

THE MATRIX



The Matrix is everywhere. It is all around us. Even now, in this very room. You can see it when you look out your window or when you turn on your television. You can feel it when you go to work... when you go to church... when you pay your taxes. It is the world that has been pulled over your eyes to blind you from the truth.

You're faster than this. Don't think you are,

know you are. Come on. Stop trying to hit me and hit me. I'm trying to free your mind, Neo. But I can only show you the door. You're the one that has to walk through it. You have to let it all go. Fear, doubt, and disbelief. Free your mind. Never send a human to do a machine's job

From the movie "The Matrix" by the Wachowski's brothers.

"You take the blue pill –the story ends, you wake up in your bed and believe whatever you want to believe. You take the red pill–you stay in Wonderland, and I show you how deep the rabbit hole goes. Remember, all I am offering is the truth, nothing more".

Investors don't know what to, or what they should, believe in. Red pill or blue pill? Carry on betting on an non-stop growing market or fear the excesses of a world where, as in The Matrix's trilogy, the software's and hi-tech's societies are leading the world? The "big five", Facebook, Amazon, Alphabet (Google), Microsoft and Apple's weight on the market, bring us back to reality. At the beginning of 2013, only 5 years ago, the "big five" were worth 4,41% of the capitalization of the S&P500, the most important index of

Wall Street. One year later they reached 5,99% and at the beginning of 2017 they hit 7,71%. Then, the boom: today they are worth 14,6%, more than 3.500 billion dollars, (the first 10 hit 18,48%). Someone fears an excessive wealth concentration between few companies, risking –in case of an earthquake in the sector– a domino effect on the entire capital market. After a thorough observation, we see that that's not the case. In this new world where what is virtual is real, we witness a concentration, not a diversification. Profits say it all. The 98% of Facebook's come from advertisement. Amazon is an hybrid, even if this won't be forever, but its strength still isn't the e-commerce, but cloud computing. In 2017 this company's EBIT was worth 2,8 billion, while international activities were losing 3,07 billion, counterbalanced by Amazon web services, with a 4,33 billion profitability.

Apple lives on mobiles and services and its cash flow is worth 50 billion. If the iPhone were to suddenly lose its appeal, there are resources to develop other lucrative sectors. Microsoft is focused on software and cloud computing, Alphabet on advertising, mobile phone's operating systems and a great number of new activities, from robots to artificial intelligence. They call them the "big five" but the only things they have in common are technology and their huge amount of profits, not their products or business model. This makes high-tech a diversified investment. But their appeal isn't just numbers or the eternal growth of earnings that makes multiples expensive today and cheap tomorrow. They are tempting because they can easily expand their radius of action in different fields. The electric car and the self-driving software, the blockchain, the logistics management, the marketing and the virtual worlds. It is time to ask ourselves if we are choosing the red or the blue pill. The "big five", for now, seem to have a sweet tooth for the first.

The bitcoin's and cryptocurrency's investors, instead, gorged themselves on the blue ones. After January's peak this sector lost 640 billion dollars.

The Old World likes a good cocktail of pills, with an alternation of reality and fiction. After 25 weeks of constant outflow of capital (-40 billion from the beginning of 2018)

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THE PEAK: ALLA FONTE DEI MERCATI

the inversion has arrived: + 300 billion last week. In the stock exchange, Italy, with the CDS that until a few days ago were at the same level of the South African's, is today driving all Europe, with the government's populists competing to mark a deficit target for 2019, as low as possible.

In the trade war, as well, what is real or virtual is not clear, especially when Trump reconciles with Mexico, Canada and Europe but raises the voice with China and Japan and prepares rates on 260 billions of goods made in China.

The saying: "Do not take candies from strangers" –whatever color they are, red or blue– can be applied in our field. The robo- advisors cannot foresee the future and finance always

mirrors reality. Bubbles and fantasies come to the surface but, until now, computers had not been able to predict them, because they are the reflection of expectations that, as everybody knows, are incalculable. It's called common sense and a software that is capable of making it virtual, has yet to be created.



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