

Market Update and Quarterly Manager Commentary

5 April 2018

Main Points

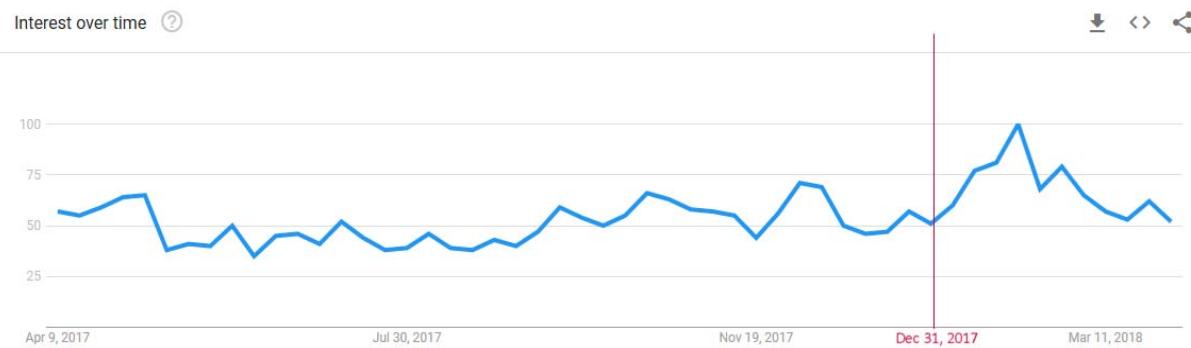
1. Inflation has become an economic concern to some.
2. Markets have returned to “normal,” meaning they don’t go up every week and when they do move it’s a very crooked path.
3. Investors should begin practicing patience.

Market Update

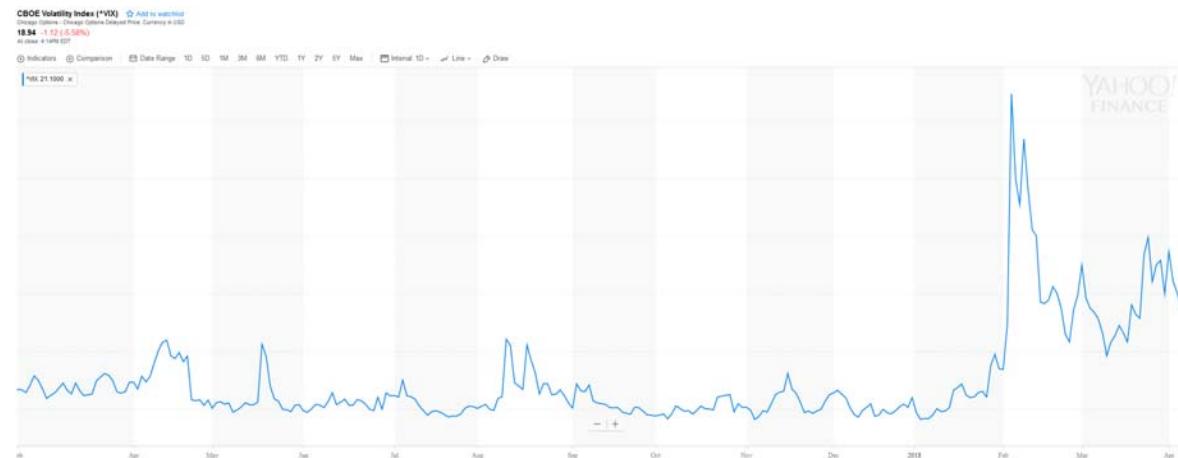
In our Q417 update, we stated

“We expected to see inflation alongside the current global growth streak.”

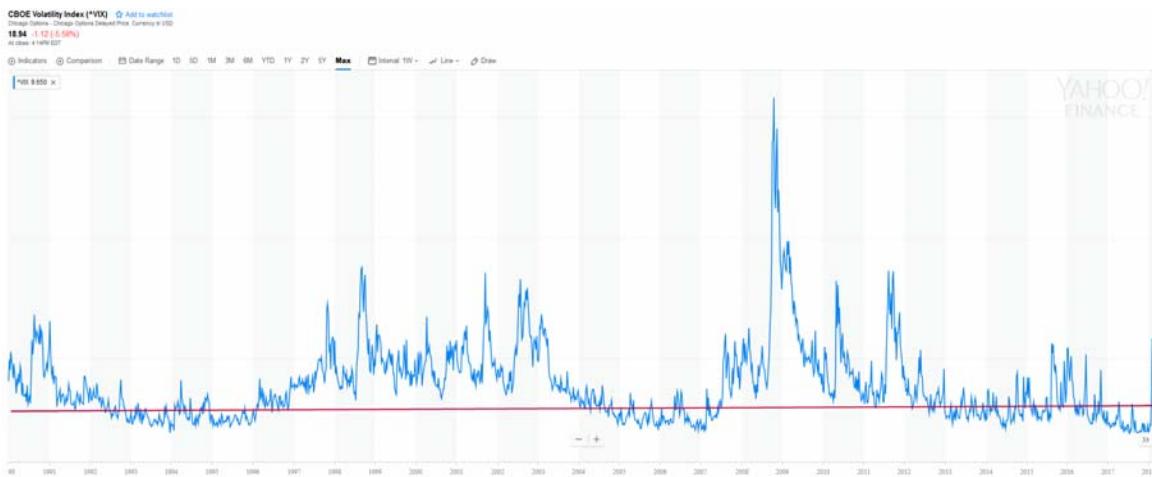
Shortly after we wrote that, google searches for “inflation” hit a 5-year high (not because of us).



