Weekly Commentary 45 – Nov 2022

How to Make Money in Volatile Markets

I gave a short talk on Saturday on the above subject. Here is a gist of what I said, written out in this Weekly Commentary.

The first point I made is that it is important to first learn how not to lose money. Glaringly obvious though that may sound, it is not the first thing that people new to investing think about. Instead, they think about how to "*make profits*".

Nor is *not losing money* easy to do.

It's like how to get away from running on a treadmill. If you cannot prevent losses, the profits you make will be continually offset by such losses. You cannot get ahead.

On the other hand, if you control losses, you don't have to make a lot of trades to make a good return. In the extreme case when losses do not occur at all, then even if there are only minute profits in a small number of successful winning trades, you will always be ahead. You certainly don't have to win all the time.

Impossible? Well, in the fintech system behind the Asia Income Fund or the Fairshore MARS FX Asia Fund, both regulated, the track record shows no losing years. Many top hedge fund managers or high frequency traders can also do that. So yes, it is possible. I don't mean that everyone can create a trading methodology that won't lose money over long periods of time. Or that I am teaching you how to do it. That's not the point. What I am saying is that in investing, the first thing in your approach must be a strong ability to control your losses. If you can't do it, you should never invest.

In my Friday report, I describe the following market developments over the last week:

"The most important thing about recent developments to an observer like me, always thinking about which is the right direction for every asset class to put money behind, is that it was a lot of whipsaw action. Markets go sharply in one way in one day, and change course immediately to flip around in the other direction the next day. This is very dangerous. Whatever position you take, it is likely to be slaughtered. Just as well that we are out of it and avoided all the bloodshed.

First of all, in the Chinese stock markets recently, we first saw a massive crash in Chinese listed companies after the CPC Annual Conference in which the spark for the selling was the fact that power was consolidated in Beijing. Short sellers turned a good thing into a mythical problem and bashed the market for two days. At that time, we said that this was simply a market in which there

were sellers first and there were others waiting to buy. Sure enough, after the selling which was described in the western financial media as "historic liquidations", buyers came in and took it higher. All the selling pressure was offset and for the rest of the week, Chinese stocks regained their posture and are now sitting higher than before the CPC meeting. This was the first classic whipsaw attributed by speculators to domestic political developments.

Then it was the US stock market's turn. Two days ago, the US midterms left the Democrats in a better position than widely expected before that. The market sold off by more than 2 percent in a day. Then yesterday, the CPI data were released and all the sellers had to retreat, as the numbers were better than expected. Inflation is now recorded to be running at 7.7 percent, better than last month's 8 percent. The market reacted like a coiled spring. The US indices shot up by 5 to 7.5 percent, a very big move in a day, especially on the upside. It erased the sharp downturn just a day before and turned out to be another major whipsaw action in the markets. Bonds were also up, with the Ten-Year treasury yield back below 4 percent.

Finally, there is the bitcoin price which left many participants in that market in a dizzy. Over three days, it fell from $21,500 to below $15,700, nearly thirty percent. Yesterday, it rebounded sharply, and it is now trading at above $17,000, even though if you look at what's going on, the second largest crypto exchange, FTX, is headed for bankruptcy and will invariably cause liquidity problems throughout the crypto markets. Third big whipsaw.

The FX markets were not spared these sharp turnarounds. The Euro was trading north of par to the Dollar, fell back to below par and on the CPI news jumped back above par. Most other currency movements were similarly duplicitous, flip flopping around. Now, the dollar is trying to find its feet.

In short, there was a lot of ado amounting to nothing, ie lots of intraday action with no major directional move. Markets are very fickle now; and highly risky.

And we are glad to be on the sidelines at this time."

In my closing sentence above, it is the same as saying discretion is better than valour. Don't bash your head against impossible odds. If you lose a $100, you need to make that back first before any further trade can bring you into positive territory. If you don't lose money, any positive trade gets you ahead. Seems like I am saying the obvious. Unfortunately, most people who invest don't appreciate this simple rule.

In the kind of volatility that was demonstrated in last week's markets, it is better to stay out than to try to be too clever, looking for tops or bottoms.

Beyond those straightforward comments, one of those developments – the one on bitcoin - is a classic tale of how greed overcomes prudence and while the story is still unfolding, I would like to analyse what is happening in the cryptocurrency markets.

