

Alpesh Patel's December Newsletter

Exclusively for ShareScope Alpesh Patel Special Edition Subscribers



06 December 2017

Overview

- Inside the Banks and 2018 forecasts
- Stock Powerlist
- Forex
- CryptoCurrencies
- Personal Activities

Inside the Banks and 2018 Forecasts

Let's start by looking at what the big banks are telling the big money – after all they will make their own realities come true! They are all calling the market lower by the start of 2019 and 20% lower by the end of that year.

SG global equity index targets

Index	Current (20/11)	1Q18e	2Q18e	3Q18e	4Q18e	End-2018e	End-2019e	End-2020e
S&P 500	2,582	2,500	2,450	2,550	2,500	2,500	2,000	2,200
Stoxx 600	386	380	385	390	385	385	310	340
Euro Stoxx 50	3,561	3,600	3,650	3,800	3,700	3,700	3,000	3,300
FTSE 100	7,389	7,300	7,200	7,200	7,000	7,000	5,500	6,000
CAC 40	5,340	5,400	5,500	5,600	5,500	5,500	4,500	4,900
DAX 30	13,059	13,000	13,200	13,500	13,500	13,500	11,000	12,000
FTSE MIB	22,189	21,500	21,000	22,000	21,500	21,500	17,000	19,000
IBEX 35	10,026	9,800	9,600	10,000	9,800	9,800	8,000	9,000
SMI	9,300	9,200	9,100	9,300	9,300	9,300	8,000	8,500

Source: Datastream, SG Cross Asset Research/Equity Strategy

Quarterly and yearly index trends through 2020e

Index	*1Q18e	2Q18e	3Q18e	4Q18e	End-2018e	End-2019e	End-2020e
S&P 500	-3%	-2%	4%	-2%	-3%	-20%	10%
Stoxx 600	-2%	1%	1%	-1%	0%	-19%	10%
Euro Stoxx 50	1%	1%	4%	-3%	4%	-19%	10%
FTSE 100	-1%	-1%	0%	-3%	-5%	-21%	9%
CAC 40	1%	2%	2%	-2%	3%	-18%	9%
DAX 30	0%	2%	2%	0%	3%	-19%	9%
FTSE MIB	-3%	-2%	5%	-2%	-3%	-21%	12%
IBEX 35	-2%	-2%	4%	-2%	-2%	-18%	13%
SMI	-1%	-1%	2%	0%	0%	-14%	6%

Source: SG Cross Asset Research/Equity Strategy. *1Q18e: difference between current level and end-1Q18e target

Exhibit 3: If you invest now...

Frequency of losing more than 20%

Indicator	Frequency of losing more than 20% in the next			
	3m	6m	12m	24m
0% - 30%	3%	4%	4%	5%
30% - 40%	1%	1%	3%	3%
40% - 50%	4%	11%	19%	26%
50% - 60%	4%	6%	10%	14%
60% - 70%	1%	5%	16%	33%
70% - 100%	0%	5%	27%	44%

Source: Goldman Sachs Global Investment Research

Reflation

- growth recovers
- inflation troughs
- policy rates low
- bond yields rise
- credit spreads tighten
- equities recover

Excess Capacity

Bear Market

- (growth) recession
- deflationary pressures
- credit and equity bear markets
- bonds rally
- safe haven sought

Liquidity Pump



Goldilocks

- economy strengthens
- inflation rises towards target
- easy financial conditions
- central banks ponder tightening
- most assets still do well

Excess Demand

Tougher Times Ahead

- growth peaks
- inflation rises above targets
- monetary policy tightened
- bonds sell off
- credit spreads widen

