeraire distorts everything. Austrians theorise that interest rates reflect a particular preference of human beings, namely time preference. Humans prefer to have things now than in the future, and are prepared to borrow money at interest to obtain them. At its simplest, interest reflect an individual's time preference. If time is precious to us - reflected in a high interest rate - then we will then require shorter production processes.

When we lend something, we demand to be paid interest, the rate is dependent on this intertemporal allocation of capital. This forms the basis of the theory of investment, production and use of capital. This is a crucial point to understand. Interest is a function of human nature to value an asset either to have now or in the future. **So if you define a rate structure via legislation or bank rate targeting you are repressing this innate human valuation mechanism.** This is the concern we find ourselves today - are prices reflective of value born out of real demand or just excess money and credit?

Remember there is a finite level to which money and credit can drive prices higher because income rises will not be able to keep up the interest payments required to purchase higher assets on this margin.

The technology transformation of our society has also transformed capital. ‘Capital’ is a word that is often bandied around indiscriminately. We catch ourselves using it inappropriately, as if it is some homogeneous thing, it is far from being that. It is heterogeneous and shifts in context.

Austrian economists Menger and Mises provided the concept of capital that was most able to encompass these fundamental subjective-theory-of-price ideas just discussed. They both believed that the objects of entrepreneurial calculation, whether material or non-material, were the fundamental building blocks of economic theory.

To produce capital is equivalent to producing a higher-order good (a producer good), which is equivalent to making a choice that would yield more net worth in the future than would otherwise be possible.

Mises explained that the concept of capital is the fundamental economic calculation, the foremost mental tool of the conduct of affairs in the market economy. Its correlative is the concept of income or yield.

Capital is the entrepreneur's net worth, but what is the financial capital ie stock price value of firms born of technological innovation underpinned by a global economy with so much credit availability? This credit either directly supports these firms and consumers or indirectly by underpinning the whole financial and economic system. It helps these firms receive valuations that in of their own productive capability would not be so high. This is our firm belief.

Capital Allocation

If a company builds the wrong producer goods that do not create value for consumers, then that capital is wasted. Understanding this notion of capital helps us understand the persistent features of capitalist economies, the repeated booms and busts that occur in them and as a consequence in financial markets. This phenomenon is well theorised by Austrian Business Cycle Theory (ABCT). Soros inadvertently touched on this in his theory of reflexivity.

Roger Garrison, a contemporary Austrian describes it as theory that in its broadest sense recognises that extra-market forces (ie central banks and government) can initiate an artificial, or unsustainable, economic boom. The money-induced boom contains the seeds of its own undoing: the upturn must by logic of the market forces set in motion, be followed by a downturn or bust. By removing interference from the market process all we achieve is less severe boom busts.

So if we are shareholders in a private company, and may be one listed on a public exchange investors (owners) can ultimately vote on their desires. This they can do literally by voting at an AGM for distribution of cashflow through dividends or by objecting to an acquisition or they can vote by selling or buying the company shares thereby making a statement about both the production and redistribution of the capital.

Now this makes no assumption on the preferred holding period of the investor. They could be speculating on the immediate gain from an IPO listing or holding onto the company to gain growth in share accumulation from dividend reinvestment. They could even re-allocate our own capital should we perceive the capital redistribution to not be forthcoming from that company anymore.

So it’s important to understand that capital is both created and redistributed. To observe our share of the company or entrepreneur's net worth we should look at capital allocation. We need to do this to understand how capital is transformed in today's markets.

Capital allocation is the process by which businesses divide their financial resources and other sources of capital to different processes, people and projects. It is management's overall goal to try and optimize capital allocation so that it generates **as much wealth as possible for its shareholders.**

In extremis imagine a company, like an individual wins the lottery ie has a large windfall. Every person has their own needs and desires. For some the desire is a modest lifestyle for others more extravagance. However let's assume that each person puts aside enough money to meet their basic Maslow's hierarchy of needs - shelter, food, water etc. And when we say put aside we mean for the rest of their lives. Now having allowed for these essentials they now have excess capital.