As many of my blog readers know, in my writings over the last two and a half years, I have been a vocal and unwavering critic of the crypto industry. While I am hardly the only one, there was a point in time, just about a year ago in late 2021, when it seemed like there was nobody left to criticise the practices that were mushrooming in the so called defi industry. At that time, when bitcoin was reaching US$65,000 for a second time in a few months, it seemed like I was talking to an audience of one – myself. Everyone else seems to be getting

involved, with bitcoin and all other cryptos said to be going to the moon, and criticism of that brave new world was fuddy-daddy sour grapes. And on Youtube, and even regular TV, increasingly prominent financial top dogs came out to sing the praises of the crypto industry. Two young men, 30-year old Do Kuan of TerraLuna and 30-year old Sam Bankman-Fried, FTX were the instant billionaires that everybody admired, plus another one, Alex Mashinsky, was thought to be the same as the chief of a new-era JP Morgan, a proper "bank" in the crypto market.

Today, all three are effectively bankrupts. Always going to zero in just a couple of days, one after another over a short period of just six months. They all lost their empires which venerable institutions that included all the mainstream media, top VCs and bulge bracket financial firms were worshipping. Yes, worshipping. Two of them are not just broke but also accused of financial crime. One is a fugitive from the law.

Worse than their fates, which we should care nothing about, all of their clients and investors are screwed. Big time. Many have lost millions.

Given that at $60 dollars per bitcoin, the entire industry was valued at roughly US$2 trillion, now that it is at $16, we can estimate that a total of US$1.5 TRILLION dollars have already been lost. Millions of people have been fleeced. Those of us who have been right have written up our views clearly. It is on the record.

How did a disaster of this magnitude occur when it was so obvious that the whole industry was flaky and headed in this direction (ie towards zero and hence total collapse) to his writer, and some other smart analysts/investors. Including 90 year old Warren Buffett and his long time partner, Charlie Munger, who at his advanced age has a clear head and would not bother to pay $25 dollars for the entire crypto industry. I agree.

This is the kind of loss that many investors can never recover from. For a very long time. Especially those young people who thought that because they missed their chance to get long on overpriced real estate, they figured this was the golden opportunity in new technology, which they understood, that could make them rich. They started to believe the fantasies weaved by the false prophets that inevitably emerge from any scheme that seek to defraud people who have no ability to think for themselves. Those false prophets were a dime a dozen, found all over YouTube, and even over Bloomberg TV and CNBC. Famous personalities were hired by the scammers to make pitches that unsophisticated people would believe.

Now, ALL OF THEM have become silent (about how great crypto is). Instead, they are shouting foul. Nosily.
Some are seeking government help to cover their asses…the same governments whom they told "fxxk off."

It is useful to review how not to lose money in this spectacular manner. I am trying to point out how greed obscures logical analysis, to contend that the first thing to learn about investing is to learn how not to lose money.

Lesson Number One. Do your homework before you invest.

For the mostly (and invariably) young people who were fooled into buying into the crypto game, the biggest problem they created for themselves was that in believing in technology, there would always be a next big thing. Too many people are looking for the next Microsoft, the next Google and the next Twitter or Facebook, so that they too can, bless their greedy hearts, be the next billionaires. They all got hooked on crypto, thinking that this was definitely it.

In my earliest blogs on the subject, I pointed out the simple truth that crypto currency made to sound that it has value because it is "currency" is one big bullshit story. A currency must be acceptable as a medium of exchange for goods and services in the real world. Even bitcoin, the oldest crypto currency had no such function even after 10 years. For that reason alone, I said that this is not real. Nothing can be bought or sold using bitcoin. Even a country, El Salvador, which made bitcoin legal tender, cannot enforce the use of bitcoin in transactions.

A currency must also serve as a store of value. Does bitcoin or any crypto currency have that? Absolutely not. Not on any day in its entire history. Why would I say that? A store of value MUST have stability. It cannot fluctuate wildly up and down, because that means its valuation is not possible. It can be anything. It can be $3000, and it can be $50,000 or back to $20,000. How is that a store of value? Only scammers and fools who claim that it will continuously go up can falsely assign it a store of value function.

The failures of the two tests above tell me that crypto is NOT a currency. And since the word "currency" is used, it is in my mind, a marketing sleigh of hand. That raises red flags.

Since I have never been convinced that it is a "currency', my basic thesis is that this is just a database technology pretending to be money. That is dangerous. No database technology can be worth $10 billion dollars, $100 billion dollars and certainly, not an absurd TWO TRILLION dollars. Nobody saw it in those terms just a few months ago. I did. I have always thought it would be going back to zero and said so.

