



Australian Standfirst

March 2020 Edition

INVESTOR

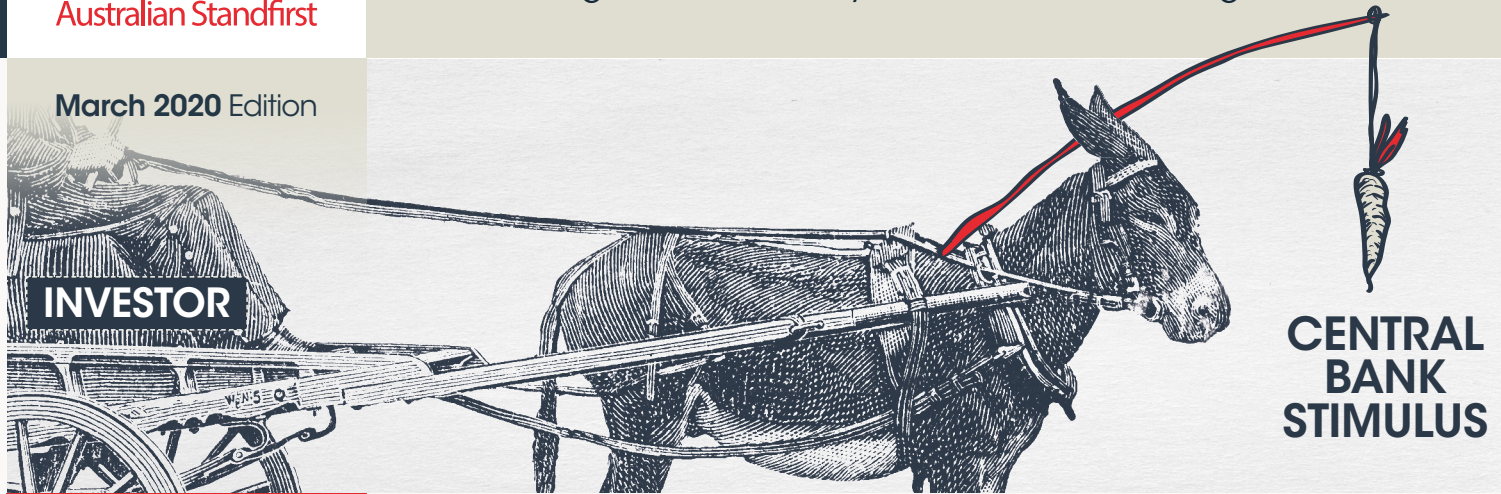


Discover the Australian Standfirst Platform

Kindly remember that these monthly circulars are for educational purposes only and should not be taken as advice. All views shared within them are Australian Standfirst views and do not represent any other organisation or individual (unless cited accordingly).

# Cheating, On Cheating, On Cheating

Maintaining Portfolio Quality In The Era Of Cheating



**The degree and expanse of sanctioned multilateral cheating is unprecedented and subverts any investors or advisors attempts at ascertaining what truly is risk and by derivative, risky.**

With the bellwether US S&P500 bourse down one fifth from all-time highs and high yield spreads fast approaching their Pre-Trump 2016 levels, what matters now is how long the global economy will have to deal with the severe disruption triggered by both the psychological impairment caused by COVID-19 and the side-effects of stringent containment measures which include speedily reducing human density across all social gatherings and work places.

We now also live within the era of the **Great Distortion**.

A distortion of this magnitude is an unassailable example of cheating and rive to sever the science of economics from our rapprochement with global financial markets, domestic and international political affairs and even reality itself.

Circuit breakers, *"whatever it takes"* Central Bank asseverations and even unilateral coordinated focused measures mean little when global structural fragilities are rooted in mistrusts of the very system and architecture itself.

The 2007 to 2009 crisis came to be known as the **Great Recession** (even though it was a crisis and not a technical recession) wherein now the **Great Distortion** is a different and arguably more dangerous beast altogether.

Unravelling this aberration back to its origin allowed the Australian Standfirst [DDPM team](#) to correctly predict [Trump's ascension](#), the subsequent [Trumponics](#) led [Bull Rally](#), continued [Risk-On](#) post early 2019's [inverted yield curve](#) and [pre-empt the volatility](#) we now see throughout the months of February and March of 2020.

