Agincourt Capital Management, LLC

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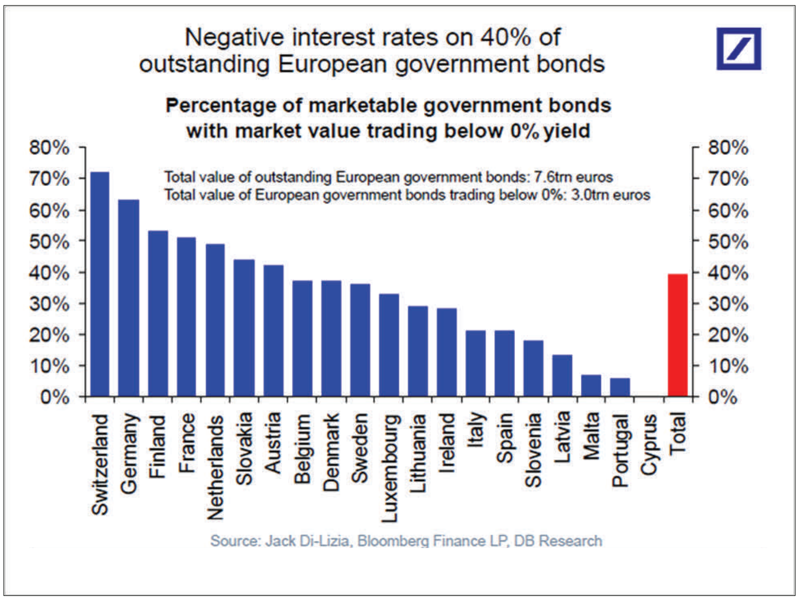
INVESTMENT UPDATE

It's December, the traditional time of the year when we take a somber, thoughtful look back at the past twelve months. Take account of ourselves. Reflect on lessons learned. Consider the endless possibilities that the new year promises. And, once and for all, figure out how to get Nextflix to play on the TV in the den—you know, the one with the VCR that's been flashing "12:00" since the Clinton administration. But here's the good news about all that—if you're feeling dumb, you are not alone. If we learned anything at all in 2015, it's that dumb things happen. And then they just keep on happening. Especially in the bond market, where "smart people" are supposed to be in charge. We've got a few examples for you to chew on.



Interest Rates Are Below Zero!

If you think the yield on your bank account is low, take a look at what's happening on the other side of the Atlantic. As difficult as it is to imagine, in Europe, investors are buying bonds with negative interest rates. Yes, you read that right—instead of earning interest income, these savvy investors are locking in negative returns! Have we seen this before? Sorta-kinda. Sweden's central bank lowered rates on overnight money to below zero for a short period in 2009, but this year the situation has gotten much, much stupider. As the chart on this page shows (courtesy Deutsche Bank), 40% of the outstanding government bonds in Europe—worth €3 trillion—are trading with yields below zero. And we're not just talking short-term bonds, either; in Switzerland, you cannot buy a government bond with a positive yield unless you're willing to buy something with a maturity longer than 10 years. You'll have to go out past five years in Germany and The Netherlands to get a positive yield. They're below zero in pretty much every European country for maturities of two years or less.

The main reason for this nonsense is that European economies are not growing, and their central bank (the cleverly named European Central Bank) has been buying government bonds by the trillions in order to lower interest rates (job done!) and stimulate their collective economies (job not done!). Maybe central banks can be forgiven for buying bonds at prices so inflated that they provide a negative return; they have policy goals that make them obviously less yield-sensitive than your average investor. But for the rest of us, unless you believe that either 1) your economy is going to experience deflation at a faster rate than the money you lose buying negative-interest bonds, or 2) there is a bigger fool out there who might be willing at some point to buy your bonds at an even higher price, and with an even more negative yield than you, we're sorry to break the news to you, but *you are not making good decisions*.

Donald Trump Is Building Golf Courses in Dubai!

Donald Trump, presidential candidate and hair-styling engineer extraordinaire, has taken a lot of criticism for his harsh stance on immigrants, particularly for his recent call to ban all Muslims from entering the US. When asked if this might offend hundreds of millions of people worldwide, he responded, "I don't care." But maybe he should care, since one of Trump's current business ventures is the construction of two golf courses in Dubai. He also has an office and residential development in Istanbul, and Trump-branded goods are sold by retailers throughout the United Arab Emirates. In a public statement, a spokesman for the Dubai-based golf course developer did his best to play hot-potato with Trump's comments: "We would not comment further on Mr. Trump's personal or political agenda." His Republican opponents would, though, calling his opinions "unhinged," "dangerous," "outlandish," and "offensive." We'll just invoke Forest Gump: "Stupid is as stupid does."