Source: Morgan Stanley Research

**Exhibit 16:**

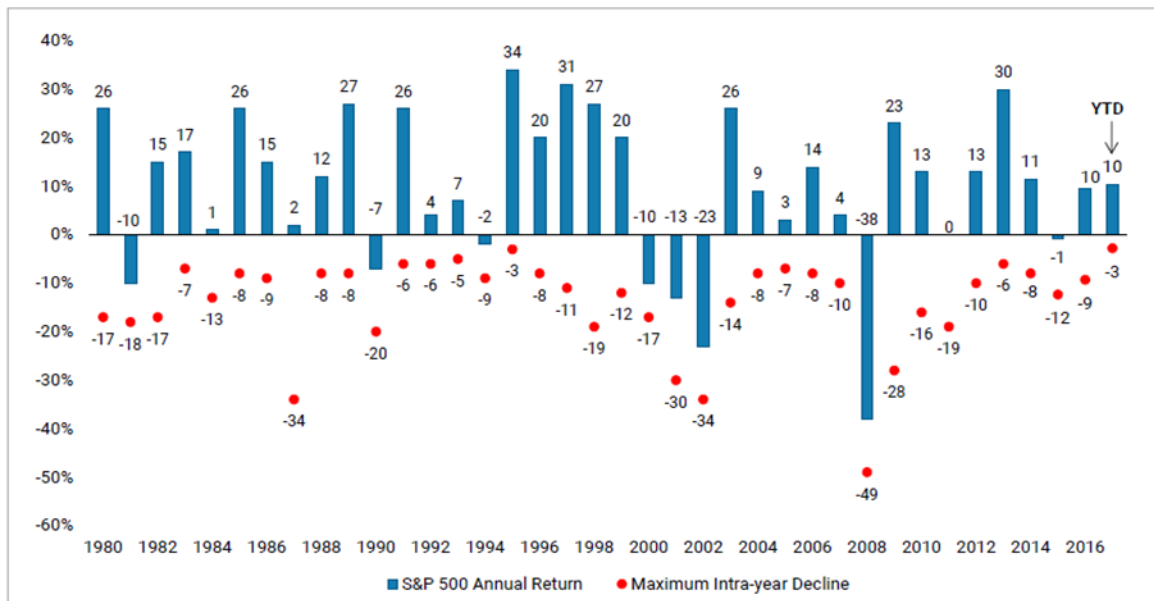
Our top trades list

Top Trades	Trade Type	Value	3m Mom.	Corr. To ACWI	E(r)	Vol.	ER/Vol	Size* (\$MM/ \$K dv01)
Trade #1 Eurostoxx 6m Bullish Risk Reversals 102/90 NEW	Beta	▲	▲	81%	4%	10%	0.4x	40MM
Trade #2 Long US Energy vs. C.Disc NEW	Alpha	●	▲	21%	17%	20%	0.8x	40MM
Trade #3 Long Topix Banks vs. Topix NEW	Alpha	●	◆	15%	10%	13%	0.8x	60MM
Trade #4 Long China vs. Korea NEW	Alpha	◆	●	23%	8%	22%	0.4x	35MM
Trade #5 Long 30y US Treasuries vs. 30y Bunds	Alpha	●	●	-12%	17%	17%	1.0x	90K DV01
Trade #6 Short Agency MBS (G2SF 3.5) vs. Tsy NEW	Hedge	●	●	-19%	0.5%	1.8%	0.3x	130K DV01
Trade #7 UST 2s30s Flatteners NEW	Hedge	◆	●	-19%	7%	8%	0.9x	100K DV01
Trade #8 Buy Russia and Indonesia Local Bonds NEW	Alpha	●	▲	20%	8%	19%	0.4x	40K DV01
Trade #9 Long USDCAD NEW	Hedge	▲	●	-55%	9%	10%	0.9x	80MM
Trade #10 Short AUDJPY NEW	Hedge	●	●	-65%	18%	18%	1.0x	45MM
Trade #11 Long EURCHF NEW	Alpha	●	●	25%	10%	9%	1.1x	90MM
Trade #12 Short USDMYR	Beta	●	●	34%	3%	8%	0.5x	105MM
Trade #13 Long Credit in Argentina, Russia 30yr NEW	Beta	▲	▲	32%	9%	18%	0.5x	40K DV01
Trade #14 Buy CDX HY Jun-18 Put spread	Hedge	●	▲	-62%	0.6%	1.4%	0.4x	295MM
Trade #15 Long iTraxx Main vs. CDX NEW	Alpha	▲	▲	7%	0.4%	0.6%	0.7x	650K DV01
Trade #16 Short CDX IG25 0-3% vs. Delta NEW	Alpha	●	●	-3%	4%	3%	1.2x	30MM
Trade #17 Long Brent June '20 vs. Front month NEW	Alpha	▲	◆	-18%	7%	19%	0.4x	45MM
Trades removed		Exited on						
Buy S&P 500 6m Calls (103 Strike)	27-Nov-17							
Long Japanese Equities (FX Hedged)	27-Nov-17							
Long European Value vs. Growth	27-Nov-17							
Long MSCI China and India vs. EM	27-Nov-17							
Buy Japan 10y Breakevens (JGBei)	27-Nov-17							
Buy IndoGB '31s, FX unhedged	27-Nov-17							
Long USDJPY	27-Nov-17							
Long EURAUD	27-Nov-17							
Short CHFINR	27-Nov-17							
Long Credit in Argentina, Indo, Russia (1:1:1)	27-Nov-17							
Short Agency MBS (FNCL 3.0) vs. Tsy	27-Nov-17							