It was also never a "base" to build up a "coin". "Coinbase", the crypto exchange, which became a household name for the stupid, even though it does not exist in any form that can be encapsulated in its name. Since its IPO, it went from above $412 to a low last week of $40-something dollars, largely one way in less than two years. 90 percent vanished in smoke and tears. Avoiding this loss would have been so easy, and yet I have run into so many supposedly smart people who thought that investing in Coinbase was a wonderful investment idea. They have not learned how NOT to lose money.

COIN

Following

Coinbase Global, Inc.

$57.46

6.54 (+12.84%) 4:00 PM 11/11/22

NASDAQ | $USD | Post-Market: $56.60 -0.86 (-1.50%) 7:59 PM

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The One-Year chart of crypto exchange, Coinbase, shows it going one way in a straight line. How is this a good investment? I said this would happen when the IPO was launched. At the IPO price, Coinbase was valued at higher than the New York Stock Exchange. That's how totally mad the crypto world was.

Why were there so many eager beavers? Because it was listed? Because part of it passed the scrutiny of regulators (not bitcoin itself but the "broker" or what Coinbase is) which allowed people to trade their holdings in a non-currency as if it were a currency? And that made people comfortable? Don't they even understand the concept cannot stand up to scrutiny if they were more rigorous?

Then I saw how devious "unsmart" people build up a house of cards on a wild idea that a database technology could be worth US$2 trillion. See, if that $2 trillion was created by

people pushing it higher and higher waiting for the greater fool to fold, that fake value sustains a lot of crap.

Smoke and mirrors, hot air, leverage. And millions upon millions of people are now paying the price.

After all the above restatement of my main points written over many Weekly Commentaries, you may still be asking, how did it implode so quickly? The US government took 20 years to waste US$2trillion in Afghanistan; the crypto industry did that in just about a year.

If you want it explained to you in the technical language of the crypto dreamers, it will take twenty pages to write. I have better things to do than that, given my overall view that crypto is a bloody waste of time. But in the interest of explaining my main theme today, which is how to invest in volatile markets, with the starting point that the first lesson in investment is to avoid the loss of any of it, then I should describe the massive wipe-out of $1.5 trillion dollars in one year in layman's language and distil what we can learn from that.

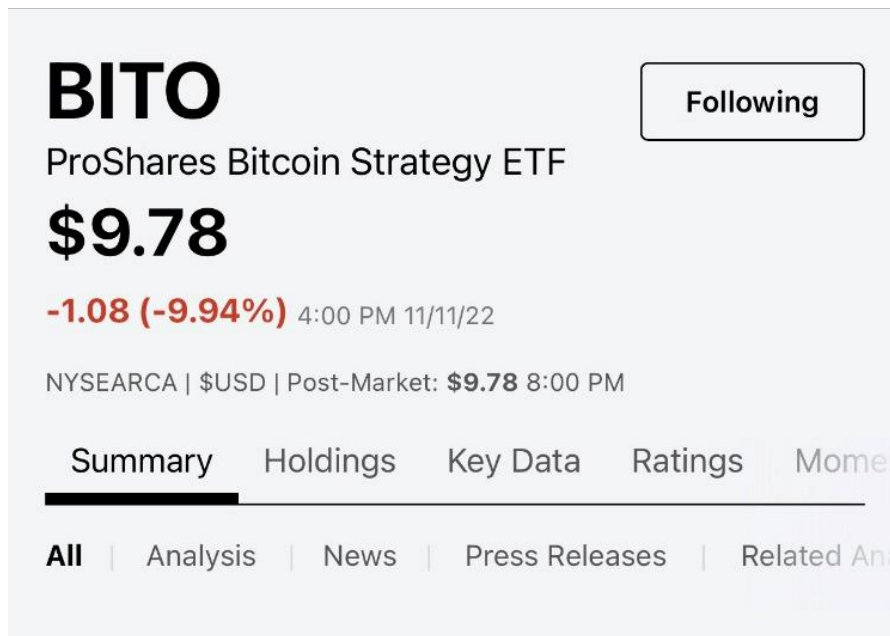
Starting from the fact that this is an industry that went against the very principle that justifies its creation, the causes of its self-destruction are quite straightforward. What are these causes?

