

# Withering Wages, A Poker Pro, and Lucid Dreaming with Richard Feynman

Alex here with this week's Macro Musings.

As always, if you come across something cool during the week, shoot me an email at [alex@macro-ops.com](mailto:alex@macro-ops.com) and I'll share it with the group.

## **Recent Articles/Videos –**

[The Market Drop](#) – AK explains the reasoning behind this recent price route and takes a look under the hood of the economy to see if this is indeed a major turning point for markets.

[Better Than Amazon.com](#) – AK takes a closer look at JD.com, one of our highest conviction holdings in the M0 portfolio.

## **Articles I'm reading –**

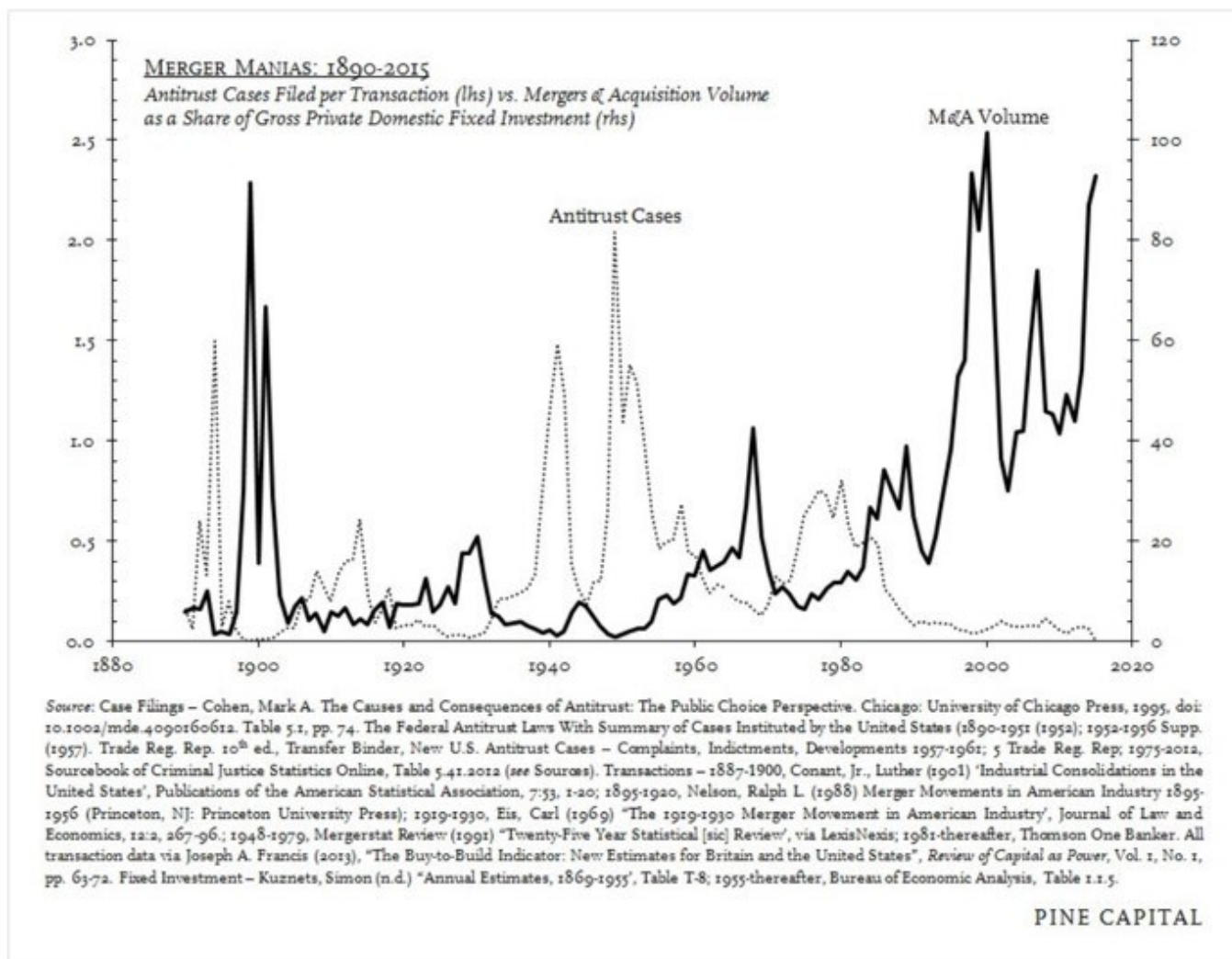
Jonathan Tepper of Variant Perception wrote a great post that looks into the causes of stagnant wage growth and increasing income disparity. This has become a systemic problem, especially here in the US. And it's one of the driving forces behind the growing public/political divide.

