July 2019

		Fund			S&P500 Index	
		Performance	*Inception to Date*		*Performance*	*Inception to Date*
2005		**+14.01%**	**+14.01%**		**+4.78%**	**+4.78%**
2006		**+16.91%**	**+33.29%**		**+13.62%**	**+19.05%**
2007		**+4.06%**	**+38.70%**		**+3.53%**	**+23.25%**
2008		**-47.99%**	**-27.86%**		**-38.49%**	**-24.18%**
2009		**+42.74%**	**+2.97%**		**+23.45%**	**-6.40%**
2010		**+24.94%**	**+28.65%**		**+12.78%**	**+5.57%**
2011		**+1.79%**	**+30.96%**		**0.00%**	**+5.56%**
2012		**+24.17%**	**+62.61%**		**+13.41%**	**+19.71%**
2013		**+42.96%**	**+132.46%**		**+29.60%**	**+55.15%**
2014		**+3.92%**	**+141.59%**		**+11.39%**	**+72.82%**
2015		**-2.10%**	**+136.51%**		**-0.73%**	**+71.56%**
2016		**+31.95%**	**+212.07%**		**+9.54%**	**+87.93%**

	MTD	*YTD*	*ITD*	*MTD*	*YTD*	*ITD*
2017		**+13.43%**	**+254.00%**		**+19.42%**	**+124.42%**
2018		**-20.44%**	**+181.65%**		**-6.24%**	**+110.42%**
Jan 2019	**+9.12%**	**+9.12%**	**+207.34%**	**+7.87%**	**+7.87%**	**+126.98%**
Feb 2019	**+4.82%**	**+14.38%**	**+222.15%**	**+2.97%**	**+11.08%**	**+133.73%**
Mar 2019	**-2.70%**	**+11.30%**	**+213.46%**	**+1.79%**	**+13.07%**	**+137.92%**
Apr 2019	**+5.25%**	**+17.14%**	**+229.92%**	**+3.93%**	**+17.51%**	**+147.27%**
May 2019	**-6.06%**	**+10.04%**	**+209.94%**	**-6.58%**	**+9.78%**	**+131.01%**
Jun 2019	**+7.04%**	**+17.79%**	**+231.76%**	**+6.79%**	**+17.35%**	**+146.93%**
July 2019	**-0.64%**	**+17.04%**	**+229.65%**	**+1.31%**	**+18.89%**	**+150.17%**

In July the S&P500 rose by 1.31% while the Fund fell by 0.64% in a difficult month as the great bifurcation continued. Slowdown fears returned and bonds rallied to new highs which pushed the elite growth stocks ever higher too as the rest languished. We lost ground again as our relatively light weighting in these elite means our languishers predominate.

By the end of the month 40% of the world's government bond markets had negative yields, including the entirety of German Bunds, all the way through 30 years. All this for the first time and making the US 10-year at 1.9% a relative bargain which is seeing inflows from all over.

What multiple should we put on certain earnings growth in an environment where bond yields are tending to zero? The answer is – whatever we can get away with, because we can rationalise as high as we like. As an example, here's a member of the crew: McDonald's which is a stock we park cash in because, well, it's been clear it's going up:

McDonald's operating income and total sales have been flat for five years (source: 10k), no surprise there, they've already conquered the world. In fact, they've been flat for longer, but end 2013 to the present will do. A sustained buyback has reduced the share count from 990 million to 767 million, so trailing 12 months earnings per share have improved from $5.55 to $7.61 from end 2013 to June 2019, or 6.3% a year. The share count reduction accounts for 5.9% of that. The stock has gone from $97 to $214 or from P/E of 17 to 28. It is beating the market again this year and growth remains assured. However, in the period, debt has increased from $14 billion to $32 billion which is from $14 per share to $42 per share and stockholders' equity has been moved into negative territory since 2016.

Does this matter? Not yet. Systems sales are $38 billion and interest rates look like they'll only go down. But we don't want it. This is the Minsky vase getting thinner. At some point the unbounded multiple we can put on the earnings growth becomes challenged by the increasing fragility of the financial structure. This fragility tends to be discovered by an external shock which breaks the vase, rather than a rational unwind of the creative financial genius that got us there.