- Cite:- [2019 The Transition Year](#), 12 March 2019
- Cite:- [Global Rally Leading Up To 2020 US Elections](#), 26 November 2019
- Cite:- [Iran, Cyber, US Markets & Australian Bushfires](#), 8 January 2020





Australian Standfirst

March 2020 Edition

Simplifying  
Global Investing,  
Elevating Funds  
Management  
and Empowering  
Australians  
with clear Financial  
and Philanthropic  
Education.



EDUCATION



FUNDS  
MANAGEMENT



PHILANTHROPY

During the last week of February, the S&P500 – still the preeminent global bourse and masthead of Pax Americana – doffed three and a half trillion US Dollars in nominal value and beyond simply breaking below the 200-day moving average, made itself the single largest weekly loss in global financial markets history.

To boot, US ten-year Treasury yields – the perennial bedrock of US Capitalism – plunged to an all-time low of 0.77%, with American corporate credit spreads across the curve marginally widening, less so on the shorter ends of the term sheet arc.

Put together, the yield gap – S&P500 earnings yield less 10-year US Treasury yield – widened to 510 basis points, the widest since 2013 and considerably wider than the long-term average of 230 points.

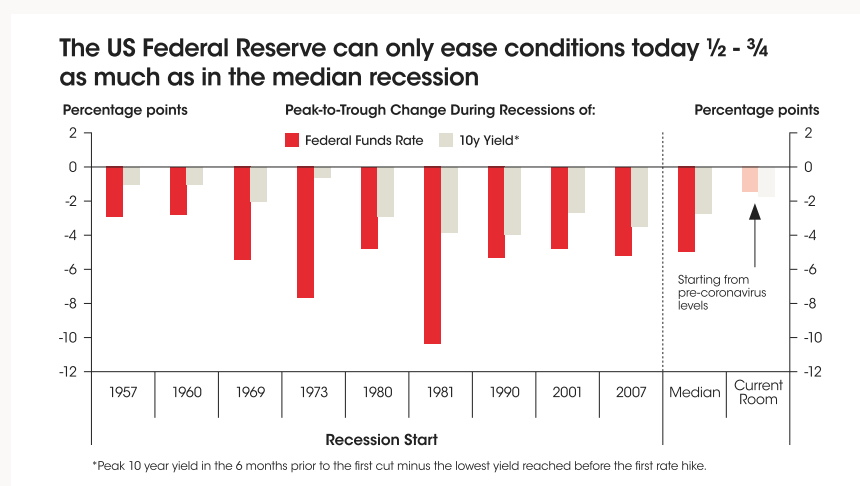
Albeit blunt, this flux and concordance of correlation coefficients paired as they should and this was correctly anticipated by our [DDPM Team](#) in January, well before it happened.

■ Cite:- [Brace For Volatility](#), 31 January 2020

The concatenation of events that followed this weekend (7th and 8th March), however, begets deeper concern and raises the spectre surrounding the new normal, given as of writing, the ten-year dipping below 0.38% (if only momentarily).

Remembering that **interest rates are to shares what gravity is to matter**, on Tuesday, 3 March, in response to the travails of February, the US Federal Reserve lowered the target range for the 'Fed Funds' rate by half a percent, marking the Federal Reserve's first intermeeting policy (emergency) change since 2008.

Expelling valuable ammunition too early, the Federal Reserve went weapons hot and as the table below highlights, did so well below equivocal median periods of comparative market stress.



[Already well off the reservation](#), the Federal Reserve has but one remaining imprimatur – to remain ahead and not lose control of the front end of the curve, or in the technical vernacular, to control the volatility smile of the bedrock US ten-yeild Rosetta stone.

■ Cite:- [End The Fed](#), 24 September 2019





Australian Standfirst

March 2020 Edition

Simplifying  
Global Investing,  
Elevating Funds  
Management  
and Empowering  
Australians  
with clear Financial  
and Philanthropic  
Education.



EDUCATION



FUNDS  
MANAGEMENT



PHILANTHROPY

Volatility smiles started occurring in exchange traded option (derivatives) pricing after the 1987 stock market crash and they were not present in the US markets prior; post Black Monday (1987), the Federal Reserve realised that extreme events could happen and markets have a significant skew following the unconventional fiscal reforms of Reagan and Draconian measures of Volcker.

■ Cite:- [Options to protect your portfolio](#), 2 August 2014

Too preoccupied with reining in the J- and then W-curve floating Australian Dollar fiasco, then Australian Treasurer, Paul Keating and Reserve Bank of Australia (RBA) Governor, Robert Johnston AC, also botched Australia's response to post Black Monday volatility skews, which one could prosecute, led to the recession, Australia had to have ([and hasn't had since](#)).