OPEC Says, "Pump Baby Pump!"

And speaking of stupid—OPEC, led by Saudi Arabia, voted this month to keep a-pumping crude oil rather than to limit supply, in order to keep prices low. Yes, a producer of raw materials is determined to suppress the prices of what they sell. If that seems counter-intuitive, you'd be correct, until you consider that OPEC, like all cartels, is subject to cheating by any of its members. In a classic "prisoner's dilemma," if all OPEC member countries vote to limit supply in order to boost prices, any smallish rogue member (and let's face it, most of these countries are rouges) makes economic gains if it unilaterally cheats on the agreement and secretly keeps its supply up—enjoying both higher prices along with their own heavy output. And there are other reasons to keep supply flowing—most importantly, the Saudis (the proverbial 800 pound gorilla) have the lowest-cost crude oil in the world, so they still make money even if crude prices fall below $30 per barrel. That's not the case with Russia or with US and Canadian shale oil drillers, higher-cost competitors to OPEC whom the Saudis would love to put out of business. And of course, the Persian Gulf countries are completely dependent on oil exports to run their economies and to pay for massive subsidies and welfare programs for its citizens, so they have little recourse but to keep all hands on the pump, even if it means oil prices—and revenues—fall. We call this one "No choice but to be stupid."

China is an Economic Superpower...Or Not!

Meanwhile, China continues to befuddle the rest of the world with nonsensical policies. Hot off the reversal of its disastrous 35-year "one child" policy earlier this year, China must have been very proud in early December when the International Monetary fund declared its currency, the renminbi, as the newest member of the world's reserve currencies, joining the US dollar, the British pound, the yen and the euro. With this, the world's second-largest economy trumpeted its arrival as a global economic superpower, ready to take its rightful place alongside the most modern and developed countries.

That lasted for about five days. The following week, during the global climate talks outside Paris, China refused to join the US and European negotiators in pledging to fund annual $100 billion contributions to assist developing countries in reducing their emissions, money that is supposed to begin to be distributed in 2020. Claiming that they are still a member of the "Group of 77," a bloc of countries that includes some of the world's poorest and least-developed economies, China maintained that it couldn't afford to help fund the cleanup efforts of others. This, despite the fact that China has experienced three decades of rapid growth, with a burgeoning middle class and $3.5 trillion in foreign reserves, while apparently spending a total of about fifty-eight cents on reducing its own pollution. To make the story even more mind-boggling, while all this was going on, Chinese officials back home declared a pollution-related state of emergency in Beijing, shutting down schools and businesses for most of the week, as the acrid sky blotted out the sun and burned the eyes of their hapless citizenry. You couldn't make this stuff up if you hired the best screenwriters in Hollywood.

Hollywood Stupidity!

Speaking of Hollywood and hapless citizenry, in an attempt to once again bore the pants off those unlucky enough to wander into the wrong theater at the local metroplex, the movie industry is trying to make the minutiae of Wall Street entertaining (did they learn nothing from *The Bonfire of the Vanities*?). *The Big Short* is the name of this non-blockbuster and it's destined to be an un-excellent film based on an excellent book by the estimable Michael Lewis. It's sure to satisfy the curiosity of every American who's ever wondered how sloppy underwriting standards eroded the credit support on subordinated tranches of collateralized mortgage obligations during a period of falling home prices. That's box office gold, right there! Oh, and it stars Brad Pitt, so there's that.

But the "Winner" of 2015 Must Be...

Volkswagen. Oh, Volkswagen, how could you be so very, very stupid? We love your zippy little cars and your mid-sized sedans. They're solidly built, with a whiff of Teutonic quality not often found in their price range. You climbed your way to the top, becoming the world's biggest automaker in the first half of the year. But now we know the awful truth. A tone-deaf, dictatorial management style (in Germany—who could have guessed?!) that mandated what the product must do, with little regard for what the engineers could actually produce—and that was just the start. Thinking that you could get around regulators in multiple countries over a period of years? Or that you could keep it all a secret when there must have been hundreds of employees who worked on the systems necessary to "trick" the regulators? Then brushing off US regulators in 2014 who first found irregularities, claiming that "technical issues" were to blame.

But, not to worry, VW has launched an internal inquiry! They fired a couple of higher-ups (how un-American) but there's still been no official word who in the management chain-of-command was really responsible. Meanwhile the stock is down more than 30% since the scandal broke and VW is facing billions in fines, once regulators in the US, Italy, the UK, Canada, France, Germany, South Korea and China get through with them. They really should have known not to mess with the green, green country of China.

Volkswagen, come on down and claim your stupid prize.