Tepper writes that much of this trend is due to the increasing market power of companies. Decades of falling interest rates have driven easy financing for mergers and acquisitions which has resulted in a large concentration of power amongst a small number of companies. As an example, Tepper notes the following:

*Market power has been rising in many industries. Americans*

*have the illusion of choice, but in industry after industry, a few players dominate the entire market:*

- *Two corporations control 90% of the beer Americans drink.*
- *When it comes to high-speed internet access, almost all markets are local monopolies; over 75 percent of households have no choice with only one provider.*
- *Four airlines completely dominate airline traffic, often enjoying local monopolies or duopolies in their regional hubs.*
- *Five banks control about half of the nation's banking assets.*
- *Many states have health insurance markets where the top two insurers have 80-90% market share. For example, in Alabama one company has 84% market share and in Hawaii one has 65% market share.*
- *Four players control the entire US beef market.*
- *After two mergers this year, three companies will control 70% of the world's pesticide market and 80% of the US corn-seed market.*



This is not what a healthy capitalistic system looks like. It's also not the first time we've been here.

If you've studied economic history then you know that we've seen the pendulum between capital and labor swing back and forth throughout the centuries. Where we are today is similar to that of the Gilded Age of the late 19th century. All of this is the direct consequence of our trajectory along the long-term debt cycle.

How we as a society decide to resolve this disparity and manage the turning of the long-term debt cycle will be a major factor in economics, markets, and geopolitics over the coming decades.

You can read Tepper's full article [here](#).

## Podcast I'm listening to –

Ted Seides' (Capital Allocators podcast) interview with Annie Duke is fantastic. For those of you who don't know Annie, she's a former World Series of Poker champion, Ivy League trained Cognitive Psychologist, and professional "Decision Strategist".

I used to live in Vegas and was big into the poker scene and always admired the way Annie played the game. She was exceptional at *Playing the Player*. No doubt helped by her deep understanding of human cognitive shortcomings and how to safeguard oneself from falling into various bias traps. Her and Ted discuss the tips and tricks she's learned over the years for how to improve one's thinking and decision making.

It's definitely worth an hour of your time. You can listen to the episode [here](#).

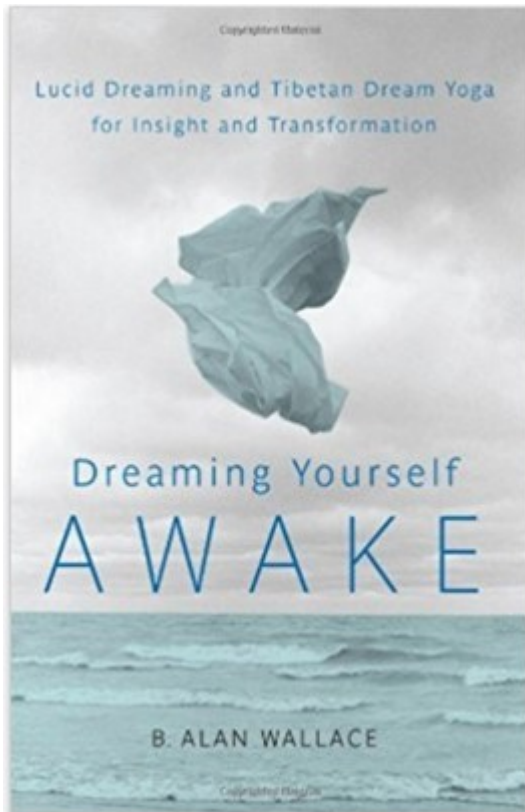
She also has a new book out, called [Thinking in Bets](#), which I look forward to reading.