In the last week of February, despite the S&P500 retracing by thirteen percent over the span of just seven trading sessions – the fastest correction in the index's history since the seven trading days spanning 2 August to 10 August, 2011 – four of those percent were realised immediately following the Federal Reserve's emergency cut on Tuesday 3 March.

This was unprecedented and has no comparison arching all the way back to the Federal Reserve's genesis on 23 December 1913.

The riven menace was not found in the cuts themselves but the way the Federal Open Market Committee, or FOMC, went about its execution.

It displayed neither discipline nor a respect for its own imprimatur and higher responsibility to its American constituency.

Following the pseudo-crisis in US Repurchase Agreements, or REPO's – a form of short-term borrowing for dealers in government securities – leading to a spike in September (REPO) rates triggered by the US Treasury soaking up a large quantum of liquidity to replenish its cash balances – which were no longer restrained by the debt ceiling – instead of instilling constituent rigour, the FOMC instead fuelled the roguery by injecting into the system temporary liquidity via large-scale REPO operations, under the guise of prudential caretakership.

In all but name these permanent liquidity injections via outright Treasury acquisitions were tantamount to Quantitative Easing Five, or QE5 and contrariwise to former president of the Federal Reserve Bank of New York, William Dudley's assertion, these injections do spur markets directly and are not inconsequential banking operations.

From October 2019 until January 2020, the quantum of REPO's outstanding remained broadly stable in a range from two hundred to two hundred and thirty billion US Dollars, only breaking out of rangebound in late December maxing at two hundred and fifty-six billion during Christmas.

While the FOMC injects sixty billion US Dollars a month to its outright holdings of Treasuries, it is a thinly veiled secret they have intentions of ratcheting this to ninety billion if and when required.

Given the events of this week, "when required" looks likely to be sooner than later.





Australian Standfirst

March 2020 Edition

Simplifying  
Global Investing,  
Elevating Funds  
Management and Empowering  
Australians  
with clear Financial  
and Philanthropic  
Education.



EDUCATION



FUNDS  
MANAGEMENT



PHILANTHROPY

## The yield on 30-year treasuries has fallen below the level of US core CPI for the first time in more than 30 years



Regarding equity bourses, the continued retracement, as at publishing, sees Japanese equities retrace six percent, UK FTSE futures down seven, with S&P500 futures shaving 4.9 percent.

The entire US treasury curve now ensconces below one percent, with Greenback *vis-à-vis* Euro down 1.2 percent, all provoked by Russia on Friday (6 March) storming out of the OPEC-Plus oil producers' cartel, after refusing to sign up to additional production cuts proposed by Saudi Arabia.

Monitoring accepted patterns and identifying small deviations from established trends can carry enormous meaning, especially for those genuinely seeking truth and meaning in what has become a system full with sanctioned roguery, data falsification and insidious half-truths.

The Australian Standfirst [DDPM Determination Process](#) is solely designed to provide a top-down, global macro umbrella, offering steady hands during tumultuous times but even this can only be achieved when half-truths are pared-down to the very presence of evident, apparent and clear facts.

Russian statistician, Ivan Panin – infamous for the identification of numeric patterns throughout biblical texts – taught us that the ebbs and flows of history may rhyme but do not form a melody when figures are stepped and facts skipped.

According to Panin, *"a half-truth does more mischief than a whole lie"*.

To understand the global economy and overlaying financial markets in 2020 is to gain an appreciation for the composition of half-truths which were sequentially harmonised over eleven years to form what today is becoming conclusively accepted as the **Great Distortion**.

As of writing the **Great Distortion** has all but decoupled reality, economic science and global financial markets.

To militate against this, global investors need to pare all the way back to the twelfth of December, 2007, when the US Federal Reserve instituted





Australian Standfirst

March 2020 Edition

Simplifying  
Global Investing,  
Elevating Funds  
Management  
and Empowering  
Australians  
with clear Financial  
and Philanthropic  
Education.



