

PENNOCK IDEA HUB

eResearch Corporation is pleased to feature an investment article by Edward Pennock, who is a seasoned investment professional. He, together with other experienced investment specialists, has formed a comprehensive investment website known as **Pennock Idea Hub**.

One of the features of the website is **The Morning Call**, a daily article that features an insightful commentary on the market.

Today's article begins on the following page, and is entitled:

Prem Watsa Goes All In

You can access the **Pennock Idea Hub** website at the following link:

<http://pennockideahub.com>

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Bob Weir, CFA
Director of Research

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Research Reinvented

Thursday, March 2, 2017

The Morning Call

Prem Watsa Goes All In

He is a revered Investor in Canada. We call him the "Buffet of the North". What he did is a BIG deal. Prem reversed a decades-long negative view of the markets. Last time he covered his Market Puts was in 2008/2009. He was up by about 10-20%. Soon thereafter he re-shortened the market. Recently he closed out the latest Puts. The loss was \$2.7B. A good manager knows when to reverse field.

We set another record yesterday. All 5 indices at all-time highs. It took only 24 days to go from 20K to busting through 21K. Last time a 1K move came that fast was in 1999. There were calls about valuations then, too. Many remember the Bear Calls based upon astronomical P/Es. Exiting the market left a great deal on the table. What we found was that staying long was best. Wait till the stock had clearly rolled over before pulling the trigger. Almost universally that yielded a higher ASP.

We read an article this morning that asked the Rhetorical Question: Is the Big Crash Coming? The rationale appears to be that only twice in history was the P/E higher. 1929 and 2000. No mention of the level of interest rates. What was inflation? Markets do not start their downturn from all-time highs. Bear markets come like a "Thief in the Night". One stock at a time. One barely notices. Could a big crash be coming? YES. As we wrote in Focus, the risk is in ETFs. They are great in orderly markets. If they spin out of control they will act just like "Portfolio Insurance" did in 1987. Stay Tuned.

Just like 1994, the markets are getting enthusiastic about a rate hike. The FED will be endorsing the economic bull case. "In my view, a rate increase is very much on the table for serious consideration", said SFA Fed governor Williams on Tuesday. "It will likely be appropriate soon to remove additional accommodation, continuing on a gradual path," said Brainard. Has the "Dove" converted? The market paid attention. The ftures predicting a March hike went from 50% to 80%.

U.S. oil production averaged 9mm bbls/day. That is up from 8.5mm bbl/day. Very cold weather in North Dakota caused production to decline by 91K bbls/d in December. Their production was still 216K bbl/d above the September levels.



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U.S. exports of crude are running at 900K. In September, it was 500K. That confirms to us that shale production is ramping. How long can OPEC hang on? 94% compliance means that when it goes it will be a spectacular bust.

For all the Populists out there, Venezuela is on the ropes. \$10.5 B in foreign reserves. \$7.2B is required to meet debt repayments this year. Inflation is running 1660%. Forecast at 2,880% next year. Welcome to the Weimar Republic.

The 10-year treasury had its largest 1-day move since November. It is yielding +2.477%. The Bunds moved from +0.283% to +0.295%. The Eurozone CPI was at +2.0% year-over-year. Moving towards higher rates is now a good thing.

Trump's speech had good tone. He laid out the priorities. Who needs a roadmap timetable or details?

Invest the Money.

Regards,

Edward Pennock CFA, Founding Partner

ABOUT PENNOCK IDEA HUB

We are creators of independent equity research. The Pennock Idea Hub team members are veterans of the investment industry. Much of our team has spent their careers at Merrill Lynch, Deutsche Bank, RBC Capital Markets, and Wood Gundy. We have taken every aspect of research back to the studs and returned to first principles. The Pennock Idea Hub marries the interests of the sell- and buy-side.

We offer the best research for institutional investors by: only publishing research from veteran Analysts; eliminating the inherent conflicts of the traditional sell- and buy-side relationship; ensuring team accessibility; and collaborating with clients to nurture our collective success.

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