Firstly, a crypto currency is created as a peer-to-peer transaction. That aspiration was what made the blockchain technology such a hyped "next big thing". If it had stayed that way, it would never have become the US$2 trillion monster that got whittled down to just $500 billion at this point in time. But greedy people soon found that making money off fools one-by-one was too slow. So they made it possible for "brokerages" and middlemen, to replace peer-to-peer, which is an added layer so that tech-dummies don't have to deal with unique passwords or "e-wallets" that they can forget or misplace. Inventions like Coinbase or Bitcoin ETFs began to emerge and I remember writing a commentary that predicted that once the industry started to involve institutions which were savvy enough to know when things get ridiculously overpriced and they know how to short (unlike unsophisticated retail investors), the bull market would be over.

All the talk then, just about a year ago, was how the crypto industry was going mainstream and would attract increasing participation from institutions. Being a hedge fund manager myself, I thought this was the most absurd thing circulated by the con artists back then. Professional traders and fund managers are not so easily fooled.

Sure enough, that launch of the first bitcoin ETF marked the high point of crypto prices. The price of bitcoin was above $60,000 at that auspicious time, cheered on by every fool who thought they were going to be the next crypto millionaire, expecting the ponzi scheme to

persuade billion dollar funds to buy into escalating prices. But as things unfolded, smarter professionals knew that this was just overpriced hype over a non-idea, a non-currency. And in an institutional setting, the pros can be very happy being short. As shorts begin to emerge, prices start to fall as can be seen in the chart below.



Since most crypto positions were bought on leverage (see, everybody thought that making money in a sure thing, that even going to the moon would be too slow, and it is better to use leverage to speed things up, forgetting that falling prices create margin calls, liquidations and a vicious spiral downwards.) That was the first step in its unravelling. This is so very typical of crashes in every financial asset class.

After six months, the unfolding crash triggered a classic bank run in one of the most aggressive of the crypto currencies, Terra-Luna, an additional layer over basic blockchain

that was supposed to make it easier for fools to get involved faster than the original peer-to-peer system. The big idea it carries was that it was a “stable coin” maintained by an algorithm that pegged it to the real US Dollar. It was touted as safe. Frankly, it was the equivalent of two tanks of water, maintaining the same level through a pipe between the two tanks. It assumed that the tanks would not leak. Well, it did. Once TerraLuna started falling, margins were called and investors started to bail out water by the bucket.

It was just a simple bank run. Once that started, it happens very quickly because of the deleveraging, and cannot stop until all the water in both tanks were drained dry. The price of TerraLuna slumped like a sack of shit. Went to zero in three days.

The next to go was the much admired (yes, admired! by fawning journalists from Bloomberg to CNBC to Kitco News) crypto “bank”, Celsius. It was a fxxking fan club for Celsius CEO, Alex Mashinsky who waxed lyrical about how they now have a regular brick and mortar “bank” in the industry that takes no speculative risks and paid interest on deposits of crypto. It was actually just another brokerage of sorts to enable people to leverage up on their crypto exposure. Celsius would pay up to 20% in fixed interest on “deposits” of every form of crypto. At that time, I asked many people who were involved how Celsius could pay 20 percent without speculating on the prices of crypto, through say some form of arbitrage. Without taking an arbitrage position and always winning, it was not possible to pay such high interest, to a simple-minded trader like me. And because I could not work it out with pencil and paper, even after I watched numerous Youtube videos that described Celsius as the greatest invention since sliced bread, I also thought this was another scam. I was not the least surprised when it went to zero in three days. Shortly after TerraLuna went under.

The latest big loss in the crypto market is this FTX venture last week. Again, highly admired, Sam Bankman-Fried is a crypto entrepreneur seen as one of the leading lights in the crypto landscape. His company, Alameda Research has been rated as one of the most innovative of crypto traders, and his other company, FTX was the second largest exchange in the business. Just after TerraLuna crashed, FTX was seen to be saving many smaller businesses which have also been badly affected by the previous bank runs. He was so well thought of by the venture capitalists who funded him that he was often thought of King of Crypto, and his supporters included the who’s who of venture capital giants. He was regarded to be the one around which the battered crypto industry would rebuild. After all, he also owned another 130 other crypto companies. It caught the industry by surprise that he too went up in flames and became King of Tech Bubble losses, as captioned by Bloomberg News today. And this happened in the midst of the largest stock market rally in two years, on the apparent retreat in inflationary tendencies in the US economy.

