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The risk of not being invested

Talking with institutional investors, it appears their primary concern is missing out. Notably, with volatility low and yields high in some emerging markets (EM), I was told “we have to participate.”

It has become a matter of job security. Remember the days when investors had to justify taking risks, especially in EM? You could lose your job if you invested in EM and it turned out to be wrong. Now you can lose your job for taking chips off the table as you risk under-performing the index.

My question: do professional investors worry more about their job security than doing what may be prudent for their clients?

#NotInvestmentAdvice

Now that we surpassed 1999 US median income, what’s next?

The last two years have finally shown some real income growth. The median household income in the U.S. climbed to $59,039 last year, up 3.2% from 2015 after adjusting for inflation, the Census Bureau

up 3.2% from 2015 after adjusting for inflation, the Census Bureau reported Tuesday. The question is what's next; and what does it mean for investors?

If you have you have advanced skills, you have been in high demand. The labor market is tight in some areas. Still, with GDP growth lackluster, firms have been reluctant to add full time workers for the simple reason that when GDP growth is 1%, it's 1% away from a recession - a place where workers might need to be cut. As such, the overall sluggish economic growth has helped keep wage pressures low.

Then, there's the challenge that there are lots of unskilled workers who don't feel like they have had their earnings rise. They won't be satisfied with the positive headline either.

The question for us is what does it mean. It means that the Fed will run out of excuses to keep rates low. But if you look at the what the market reacts to, it has been far more sensitive to inflation numbers (such as the above expectation CPI released this morning).

When it comes time to step up "tightening" - which can either be through higher interest rates, but also through a reduction of the Fed's balance sheet, it will create economic headwinds - by design. So-called financial conditions will deteriorate. This hasn't happened despite higher rates; in my view, the reason is that the Fed has been outmost slow in raising rates and, thus, not really tightened financial conditions.

The unwinding of the Fed balance sheet is a different beast. Yellen is telling us that it is like watching paint dry on a wall. In our analysis, that's 100% wrong. That said, she says it because she likes to have her cake and eat it: she likes to unwind the balance sheet without having financial conditions worsen.

And the reason the Fed is so sensitive to this is because QE has pushed asset prices to very high levels. And because part of the recovery is based on higher asset prices, plunging prices could cause a stronger than desired slowdown in economic activity (that's a nice way of saying it could cause a recession).

So we are told not to worry, the Fed will take care of us. Their track record isn't good in past tightening cycle, but maybe this time is different. I wouldn't count on it.

So when “financial conditions” deteriorate, it means bond spreads increase, i.e. junk bonds should yield more relative to Treasuries. In the stock market, it means volatility should increase.

So when we watch wages, we watch inflation. And if inflation picks up, the Fed may get more aggressive and, in turn, asset prices might suffer. In the past, stronger economic activity would offset that; in the current environment, I have my doubt it will. By the way, keep in mind that higher wages - all else equal - mean lower corporate margins.

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Is #Bitcoin fraud?

Fraud is a strong word, but remember the context in which JPM CEO Jamie Dimon mentioned it: “someone will get hurt,” said during his interview; I agree with that. And once someone will get hurt, litigators will look for things that have gone wrong. And given that this is the Wild West, odds are someone will allege fraud…

That’s why cryptocurrencies things will get more regulated.

You can see this as good news, as the market matures. While the

underlying blockchain technology has some challenges, they can be overcome; indeed, I believe blockchain technology is promising.

Jamie Dimon, too, mentioned, there's a difference between blockchain and crypto currencies.

How to invest in late cycle bull market?

Investors wonder how to invest in late cycle bull market. It appears to me these are investors that have enjoyed the ride, afraid to miss out should the rally continue. In practice, the "solution" IMHO is the same as always: follow your investment process, that is, including rebalancing one's portfolio; stress test your portfolio; taking chips off the table might be prudent risk management; get rid of the illusion to have your cake & eat it. Remember: investing is not about keeping up with the S&P, but about pursuing one's objectives.

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