Source: Morgan Stanley Research. Note: "Corr. to ACWI" is 10yr correlation to MSCI ACWI. Sizes are scaled to achieve similar volatility contribution (equivalent of 8% vol for a 100MM portfolio) unless liquidity is constrained. Value is flagged based on the 20yr percentile of the relevant metric. Momentum is flagged based on the 20yr percentile of current 3m momentum.

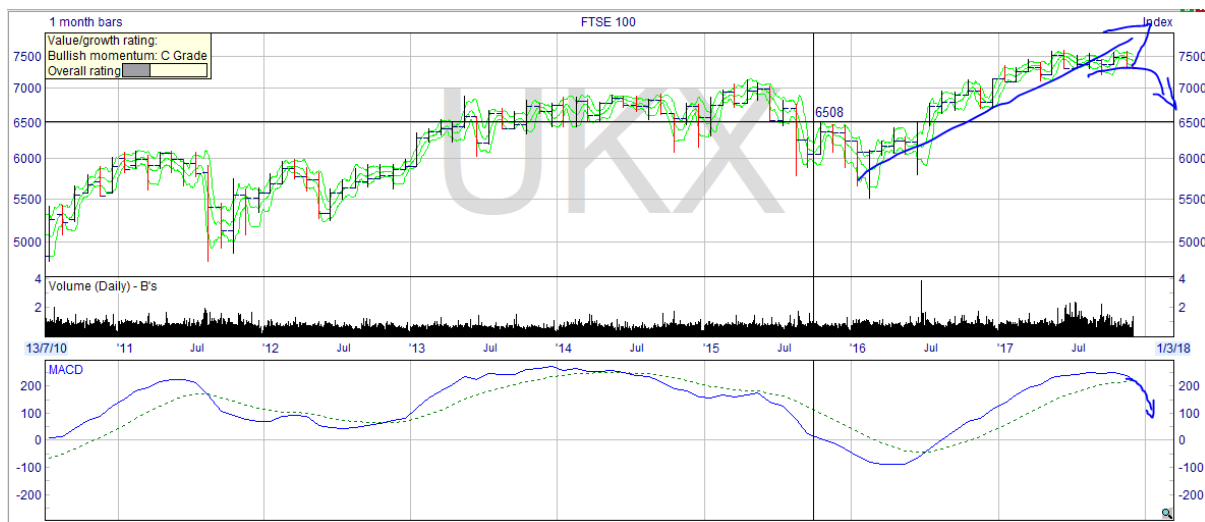
The image overleaf shows that in 2017 the market has not been as strong as it has in the past. But more importantly, look at the red dots. What will be the biggest intra-year decline in 2018? I'm guessing it will be large based on the negativity from the big banks which already appears to be impacting the FTSE 100.

S&P 500 Annual Returns and Intra-Year Declines



Source: Bloomberg, FactSet, Morgan Stanley Research as of July 31, 2017. Note: Price return used.