The SEC is reported to be investing whether FTX misused customer funds. Here is what Bloomberg said:

“At his peak, crypto mogul Sam Bankman-Fried was worth $26 billion. At the start of this week, he still had $16 billion. Now: a whole lot less. The collapse of FTX.com—the biggest bankruptcy of the year—provides

another lesson in what happens when the hype of personality meets the cold wind of reality. Digital assets were supposed to revolutionize finance, but the same old mistakes have been committed, Bloomberg's editors write. SBF made all sorts of lofty promises, including big plans to donate his crypto wealth as part of a movement called "effective altruism." For many retail traders who poured their life savings into digital assets, the collapse of his empire marks the end of the line. The venture capital firms who gave the digital wunderkind a pile of money without demanding he establish oversight over FTX could arguably bear some of the responsibility. And all of this is just the beginning. With the US Securities and Exchange Commission and the Justice Department now investigating, and people like ex-Treasury Secretary Larry Summers making Enron comparisons, the road ahead for SBF and what remains of FTX may be bumpy indeed."

I mean, how does anyone lose $16 BILLION in one week? Well, it certainly takes a genius to do that. The media really needs to re-examine their criteria for making heroes out of hobos. And how the very best of VCs got suckered by a 30-year old into not doing things that would be bedrock principles in their investment style is totally inexplicable. And for the fools who put their life savings to follow this guy off a cliff, it demonstrates that in trading and investments, greed is uncontrollable.

FTX's problems do not end with adventurism. Coinbase, a media outlet of the brave new world has this to say:

FTX Used Customer Funds Among Other Assets to Prop Up Alameda Research in May: Reuters

FTX founder Sam Bankman-Fried transferred at least $4 billion in funds, according to a report. By Shaurya Malwa, Oliver Knight

Nov 10, 2022 at 4:30 p.m.

Updated Nov 10, 2022 at 6:04 p.m.

"Sam Bankman-Fried transferred at least $4 billion in FTX funds secured by assets including the crypto exchange's FTT token and shares in the trading platform Robinhood Markets Inc (HOOD) to support Alameda Research after the trading firm suffered a series of losses from deals, according to three people familiar with its operations, Reuters reported Thursday.

A portion of the funds were customer deposits, two of the people said. The exact value of these assets could not be determined.

One of the losses Alameda faced involved a $500 million loan agreement with crypto lender Voyager Digital, the report said. Voyager filed for bankruptcy protection one month later.

FTX halted all non-fiat customer withdrawals on Tuesday after receiving $6 billion in withdrawal requests over 72 hours earlier this week. Binance CEO Changpeng Zhao (CZ) signed a non-binding letter of intent to acquire FTX to ease liquidity pressure, but he now appears to have scrapped any potential deal".

If these turn out to be true, these are huge and obvious financial crimes. Culprits, when found guilty by the judicial process, will go to jail for them.

You can call it what you want, but what crashed all the three luminaries in the new-fangled crypto world were old-fashioned bank runs. People who saw declining prices across the crypto landscape wanted to cut loss, but when it became obvious to a lot of losers, the withdrawals became a frantic rush for the exits – a bank run.

And because crypto was built to avoid government regulation, in fact dedicated to that particular mission in a chest-thumping outburst of defiant libertarianism, there is nobody in any government anywhere who will step in to save the fools, who eschewed government regulation because they all thought they could run things better without oversight. Without that referee to organize a level playing field, what has happened was bound to happen. Nobody does business for altruism, because that would not be business. And in business, the strong will inevitably bully the weak. It happens again and again, and those claims that the world would be better without government regulation in crypto paradise is total bullshit.

Even Elon Musk, once known to be an ardent crypto investor and promoter, had this to say on Twitter:

"To be honest, I'd never heard of him (Sam Bankman-Fried)," Musk said, "But then I got a ton of people telling me that he's got, you know, huge amounts of money that he wants to invest in the Twitter deal. And I talked to him for about half an hour. And I know my bullshit meter was redlining. It was like, this dude is bullshit – that was my impression."

"Then I was like, man, everyone including major investment banks – everyone was talking about him like he's walking on water and has a zillion dollars. And that [was] not my impression…that dude is just – there's something wrong, and he does not have capital, and he will not come through. That was my prediction."

Folks, my own bullshit meter has been redlining on everything crypto for years. And I said so (in writing), and proud to say that I did that. I did a lot of research on crypto, and all I saw was bullshit. Sorry. I am not saying that with the benefit of hindsight. You all know that.