## Book I'm reading –

This week I've been reading a non-market related book. Some of you might think it strange, but it's essentially a how-to book on lucid dreaming called [Dreaming Yourself Awake](#) by Alan Wallace. Lucid dreaming is the practice of being asleep, in a dream state, but being aware that you're dreaming and able to control literally everything.

I've been wanting to try lucid dreaming for years, ever since I read Richard Feynman's experience with it in one of my favorite books [Surely, You're Joking Mr. Feynman!](#) I was reminded of it again recently while listening to an older Tim Ferriss podcast with Josh Waitzkin (who's a former chess prodigy that the movie *Searching for Bobby Fischer* is based off of). Anyways, Waitzkin had been practicing lucid dreaming

and recommended this book, so I decided to pick it up and finally give it a try.



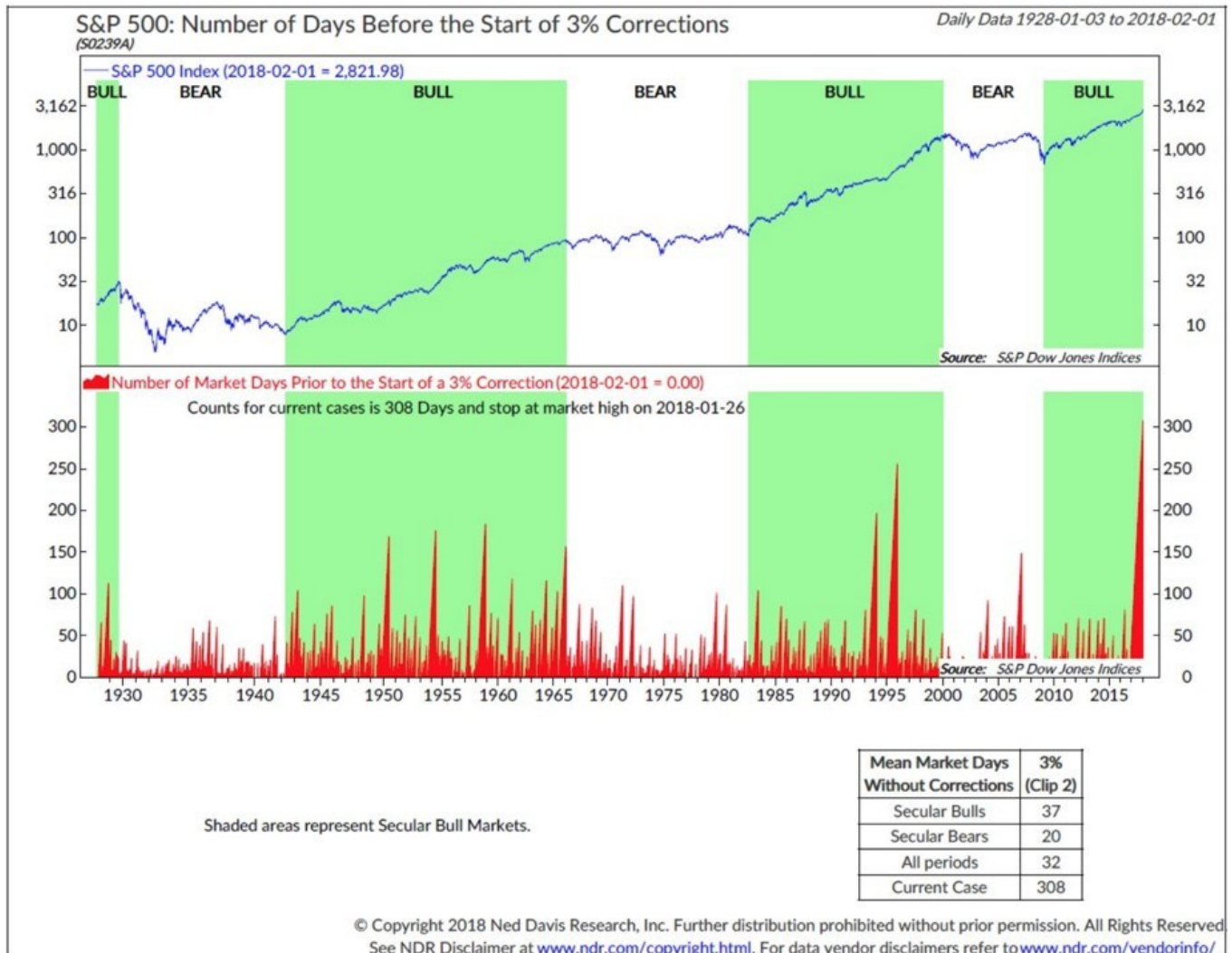
I'm nearly through the book and have been following its protocol for a few days now. I've gotten to the point where I've been able to become lucid in my dream – it's a pretty bizarre experience – but the problem is, that as soon as I realize what's happening I wake myself up with excitement.