To me, the monthly MACD for the FTSE 100 is suggesting a pull-back.



Value/Growth Rating

My Value/Growth ratings show a good number of stocks. Remember my strategy is to hold the stocks for 12 months from any time I run the algorithm and turn to cash any which drop 25%.

How do I find if the rises are momentum without substance, or based on value? I look at not only the rise but also the Alpesh ratings.

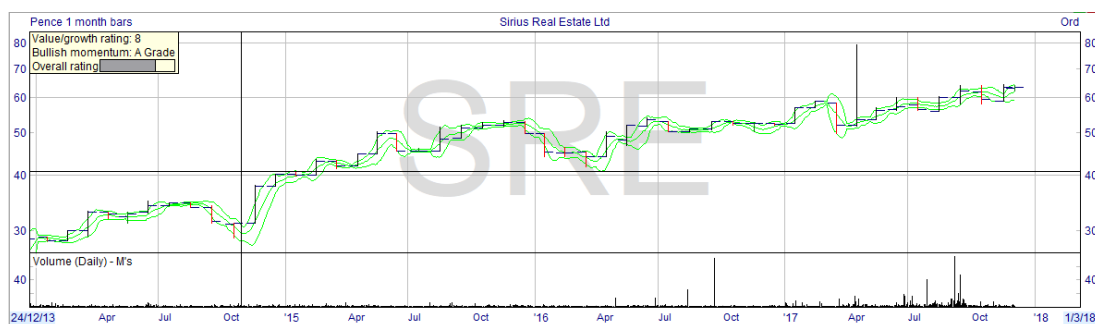
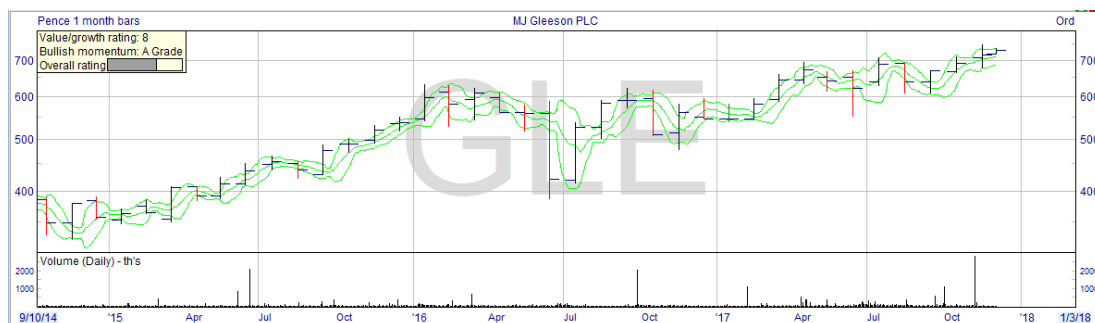
FTSE All - Share

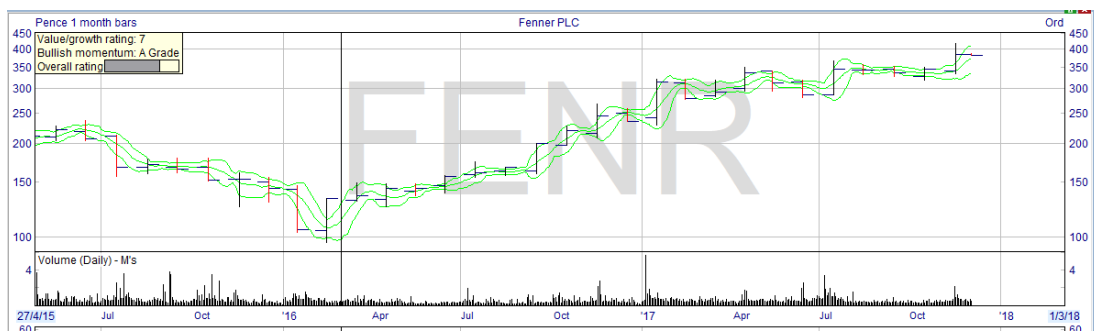
No.	Name	EPIC	Alpesh value/ growth rating	Alpesh bullish momentum rating	Alpesh overall rating
1	Central Asia Metals PLC	CAML	9	B Grade	
2	Flowtech Fluidpower PLC	FLO	9	A Grade	
3	Macfarlane Group PLC	MACF	9	A Grade	
4	Michelmersh Brick Holdings	MBH	9	B Grade	
5	Norish PLC	NSH	9	B Grade	
6	PPHE Hotel Group Ltd	PPH	9	A Grade	
7	Premier Asset Management	PAM	9	A Grade	
8	River & Mercantile Group P	RIV	9	A Grade	
9	S & U PLC	SUS	9	A Grade	
10	Bonmarche Holdings PLC	BON	8	A Grade	
11	Liontrust Asset Manager	LIO	8	A Grade	
12	Motorpoint Group PLC	MOTR	8	A Grade	
13	Norros PLC	NXR	8	A Grade	
14	St Ives PLC	SIV	8	B Grade	