For a company it would seem obvious for them to apply the same logic. They put aside enough capital to run the company for the foreseeable future. However in practice it is very different and much more complex. An entrepreneur (call him the CEO), should be absorbed in one task only - to utilise to the best of his advantage all of the means available to him (capital) for the conversion of this capital into profit. These are the tools by which we account for the outcome of the transformation of capital ie producer goods to consumer goods.

Mises stated - "it is the indispensable compass of production in the market economy." However Mises recognised that neither revenues, profit nor loss bring about capital accumulation or capital consumption. Rather, it is the manner in which CEOs deploy their capital that alters the amount of capital available. In William Thorndike's book 'The Outsiders' he focuses on CEOs who have provided the best return on capital employed as evidenced by their stock outperformance. Give you a clue it was not the 'brand names' you would recognise such as Jack Welch and other Fortune 100 names.

It is largely immaterial who they are, what is more material is how they allocated capital or as we like to describe it, managed the transformation of capital so that the investor ie owners of the company acquired personal wealth. This is savings which can then itself be deployed as capital to producer more wealth.

CEOs have essentially 5 ways of deploying capital:

1. Investing in existing operations
2. Acquiring other businesses
3. Repaying debt
4. Repurchasing its own stock
5. Pay dividends

When a CEO sees their capital stock depreciate they may reinvest in new plant and equipment. This is especially helpful when they experience growing demand or new access to a market either product or people. Of course this deployment of capital could yield yet more income if the consumer utilises the end product.

Alternatively a CEO will wait patiently to acquire a company that it believes is additive or at least iterative to its business but at the right value to the capital it employs. Likewise if none of these seem attractive propositions - ie replacement or acquisition then it might be wise to pay down short term debt, pay dividends or if the replacement cost of the business is far higher than the stock price, the CEO should buyback stock.

All well and good in theory but not so easy in practice. Conversely it can acquire (raise) capital by:

1. Utilising internal cashflow it creates
2. Issue debt
3. Issue equity - IPO, rights issues etc

If a CEO sees opportunity to build the business he/she may deem it prudent to issue more debt. If the CEO perceives he / she can gain an return on their capital in excess of the opportunity cost of

capital. This opportunity cost of capital is a hurdle rate whereby the CEO must determine if the risk for deploying or acquiring capital will yield a return that if not received would render only a negligible loss, if at all. This decision-making process has become trickier of late.

Now imagine you have a distorted view of demand. As I outlined low interest rates tend to distort the real perception of true demand. This gets exacerbated the longer rates remain low. If investors and particularly institutional investors have continued access to cheap credit then they will logically deploy this capital to try and get a return.

Invariably the very act of their investment drives prices higher in a sector through the market process but this is not really a reflection of the end user (consumer) demand this is just now a game of investment of a more speculative nature. All capital allocation and investment is speculative and it's just by degrees which alters the mix of risk. Too much credit ie leverage can alter the risk reward risk downwards. Put another way more risk less reward.

Even if you are prudent and do not take on excess debt relative to your balance sheet, if rates rise then the cost of capital can still become prohibitive as the balance sheet only exists in size of production to supply a consumer who has likely cut back in face of no more cheap money. The impact is not immediate of course, it invariably occurs at the time the cheap debt need be rolled-over. Incidentally it would appear most corporate exposure is deemed to roll in 2017/18. So markets can still remain buoyant as a partial reflection of this.

Ultimately it is cashflow not reported earnings and how that cashflow is deployed as another form of capital to create a return for the owners which drives the growth in a value per share that becomes sustainable.

Capital APPlication Today

How does this all apply to the market process today. Companies have grown their debt pile. Companies have been buying back stock at higher and higher prices. This is not an efficient use of capital but an expensive one, which combined with debt exposure merely exposes some companies to more leverage. If you have less stock outstanding relative to rising debt by definition the company is more highly geared. So whilst a shareholder has undoubtedly benefited from this rise this is the time to sell and recognise that value does not now compensate you for the risk on the capital employed.