So where does it all end? I see two scenarios, both of which I have also discussed before in my Commentaries. The first is total exhaustion of the industry and everything goes to zero, over time. This is already happening. From a peak of US$2 trillion, the entire industry is now valued at around $500 billion, which is still a large number. This is not sustainable. It could go down another 99 percent from here, and eventually, it will be worth nothing. I am not putting a time line to this occurrence - those left standing after TerraLuna, Celsius and FTX have few suckers left to sell to. This is how ponzi schemes end – where there are no more fools to take over the hot potato. Some polite people call it a "liquidity crisis" but if we call a spade a spade, it is just the charlatans are running out of morons to cheat.

More prominently, these die-hard libertarians who eschew government regulation, thought they can do it better on their own. No, they can't. There are so many recorded scams in the crypto space over the last 12 years, that it should have forever put fear into the hearts of those investors. Without the scrutiny of regulators, however inefficient this may be, it is pretty difficult to prevent obvious cheats, liars and charlatans from muddying the waters for investors who don't devote full time attention to due diligence.

The other way it will end, is when the victims of the industry beg for government regulation. This is already happening. When it does happen, crypto is no more crypto. It will just become another form of Central Bank Digital Currencies, which I also think will emerge as a full fledged component of the global financial landscape. There will be CBDCs, but not crypto. The difference is that the first is sponsored and regulated by government and the second is not. The technology is the same, not worth much more than the efforts of a group of IT guys writing a database program. Put a time-clock on that effort and that will be its true value. Not trillions, nor billions or even hundreds of millions. Therefore, all that fake value will disappear. Those left standing will not lose the remnants of their investment; they will just have to swallow their pride and live with the defeat of libertarianism in this area which cannot do without it – government regulating the issuance and use of money.

If the above narration of what happened in the crypto industry – the once wild and brave new world that would enrich all participants – is a lesson in what not to do in investment, then this Commentary has served its purpose. The volatility in crypto represents a clear and present danger to investors. There are some takeaways on the easy steps on how not to lose money:

1) Volatility is caused by an obvious lack of liquidity. ALWAYS avoid illiquidity. You cannot get out when you want to. You need to identify where the exits are, when you go to a theatre, before you enter or get comfortable, in case the building catches fire, and everyone rushes out. Liquidity risks must always be managed.

2) Volatility is also a symptom of inherent problems in that market. Volatility arises from participants trying to get in or out in size, instantaneously. What motivates such movements? Constantly changing perceptions of risks vs returns. Greed overcoming fear, in large unorganized gobs and vice versa. That is not a stable market. Good investments should be boring. I said this before. You should never lose sleep over any component of your portfolio. If you are, you are in over your head, overcommitted or don't know what you are doing. Get out of that investment.

3) Regulation is generally good, not bad. Regulation does not in itself prevent fraud, but most fraudsters would be unlikely to want to first, deal with the transparency required by regulators, and second, to engage in the criminality inherent in promoting unregulated products. Regulation may cost a bit of money due to compliance requirements but the marginal return foregone is worth it. Stay with regulated investment vehicles. Always know

which jurisdiction any investment product is regulated out of. Some regulators are better than others. Singaporean, British and American regulatory systems are top notch, and therefore would suffice as prudent baseline protection.

4) Reputational risk is important. When crypto investors completely trust two twenty-something year-olds, Do Kuan and Sam Bankman-Fried that they know what they are doing or believe what they are saying, before they have established a reputation in their short careers that they can be truly successful, I think they should all have their heads examined. Those two might have got lucky breaks but that does not mean that luck will rub off on you, far away from that source of good fortune.

5) There must be explicit and clear systems for risk management. If you are doing it yourself, diversification of assets is a must. Never ever put all your money into one big idea however magnificent that idea is made out to be. If you are using an external service provider, such as a fund manager, make sure you understand the risk management in the product which must be explicit and transparent.

6) Don't invest in anything that has high profile marketing. Marketing is generally made up of exaggerations and omissions of fact, sometimes outright lies, and if the marketing is slick, you should be extra careful. If you are shown opulent offices with gold taps in the toilets to indicate that they are very successful, stay clear. Good investments market themselves, they don't need people to boast on their behalf.

