

### Main Points

1. We are comfortable with the economy through 2019 but very concerned for 2020 and beyond.
2. The market environment post-crash (4Q18) is very different from that of pre-crash, and not for the better.
3. We've established positions in gold and cryptocurrency. We have launched **Cryptocurrency and Digital Assets** as a stand-alone strategy, one which we think will excel over the next decade.

### Economic Update

In our last update, we mentioned three main economic battles that are waging: US Oil vs. Legacy Oil, the Federal Reserve vs. The President, and the US vs. China. The first, US Oil vs. Legacy oil, will take years to resolve. The third—US vs. China—should resolve shortly and be favorable to the US (which is not necessarily unfavorable to China). The remaining battle, Fed vs. President, was a “win” for the President, but it deserves some discussion.

Up through September and into 4<sup>th</sup> Quarter 2018, the Fed was hawkish, meaning in favor of restricting credit and raising interest rates. The markets reacted very adversely, as they correctly assessed that the economic boom was nearing an end stage and growing more fragile. The Federal Reserve, with the President cheering them on, has nearly reversed course and paused rate hikes for 2019, and even suggested some rate cuts.

This quick reversal, on the heels of such a poor miscalculation, is unprecedented in central banking history. We should be glad the Federal Reserve came to it senses. The bad news is that the central bank has accepted that the future holds more risk than reward. We said it was a “win” for the President. However a “win” for the Fed, instead of Trump, would have meant a recession in 2019 rather than 2020 or later.

In all likelihood, the next ten years will be very unpleasant economically. Everything that is happening now, with both the central bank and federal and state governments, is delaying the inevitable. The Federal Reserve will not have many tools to fight the next recession.

### Market Update

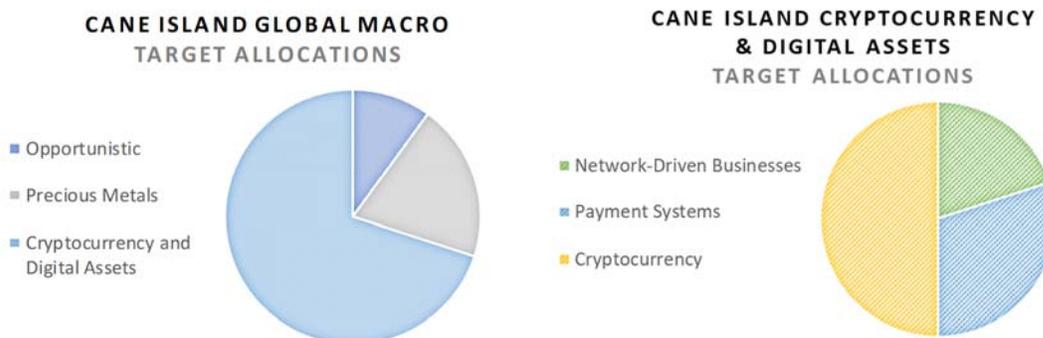
The market has recovered from its 4Q18 crash (and it was a crash). We did not partake in this upswing, intentionally. January 1, 2019 is an economically different world than September 30, 2018.

There is far more talk of slowing growth, earnings declines, recession risk, and market declines. It seems as if everyone is resigned for it to happen, and just waiting for it. The only question is when.

Our opinion is that the US equity markets will finish up on the year, but the risk of decline is too great to allocate substantially to stocks.

### Cane Island Global Macro

We have made a change to our global macro allocation. A portion will remain in gold and precious metals for the foreseeable future (many years). Some will be allocated to those few great opportunities that present themselves. The remainder will be allocated to cryptocurrency and digital assets. After years of research and deliberation, we believe this asset class holds the most promise for the short and long term.



### Cane Island Cryptocurrency and Digital Assets

We are pleased to announce that we have formally designated Cryptocurrency and Digital Assets as a distinct investment strategy managed by Cane Island Alternative Advisors. This strategy will be a part of the broader Global Macro strategy we have been managing for several years.

We have been moving toward growing our cryptocurrency business for some time. We decided to make this sub-portfolio a stand-alone product for many reasons. We have held cryptocurrency and digital assets as a strategy holding since 2017. Last year we developed a dedicated website to the topic ([www.caneislandcrypto.com](http://www.caneislandcrypto.com)). Existing clients need not do anything, as the Global Macro strategy already holds Cryptocurrency and Digital Assets as a part of it.

Since 3Q18 we stated that we expected to grow our allocations to Bitcoin and Ethereum Classic over the next year. This past quarter, we have done so.

We also released a draft paper on how Bitcoin is valued "Bitcoin Spreads Like a Virus." The paper itself went viral, receiving nearly 20,000 views in a few days. This paper ranked #1 and #2 in weekly top papers (two weeks in a row) downloaded on SSRN. This is quite an accomplishment because SSRN hosts over 400,000 papers and thousands are posted each week. You can read the paper here: [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3356098](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3356098)

We encourage you to view the explanatory videos as well:

<https://vimeo.com/326089743>

<https://vimeo.com/326904816>

We're very excited about the potential of this new product offering and encourage you to reach out with any questions you may have about bitcoin, cryptocurrency, digital assets, or network economics.

**Timothy F. Peterson** CFA, CAIA



[www.cane-island.com](http://www.cane-island.com)



[www.caneislandcrypto.com](http://www.caneislandcrypto.com)

### Important Information

The views expressed by the portfolio manager reflects professional opinions and should not be considered buy or sell recommendations. These views are subject to change and are not intended to predict or guarantee the future performance of any individual security or the markets generally, nor are they intended to predict the future performance of any, account, strategy or fund.

The information provided in this report should not be considered a recommendation to purchase or sell any particular security. There is no assurance that any securities discussed herein will remain in an account's portfolio at the time you receive this report or that securities sold have not been repurchased. The securities discussed may not represent an account's entire portfolio and in the aggregate may represent only a small percentage of an account's portfolio holdings. It should not be assumed that any of the securities transactions or holdings discussed were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein.

Portfolio holdings and characteristics shown herein are from a composite of all accounts managed within the investment strategy. Cane Island believes the account characteristics represent the investment strategy as a whole. Holdings may change daily and may vary among accounts, which may contribute to different investment results.

Portfolio construction will have significant differences from that of a benchmark index in terms of security holdings, industry weightings, asset allocations and number of positions held, all of which may contribute to performance, characteristics and volatility differences. Investors may not make direct investments into any index.

As a matter of policy, and consistent with our philosophy that investing is long-term, we do not report performance more frequently than annually.