EDUCATION



FUNDS  
MANAGEMENT



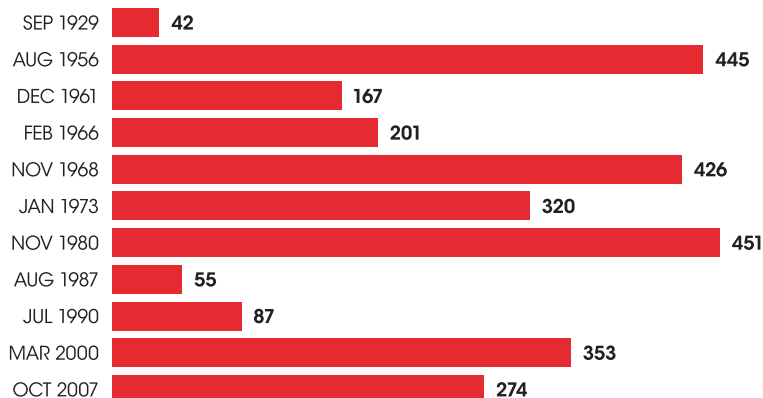
PHILANTHROPY

term auction facilities to supply short-term credit to banks with sub-prime mortgages.

This began what came to be known as the '**Credit Crunch**', metastasising into the '**Global Financial Crisis**', or **GFC** and ultimately, the '**Great Recession**' (despite the fact it was not a technical recession but instead a financial crises).

## Bear Market Declines

Number of Days for US Stockmarket to Fall 20% From Record High



What began as palliative unconventional monetary and fiscal experiments to prevent a possible collapse of the global financial system, left us today, like Icarus, flying too close to the sun on wings of feathers and melting wax.

The thunderclap that will dive the Icarian distortion is not a catalytic Corona Virus (COVID-19), Federal Reserve statement or action or even a greater act of God or *force majeure* but rather a restoration of enlightenment surrounding how real economies behave and what, when and why financial markets anticipate these behaviours as and hopefully, before they happen.

Economics is a science, finance, in contrast, is only an overlaying tradecraft devoid of scientific discipline.

■ Cite:- [Invest from a platform of knowledge](#), 14 June 2014

In the case of the US, whether or not the National Bureau of Economic Research (NBER) decides to declare that we are about to experience a recession is almost beside the point.

Since the Imperial Roman Republic of 27 BC, when first Emperor of the Roman Empire, Augustus Caesar, first issued federal bonds to the public (albeit to the patrician classes only) to literally pave the roads of Rome from stone into marble, an economic architecture was established which saw federal debt – represented by bonds – bedrock the asset class pyramid.

This bedrock has been the stabiliser and grounding for the Romans, Byzantines, Ottoman's and of course British – the reliance on silver by the Chinese Qing dynasty – the last imperial dynasty of China – in lieu of bonds partway goes towards comprehending Sinopshere's lost two centuries.

Government bonds have served as the transition mechanism between economic infrastructure, which determines the political superstructure and financial markets, which determine all else (caveat being morality, who determines morality? Religion? Twitter? *#sarcasmlevelhigh*).





Australian Standfirst

March 2020 Edition

Simplifying  
Global Investing,  
Elevating Funds  
Management  
and Empowering  
Australians  
with clear Financial  
and Philanthropic  
Education.



EDUCATION



FUNDS  
MANAGEMENT



PHILANTHROPY

In the past and at their best these transition mechanisms allowed societies – whether they be democratic, socialist or communist – to flourish, as after all, the only economic maxim which holds merit and drives a society forward is that of “*productivity growth*”.

[Productivity growth is a crucial source of growth in living standards, value is added in production and this means more income is available to be distributed in real terms].

There were great increases in productivity, industrial production and real per capita wealth creation during the period from 1870 to 1890 and since the Industrial Revolution, technological progress has had a much larger effect on the economy than any fluctuations in credit or debt, the primary exception being the Great Depression, which caused a multi-year steep economic decline.

The effect of technological progress can be seen by the purchasing power of an average hour's work, which has grown from three US Dollars in 1900 to twenty-two US Dollars in 1990, measured in 2019 purchasing power adjusted terms.

## “ We now also live within the era of the **Great Distortion.** ”

Remembering that the currently ironic economic concept (and it is just that, a concept and not an iron law) of a business cycle was never inscribed on a tablet of stone passed down to Moses on Mount Sinai, it was thought to have too many surfeits especially following the financial panics of the late nineteenth century, culminating in the Knickerbocker Crisis of 1907.

In response and to counterweight the mercantile influence of the Atlantic rival, Bank of England, on 23 December 1913, the Federal Reserve Act was passed into US law to establish the American Federal Reserve System.

This system ostensibly was charged with ensuring the excesses of the business cycle did not swing too far on either extreme and in a de facto relationship with its fellow government agency, the US Treasury, focused on ensuring the all-important issuance of government bonds worked, fiscally but obviously also monetarily.

