

August 2, 2016

Dear Friends and Family,

After a decade's worth of extremely accommodative, and arguably excessive, global-wide central bank policy, much of the world including the United States is experiencing bubbles simultaneously in many asset classes. This has led a complacent and reckless environment where investors face high-risk for the potential to only earn a low return.

- Cash Equivalents: Pay close to 0%
- Debt (both government and corporate): Are at all time low yields including negative yields (lenders pay interest to borrowers) in Europe and Japan
- Stocks: The second longest bull market has led to at or near historic valuations
- Private Companies
- Real Estate: Cap rates at or near historic lows generally provide insufficient cash flow to service the financing.
- Art

In the last 24 hours:

- Goldman Sachs downgraded equities to "underweight" over the next three months saying that global equities are at the upper end of their range.
- Jeffrey Gundlach is the chief executive officer of the massive \$100+ billion hedge fund DoubleLine Capital who correctly predicted the 2008 subprime crisis that led to the Great Recession. He said that "Many asset classes look frothy. Sell everything. Nothing here looks good. The stock market should be down massively but investors seem to have been hypnotized that nothing can go wrong."
- The S&P 500 has broken below its recent price support.

The markets are providing us here with both **tremendous risk and opportunity:**

- **This is the worst possible environment for traditional long-only buy and hold investments.**
- **This is the best possible environment for hedge funds that have the flexibility to potentially profit in bullish or bearish environments.**

We can help you do better.

*Michael Kerris*

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