FTSE 350

No.	Name	Alpesh value/ growth rating	EPIC
1	888 Holdings PLC	8	888
2	Aldermore Group PLC	8	ALD
3	Bellway PLC	8	BWY
4	Berkeley Group Holdings (TI	8	BKG
5	Booker Group PLC	8	BOK
6	Brewin Dolphin Holdings PL	8	BRW
7	CYBG PLC	8	CYBG
8	DS Smith PLC	8	SMDS
9	London Stock Exchange Gr	8	LSE
10	Playtech PLC	8	PTEC
11	Redrow PLC	8	RDW
12	SSP Group PLC	8	SSPG
13	Standard Life Aberdeen PL	8	SLA
14	SuperGroup PLC	8	SGP
15	WH Smith PLC	8	SMWH
16	Wizz Air Holding PLC	8	WIZZ

Here are some high-risk, potential high-return plays I have come across:

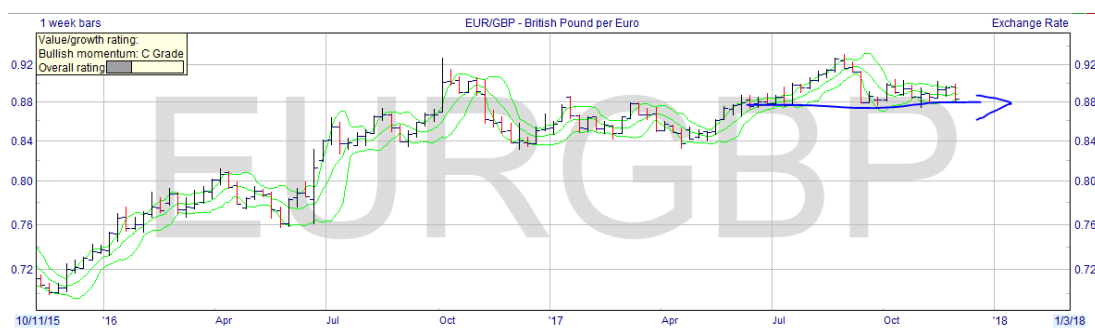
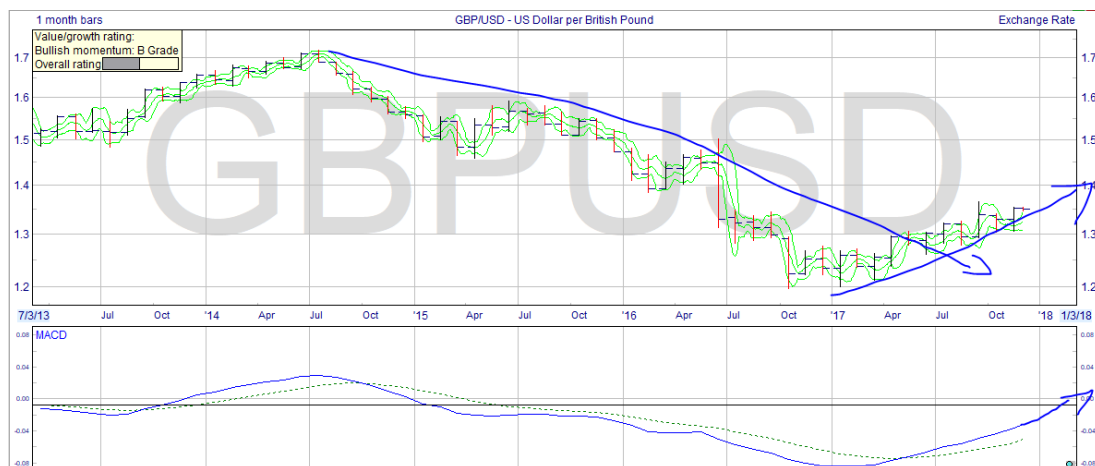