Apparently, this is normal and there's some tips on how to avoid that. But I haven't gotten to that chapter yet. I'm hoping to get to the point where I can spend my sleep time thinking about markets and investing. My wife thinks I'm nuts. Here's a good overview of lucid dreaming and how to do it ([link here](#)).

### **Chart(s) I'm looking at –**

The longest stretch without a 3% drawdown in the SPX is now over. This selloff doesn't look finished to me and I wouldn't be surprised to see the SPX dump down to around the 2475

level, before recovering. There's still too much complacency, leveraging, and weak hands that need to be shaken out. We need a full sentiment reset before we can stage the next leg higher.



**Trade I'm looking at –**

Oil and oil related stocks are selling off. This is to be expected after the strong advance they've seen over the last 6-months. Spec long positioning in crude is crowded and that needs to be washed out, though portfolio weighting to the energy sectors is still at extremely low levels.

[I'm bullish on both and think WTI crude finishes the year above \\$ 75/bbl](#), and potentially much higher. So I'm looking at this retracement as a buying opportunity. We're going to wait

for it to play out some more and then add to our long energy holdings once the reversal looks to be done.

One of the names I'm looking at is Diamond Offshore Drilling (DO).

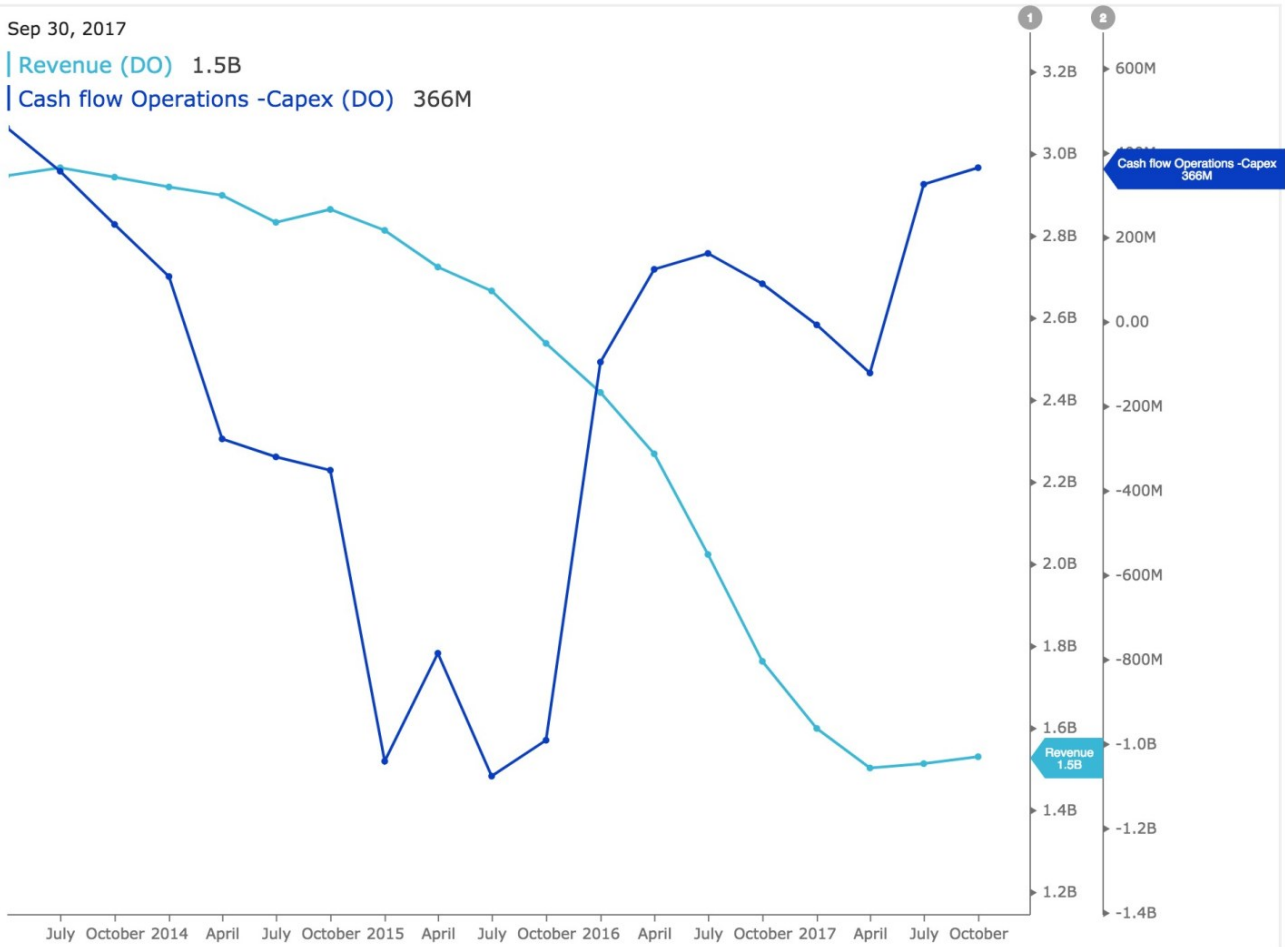


DO's revenue has more than halved since 2009 but the company is still able to generate substantial free cash flow, \$ 366M on a TTM basis.

Sep 30, 2017

Revenue (DO) 1.5B

Cash flow Operations -Capex (DO) 366M