Let's look at Twitter's capital allocation decisions. Twitter has used the rising equity markets to issue stock so it can realise its capital needs. It went public instead of relying on private equity and venture capitalists, both no doubt funded by cash and debt. Day one investors who caught the IPO had a double. Well done, but don't hold on too long as this is when these private equity and venture capitalist cash their chips in.

Twitter (TWTR) has taken on more than 5 such owners in the absence of public money. There is over 25% of float likely to exchange hands on TWTR in the coming months. Also throw in the 150 million plus of restricted stock units (RSUs), stock options, equity incentive shares and convertibles and the TWTR valuation for 2014/15 rises to over 30x price to sales.

TWTR is in a high growth, high cost moment. The income statement has not looked pretty but revenues have grown rapidly. So the question remains can the company convert its capital growth into free-cashflow which will ultimately drive its sustainable growth in the value per share.

	2010	2011	2012	2012 (6 mths)	2013 (6 mths)	Trailing 12 months
Revenues	$28.3	$106.3	$316.9	$122.4	$253.6	$448.2
R&D expenses	$29.3	$80.2	$119.0	$46.3	$111.8	$184.5
Operating income	-$67.5	-$127.4	-$77.1	-$47.0	-$62.8	-$92.9
Operating income adjusted for R&D & Leases					$4.3	
Adjusted EBITDA (Net Loss+Taxes+Int exp+ Depr+Stock-based employee compensation)	-$51.2	-$42.8	$21.2	$6.7	$21.4	$35.9

Source: www.MusingsonMarkets.com

At the IPO price TWTR raised $3.0 + bn in capital, when 70 million shares were sold on the offering day. That's $13 per user. It has 232 million users. The most comprehensive valuation I have come across on TWTR was done by Aswath Damodaran, Professor of Finance at the Stern school of Business at NYU, at his blog 'Musings on Markets'. Even with his aggressive growth estimates on revenue (55% per annum for 5 years) his fair value pricing was $17 to $20 per share. $35 and over would be considered, well....decide for yourself.

I have a more simple valuation approach. If Facebook is valued at $130 per monthly user (number of users/fully diluted number of shares) then TWTR, worth almost $140 per monthly user, is far too expensive as its in the high cost, high growth stage. We are assuming that both these companies will share a pool of global advertising revenue which according to eMarketer.com yields $190bn per annum for online/mobile advertising by 2023. Google and Facebook already account for 60% of this market. Give us a 'tweet' for your thoughts? The risk with our valuing methods is that we are taking a relative valuation. Perhaps FB is cheap?

Twitter needs to deploy their capital wisely so not to become a casualty of misallocation of capital. But wait, that's already happened. The whole sector has been misallocated to.

Summing Up

11th November 2013. Another Armistice Day passes where we remember and are thankful for those who gave their lives so we do not have to endure the misery of repression.

Should we be at peace with the market as those who we peacefully observed this week. We sincerely doubt it. We are at war but of a more subtle, insidious kind. The crony and State capitalism that so defines our 'market' economy has sorely obscured the value and meaning of our wealth and labour rate.

We are pragmatists, as marker practicioners, we just follow the trends and watch for instability in the trends. We are in the midst of potential momentum loss as breadth in the markets shows the cracks in the floor that the high fliers like internet stocks can fall into and big enough for those little 'stealth' small caps stocks to slip into the abyss. We are taking our chips off the table and flipping the table over. We have been going short select indices. We are not alone this week in calling for a top but we have explained where we are wrong. It's just a trade but one with a high risk reward set-up.

Yellen's comments have caused a reversal back higher in the main US indices. But we are Yell'en a top is close at hand.

We believe equities globally will experience a 10% correction over the next 3 to 6 months as a minimum guide. We are in the zone.

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