Note these are monthly charts.

Forex

Here are my thoughts on GBP/USD and EUR/GBP. Monthly charts again.



Here are two year forecasts for currencies from Morgan Stanley:

	2018				2019			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
EUR/USD	1.20	1.23	1.18	1.17	1.20	1.28	1.31	1.33
USD/JPY	114	112	108	105	102	100	96	93
GBP/USD	1.25	1.30	1.27	1.24	1.27	1.30	1.32	1.35
USD/CHF	1.04	1.04	1.02	0.98	0.98	0.97	0.96	0.96
USD/SEK	8.17	8.13	8.56	8.55	8.25	7.66	7.40	7.22
USD/NOK	8.17	8.05	8.47	8.72	8.33	7.66	7.48	7.37
USD/CAD	1.28	1.27	1.33	1.38	1.40	1.39	1.38	1.36
AUD/USD	0.76	0.77	0.72	0.67	0.65	0.68	0.69	0.70
NZD/USD	0.68	0.68	0.64	0.61	0.63	0.64	0.68	0.70
EUR/JPY	137	138	127	123	122	128	126	124
EUR/GBP	0.96	0.95	0.93	0.94	0.94	0.98	0.99	0.99
EUR/CHF	1.25	1.28	1.20	1.15	1.17	1.24	1.26	1.28
EUR/SEK	9.80	10.00	10.10	10.00	9.90	9.80	9.70	9.60
EUR/NOK	9.80	9.90	10.00	10.20	10.00	9.80	9.80	9.80
USD/CNY	6.63	6.62	6.68	6.70	6.65	6.56	6.53	6.50
USD/HKD	7.80	7.80	7.80	7.80	7.80	7.80	7.80	7.80
USD/IDR	13350	13280	13450	13600	13350	13150	13150	13100
USD/INR	64.50	63.90	65.00	66.00	64.50	64.00	63.50	63.00
USD/KRW	1085	1070	1080	1095	1083	1070	1060	1050
USD/MYR	4.07	4.00	4.08	4.11	4.08	4.00	4.00	3.95
USD/PHP	51.50	51.50	52.00	53.00	52.50	52.00	51.00	50.50
USD/SGD	1.35	1.34	1.36	1.37	1.34	1.31	1.30	1.29
USD/TWD	29.70	29.40	29.70	29.90	29.60	29.20	29.00	29.00
USD/THB	32.60	32.30	32.80	33.10	32.70	32.20	31.50	31.00
USD/BRL	3.20	3.30	3.50	3.25	3.20	3.05	2.95	2.90
USD/MXN	18.40	20.00	20.00	20.00	19.70	19.00	18.75	18.50
USD/ARS	18.30	19.30	19.90	20.60	20.70	20.80	21.00	21.30
USD/CLP	620	610	620	635	600	565	560	555
USD/COP	3000	2975	2990	3020	2975	2850	2800	2740
USD/PEN	3.24	3.24	3.25	3.27	3.24	3.20	3.16	3.11
USD/ZAR	14.1	14.0	14.3	14.5	14.5	14.3	14.0	13.8
USD/TRY	4.10	3.95	4.20	4.40	4.50	4.50	4.50	4.50
USD/ILS	3.40	3.35	3.40	3.40	3.30	3.20	3.25	3.25
USD/RUB	57.0	55.0	58.0	61.0	60.0	59.0	58.0	57.0
EUR/PLN	4.15	4.10	4.05	4.05	4.00	3.95	3.90	3.90
EUR/CZK	25.30	25.00	25.00	25.00	24.80	24.80	24.50	24.50
EUR/HUF	320	315	315	315	312	310	305	300
EUR/RON	4.60	4.60	4.65	4.70	4.75	4.77	4.80	4.80
DXI Index	94	92	94	95	93	88	86	85
Fed's Broad USD	119	119	122	123	121	118	116	115
ECB EUR TWI	101	102	100	99	100	104	105	105