This inflation fear sent the markets into a type of drama-queen panic, and volatility “spiked”. Usually, high volatility means stock prices fall sharply. The market had its first down quarter since 3rd quarter 2015.



However, if you look at where volatility has typically been, you'll see that all that has happened is that the market has returned to "normal" levels of volatility.



What does this mean? In 2017, you could buy stocks and make money, you could buy bonds and make money, you could buy bitcoin and make money, and you could hold cash and make money compared to some other currency. That's not the case anymore.

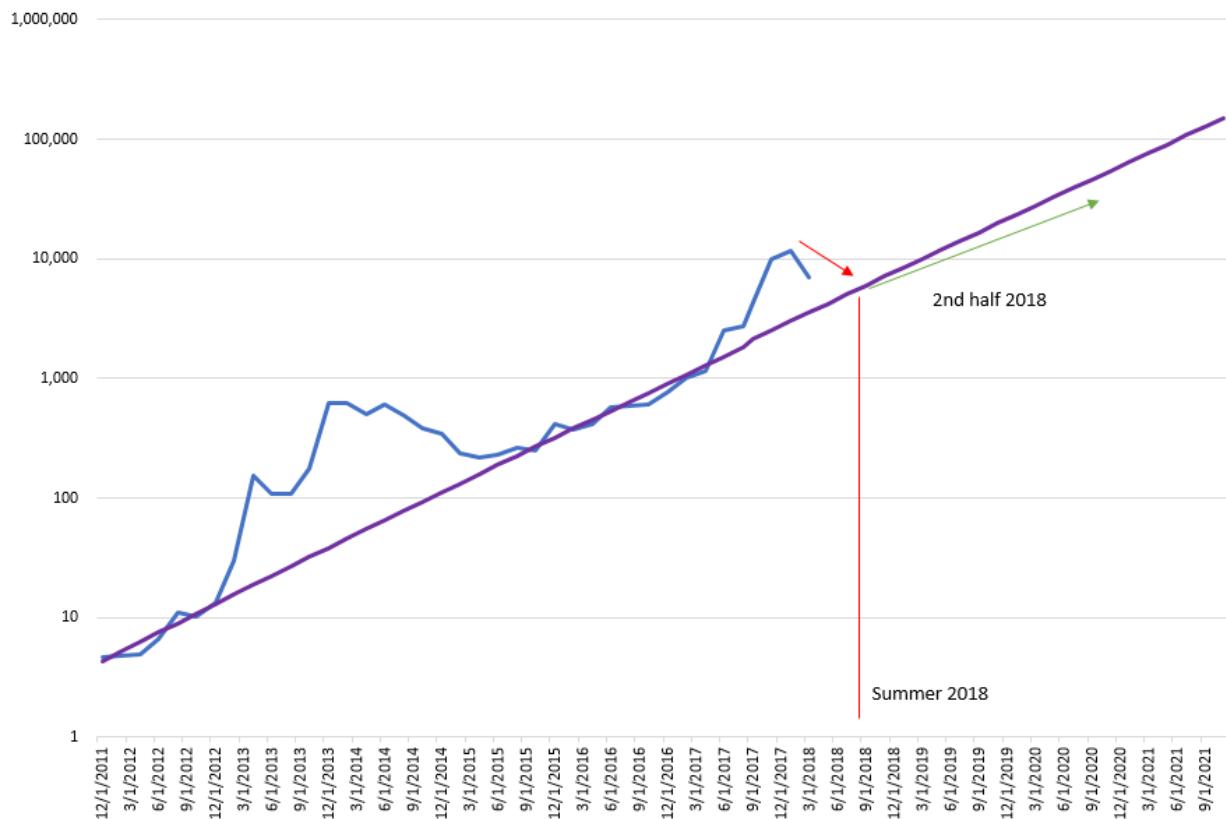
Cane Island Global Macro

Much of the market is sorting itself out. For now we have overweighted our holdings to capture dividend yield. This is called "being paid to wait," and it's an idea that Shark Tank investor Kevin O'Leary also espoused on CNBC just the other day (Apr 2) on "[Fast Money Halftime Report](#)." Now, we didn't do this because we saw it on CNBC, we were doing it anyway. It's nice to hear someone confirm your investment strategy on TV.

We did exit our cryptocurrency position. We gave a presentation to a joint gathering of Houston CAIA and CFA Societies and explained how bitcoin was overvalued, probably resulting from price manipulation throughout 2017.

We spent considerable time developing a model for cryptocurrency values. The first part of that model will be published in CAIA's *Alternative Investment Analyst Review* later this year. The full paper can be found at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3078248. That paper has become quite popular, nearing 3,000 downloads (the top 5% of all papers posted) in just a few weeks, and [has received some minor press](#).

Bitcoin Price and Long Term Forecast



We think bitcoin, and most other cryptocurrencies, will reach equilibrium value later this year. After that, it should resume a relatively steady upward trend as it has in past years, perhaps earning as much as 60% per year for the next couple of years. Once we confirm that bitcoin's price is resuming its Metcalfe Value growth rate, we will again consider an investment.

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