7) Stay clear of crypto. Don't think you have done intelligent research on any crypto product. Everything crypto is driven by unadulterated greed. It is not a currency; it is not an asset class, and it is not an industry. It is a bunch of greedy people trying to put together half-assed products called blockchain (or databases) and marketing them as the best thing since the coming of Christ. After a 75% crash in just about one year, it is still valued at US$500 billion US dollars. Ask yourself, is any computer program worth US$500 billion (with a B)? Caveat emptor.

Sticking with the above rules should keep your investments safe, and would prevent damage to your wallet and your mental health.

Let's move on to the problem of how to reel in profits, shall we? Remember, if you can control losses, you don't need to make a lot of money to extract a decent return.

In that context, you have to first define what a "good" return means for you? For some, 100 percent is a good return, for others, it could be 20% and for most 5% is more than enough. There is no such thing as an absolutely "good" return. It depends on your appetite and it depends on market conditions. In the case of the latter, most investors in the world lost their

shirts in financial markets this year, down anywhere from 20 percent to 50 percent, even if you don't count crypto investors, most of whom lost everything, including life savings. For most folks, zero return this year would have been great.

But there should be one critical criterion. An investment return should always beat inflation. That should be the primary objective of any investment.

If you cannot even beat inflation, it means that you are "losing" purchasing power. For example, if you buy a bond that yields less than the inflation rate, what it means is that you can nominally get back all your money that you put into the bond, but by the time you do get it back at maturity, that money cannot buy what it used to at the beginning of the investment horizon. And if inflation is double digit, there is no way that any bond will pay interest at a sufficient rate that will cover the erosion of buying power by inflation.

In the context of today's global economy, inflation in G7 countries is high and climbing at the published rates of around 10 percent. 7.7% in the US and about 11 percent in the EU. Which bond issuer will pay at that interest rate to get a loan? From that perspective, all bonds will lose usefulness as an inflation hedge until inflation gets back down to about 2% a year across the board in the world.

Cash is the same. It is nominally safe, but in an inflationary environment, it is a straight loser in its inability to preserve purchasing power.

Otherwise, don't touch bonds issued by the G7 countries. For Japan, unless you are Japanese, why would you ever buy their bonds? It has zero yield for the last thirty years and unlikely to change in the foreseeable future.

On the other end of the spectrum of bonds, which fail miserably to produce a return that will beat inflation, real estate is the only investment that will invariably enable you to come out whole during inflationary times. Real estate is something of an efficient inflation hedge. As such, I suggest property investments in Little Red Dots (ie dynamic urban centers, not remote country side land or farms) located in Asia. There are however the following caveats:

1) If you need a mortgage, then a real estate investment is no longer an inflation hedge. Because mortgages carry interest rates that are driven by inflation.
2) If you buy investment properties in cash, there are long gestation periods before you have amassed enough cash to plunk it down to secure a deal. How do you invest in the meantime? Hold it in cash?

Gold has often been touted as an inflation hedge. Well, yes and no. As we can see, in the last two years, we have had record levels of inflation, and gold has not really moved. As an inflation hedge, in terms of a step by step compensation, it is not. With that said, if we look

at ten year time frames, we do see gold in an uptrend, matching the rise in value in bonds. Right now, in current market conditions, gold is not a good hedge. Stay out of gold unless you expect to become a refugee some time soon.

That leaves us with equities as a remaining inflation hedge. Generally stocks are good for protecting against the ravages of inflation although it has not done well in the past year. Here are some thoughts on how to participate in the stock market:

1) China stocks have been quite good, and have lived up to the reputation that it represents opportunities in the largest economy in the world.
2) Other Asian stock markets require local expertise and my Commentaries are not where you will find it.
3) European stock markets should be avoided until the current energy crisis caused by the economic war against Russia has found a solution.
4) US stocks will become a good investment if an end to the tightening interest rate cycle comes into sight. And one has to watch the inflation numbers for that. Investing in individual stocks is highly risky, so it is better to go with ETFs. In general, over the last 75 years, US indices returned 10 percent per year on average. If you get lucky and get more than 20 percent in a year on an ETF like DIA or SPY, take profit. If it goes down 15%, you should start to accumulate.

Foreign exchange markets are the deepest in liquidity and the least likely to generate liquidity problems after you have invested. There will be less volatility if you don’t take on leverage.

If you think the FX asset class has helped you meet inflation hedging objectives, you know who to call.

We conclude this Commentary by pointing out that most of this article is written on how not to lose money. If you can do that, the rest is easy. And we will leave it at that.

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Un-Influencer in a World full of Hubris