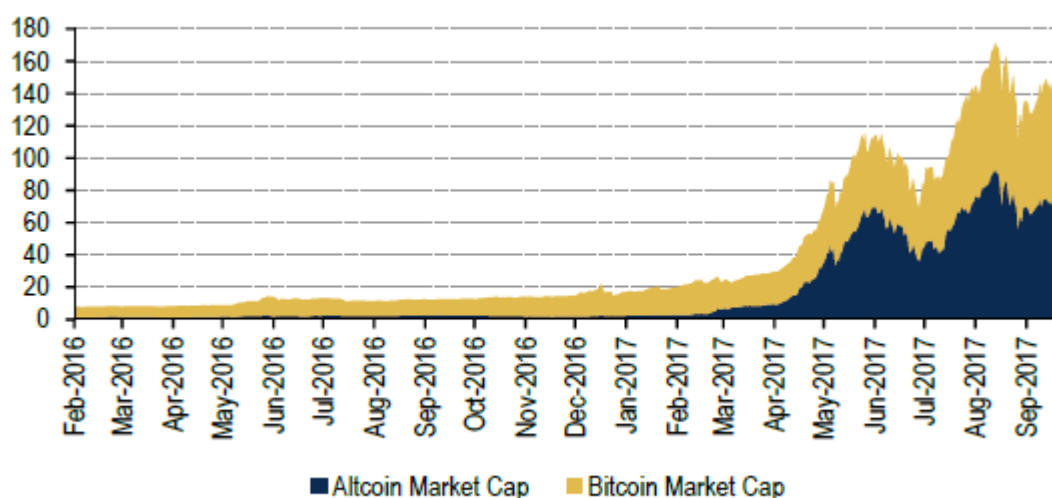
Source: Morgan Stanley Research forecasts

Cryptocurrencies

Crypto currencies are crossing into the mainstream according to BOA Merrill Lynch because two major trading exchanges, the Chicago Board Options Exchange and Chicago Mercantile Exchange are both offering products you can trade based on these. These are two of the oldest exchanges in the world.

There are around 1000 crypto currencies to buy and sell. But you should really focus on the ones with the most liquidity and market cap. Lesser known currencies like Gnosis and Nexus are up over 70% in just 24 hours at the time of writing. Most brokers do not offer trading in these lesser known currencies.

Chart 1: Cryptocurrencies market cap (\$bn)



Source: Coin Dance

There are several factors to consider when deciding what to trade.

Utility Value

Whilst what the currency is used for is more important for owners, traders - especially those with a long bias - like to know the use of the underlying currency. Just as when trading copper, gold or USD, we know the underlying asset has a utility which is at the long-term core of its value.

Some traders will pick Crypto currencies on the basis they want to short all of them for a perceived bubble. But it is important to know more than price momentum alone. The long term chart of Bitcoin and say Apple and Amazon look similar after all. So are you when trading these products a believer in their utility? If so, why?

For instance in the case of Ripple it was built around blockchain for an institutional audience looking at borderless money transfer. Not a problem about to die a death soon then?