With the stock price down 80+% over the same time, the company now trades for just half book, a TTM PE of 12, and 4x FCF. That's a FCF yield of 16%. This is despite the fact that the company has a reasonably strong balance sheet with no debt due for another five years. This seems like an excessively pessimistic valuation, unless you think oil is gonna to turn around and go back below for \$ 40bbl for good. Historical multiples are at/near all-time lows.





I think this is a case of market myopia and I hope it

continues (cheaper prices for us). You can buy DOTM (deep out of the money) calls with a year or more time till expiry for cheap right now. We may start buying some of these in the coming weeks.

### **Quote I'm pondering –**

*I find a naturalistic understanding of human nature to be indispensable to leading a wise and mature life, and it is often exhilarating. Wisdom consists in appreciating the preciousness and finiteness of our own existence, and therefore not squandering it; of being cognizant of what makes people everywhere tick, and therefore enhancing happiness and minimizing suffering; of being alert to limitations and flaws in our own judgments and decisions and passions, and thereby doing our best to circumvent them. The exhilaration comes from understanding that we are a part of [the] natural world; that deep mysteries can be explained; and that the world – including our own mental lives – can be intelligible, rather than a source of superstition and ignorance... ~ Steven Pinker*

If you're not already, be sure to follow us on [Twitter: @MacroOps](#) and on [Stocktwits: @MacroOps](#). I post my mindless drivel there daily.

Here's a link to our latest [global macro research](#). And here's another to our updated [macro trading strategy and education](#).

The post [Withering Wages, A Poker Pro, and Lucid Dreaming with Richard Feynman](#) appeared first on [Macro Ops](#).

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