The gateway between hard economics and financial markets and a bridge connecting society with one another.

Remembering that every US crisis since 1881 has been sparked by an acute contraction in the supply of credit, the **Great Distortion** today has seen a corruption in the alignment between US Government Bonds, the American Federal Reserve System, US Treasury, Senate, Supreme Court and Executive Branch.

■ Cite:- [CEEMEA & US Dollar Liquidity Crisis](#), 9 October 2018

This is because the politely dubbed, unconventional monetary programmes which began during the nadir of the **Global Financial Crisis** – the most infamous of which being Quantitative Easing, or QE – were ostensibly money printing programmes, printing US government bonds via the Treasury to crowd out the private sector from the fixed income lower chambers of the asset class pyramid.





Australian Standfirst

March 2020 Edition

Simplifying  
Global Investing,  
Elevating Funds  
Management  
and Empowering  
Australians  
with clear Financial  
and Philanthropic  
Education.



EDUCATION



FUNDS  
MANAGEMENT



PHILANTHROPY

[australianstandfirst.com](http://australianstandfirst.com)

The Pharaoh's chamber for the US capital stack has always remained the US ten-yr Government bonds and now with nearly one-in-four of these printed with post-November 2008 liquidity, comparing a synthetic and spurious capital base bedrock with that pre-cheating, is specious and very dangerous exercise.

■ Cite:- [Global Markets in 2019](#), 21 September 2019

To maintain a conservative, defence-readied global markets portfolio, the savvy investor needs to focus on calibrating the protection of their existing assets.

For the Australian Standfirst Global Core Fund team, this means modulating the amount of risk in our fund as our most important task we undertake daily – we like the world but were not overreaching for risk.

In the past and at our best, realising 'Intrinsic' value takes time and the team has found that on a trailing 10-year basis, funds with low portfolio turnover (less than 25% per year) have beaten both their benchmarks and higher turnover peers.

In alignment with maintaining portfolio quality, our three guiding Portfolio Management Principles are:

- (1.) Do not take single party counterparty risk – we always face the exchanges or regulated markets,
- (2.) Avoid conditional correlations, they mean nothing positive in a crash and
- (3.) Secure your base, as, afterall, *"offence wins games and defence wins championships."*

The **Great Distortion** and sanctioned multilateral roguery will not end anytime soon but to separate wheat from the chaff involves identifying half-truths and outright dishonesty, ultimately allowing apposite recognition of truth and reality, which once isolated, maximises the absolute investing advantage possible for the astute global investor.

Yours,  
**Stirling Larkin**  
CIO, Australian Standfirst  
Asset Management



This information contained herein has been prepared and issued Australian Standfirst Asset Management Pty Ltd ACN 612 265 219 as an AFS Representative 1276948 of Australian Standfirst Funds Management Ltd ACN 618 083 079 AFSL 510315 and is provided for educational purposes only and should not be taken as advice. This is not an offer to buy/sell financial products. We do not provide personal advice nor do we consider the needs, objectives or circumstances of any individual. Financial products are complex and all entail risk of loss. The price and value of investments referred to in this research and the income from them may fluctuate. Past performance is not indicative of future performance, future returns are not guaranteed and a loss of original capital may occur. Fluctuations in exchange rates could have adverse effects on the value or price of, or income derived from, certain investments. Certain transactions, including those involving futures, options, and over-the-counter derivatives, give rise to substantial risk as they are highly leveraged, and are not suitable for all investors. Please ensure you obtain professional advice (including tax advice) to ensure trading or investing in any financial products is suitable for your circumstances, and ensure you obtain, read and understand any applicable offer document.

All intellectual property relating to the information provided vests with Australian Standfirst unless otherwise noted and the research is provided on an as is basis, without warranty (express or implied). All views shared are Australian Standfirst views and do not represent any other organisation or individual (unless cited accordingly). The information, opinions, estimates and forecasts contained herein are as of the date hereof and are subject to change without prior notification. We seek to update our research as appropriate and where possible. Whilst the research has been prepared with all reasonable care from sources, we believe to be reliable, no responsibility or liability shall be accepted by Australian Standfirst for any errors or omissions or misstatements howsoever caused. No guarantees or warranties regarding accuracy, completeness or fitness for purpose are provided by Australian Standfirst, and under no circumstances will any of Australian Standfirst, its officers, representatives, associates or agents be liable for any loss or damage, whether direct, incidental or consequential, caused by reliance on or use of the research.