Ethereum's popularity was based on its uses for smart contracts. Just as you and I may not be experts on the utility of Gold in all its guises, so too with cryptocurrencies, you may not understand to a PhD level the uses, but smart contracts are a solution for a global set of problems and this is a technology, not a fad, at the forefront. **It does not mean it will remain an incumbent forever but, in my daily trading, it is good to know there is a serious important utility and it is not just a fictional random number generator or Dutch tulips I am trading.**

And how's this for utility: "As reported by CNBC, payments made by American Express' business customers on its FX International Payments platform will be routed through Ripple's blockchain network and allow for instant, cross-border non-card payments to U.K. Santander bank accounts. What once took days to complete and settle will now occur instantly thanks to Ripple's blockchain technology."

Market News

Traders base their decisions on news, charts or both. Well, the less news, the more danger the price will stagnate for long periods and then jump in large volatile gaps, against your pre-existing position. A quick search on Google for "Ripple" News throws up more stories in a week than there are for a typical stock of the same size. And one to catch my eye – "Standard Chartered launch payments service with Ripple tech". This follows American Express and Santander making similar announcements.

Correlation

Don't put all your eggs in one basket we are told as a market adage. Well BOA Merrill Lynch see Bitcoin as a diversifying asset because it is not correlated, i.e. does not move in lock-step with other popular assets like shares or USD.

What is more important is how correlated cryptocurrencies are themselves, which will then help you make a decision on which to trade. This for me is critical. Bitcoin and Ethereum for instance only have a 0.61 correlation over a 90 day period according to Sifrdata.com.

The lack of correlation allows you to simultaneously access a volatile instrument, in anticipation of profitable moves coming from such volatility, but also not have 'all your eggs' in one basket and concentrating your risk.

So it makes sense to trade multiple currencies at the same time. The image below shows some more of these cross-correlations. Wealth managers will tell you that a basket of uncorrelated assets (i.e. correlation of 0) is the most economically efficient way to make a return over the longer term allowing for risk/volatility.

What the image below shows is you could trade all the major Cryptocurrencies and be in a more diversified position than say the top 10 stocks of the Dow, which are more highly correlated to each other.

Indeed, Ethereum's correlation to the S&P500 is near 0 according to the same data. Now, all major assets tend to be correlated to the downside in global market falls. Nevertheless, as a trading hedge against your trading in equities and forex, **Cryptocurrencies are a valuable additional potential source of returns not connected to the other assets we are used to trading.**

	BTC	ETH	BCH	XRP	LTC	XEM	ETC	DASH	XMR	XLM	Z.
BTC	1	0.61	0.01	0.55	0.7	0.48	0.38	0.29	0.42	0.29	
ETH	0.61	1	0.34	0.67	0.78	0.69	0.62	0.64	0.69	0.47	
BCH	0.01	0.34	1	0.03	0.26	0.1	0.6	0.45	0.34	0.12	
XRP	0.55	0.67	0.03	1	0.69	0.65	0.45	0.37	0.57	0.43	
LTC	0.7	0.78	0.26	0.69	1	0.63	0.71	0.58	0.7	0.39	
XEM	0.48	0.69	0.1	0.65	0.63	1	0.37	0.46	0.55	0.48	
ETC	0.38	0.62	0.6	0.45	0.71	0.37	1	0.43	0.56	0.35	
DASH	0.29	0.64	0.45	0.37	0.58	0.46	0.43	1	0.7	0.29	

Volume

Volume is probably the best guide to getting the lowest transaction costs, because liquidity usually leads to tighter spreads. And of course volume should correlate to fewer gapping prices which can be costly in trading. The leaders in volume are the usual suspects (Bitcoin, Bitcoin Cash, Ethereum, Litecoin, Ripple, Dash) but there is one which is not that well known in the top 10 – Tether. However, it is an outlier in that it's market cap is under \$1 billion.

Same old trading rules apply

Whatever Crypto you choose, don't forget, it's a leveraged product you will be trading via a spreadbet or CFD. So there is the risk of loss of capital.

Conclusion

For me from all my analysis, given the utility of the products, I would have a long trading bias. Given the relative lack of cross correlation, I would trade all, not just one or two, to allow for a natural diversification benefit.

Personal Activities

Back from Hanoi, Singapore and Hong Kong...





