

### THE BIG SHORT



*“This is Wall Street, Dr. Burry. If you offer us free money, we are going to take it. (Lucy) “Basically I’m standing in front of a burning house and offering you fire insurance on it.”*

*(Jared Vennett) “Short everything that guy has touched.” (Mark Baum)*

*“Saints don’t live on Park Avenue. (Cynthia Baum)*

*You wanted to be rich,*

*now we are rich” (Ben Rickert)*

*“I bet in a few years we’ll be doing what people always do when the economy goes south: blaming immigrants and poor people. (Mark Baum)*

*“It ain’t what you don’t know that gets you into trouble. It’s what you know for sure that just ain’t so.”.*

*From the movie “The big short” by Adam McKay.*

Bill Gross, the king of the bonds that saved Pimco from the great crisis, retires. A monastic life. He wakes up every day at 4.30 in the morning, to be ready to trade at the opening of Asian markets. And then yoga at 8.30, every morning, in the Marriott hotel gym across the street from home. «You get endorphins, you get free space, and all of a sudden simple little ideas just pop into your head», he said regarding his oriental practices. It was during a yoga session several years ago that Mr. Gross had the idea to dispatch analysts to cities across the country to pose as homebuyers and collect information regarding the property market and the subprime bonds. The answers were all evasive, little substance underneath them. That’s how the bond guru realized that something big was coming. He took Pimco to safe waters: before the bubble burst, he got out of all the investments

in real estate securities and saved himself from the biggest financial crisis since the ‘29 crash.

Since then, the absolute protagonists of the markets are central banks. And now, while the bond king has taught the whole world how to maintain a clear mind on the markets while everyone is being guided by the dominant thought, central banks seem to be evaluating a massive return to the field. Some analysts even hypothesized the launch of a QE4. The Fed’s total assets rose from around 880 billion dollars in 2008 to 4500 billion in January 2015. After a first phase in which emergency loans and other liquidity-providing operations to the financial sector prevailed, the expansion has been determined by the 3 Quantitative Easing: massive purchase not only of government bonds but also of “toxic” structured note that securitize residential mortgages (the notorious Mortgage Backed Securities, MBS). At the end of the QE3 by the last month of 2014, the Fed had accumulated 1.736 billion toxic assets and 2.460 billion government bonds, which were reinvested on a regular basis, leaving the budgeted total amount unchanged until October 2017, when a normalization process was started (later called Quantitative Tightening - QT). Powell himself, during his inaugural address in November, declared that the process of converging to a new level (the new normal) for the Fed’s assets would last approximately 3-4 years, with minor impacts on the overall liquidity of the financial system.

In these past two months the operators probably had to increase, if not to double, their yoga practice, with a market that has registered on Wall Street the worst December since 1930 and then updated the statistics with the best January of the last 30 years. Rather than the normalization of rates so strongly paraded by central banks, it seems that we are back to the normalization of volatility.

To give strength to the market, on the one hand a “patient” Federal Reserve that is going to calmly examine all the macro data; on the other hand, the good quarterly season, especially the tech’s, that has helped to bring down many clichés. First of all, that the techs are all the same. Nothing

could be more false, the numbers have rewarded even more the companies that proved to be more liquid (with few fixed investments and an easiness to change direction). The makers of software and services – like Microsoft, Netflix and Facebook – played the lord and master.

So much that it now looks like even Apple, the most rigid of the Faang, has started to target Netflix. Cupertino's group has in fact a 130 billion worth liquidity and together with the movies could support a platform of games, increasingly diverging from the reputation of a tech company towards software and services, products that are much more "liquid" because adjustable to different needs.

In the movie "The big short", someone had not let himself be ensnared by the dominant thought, such as Bill Gross, that had thought for himself, predicting before the others what was bound to happen. Perhaps the secret is not in yoga, but in knowing how to create a mental space where we can think independently, without conflicts of interests, simply to seek a purity of rational reasoning, just like a pure mountain spring. The rest is a bet, not an investment.



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#### Headquarters

6, Market Street, Floriana  
FRN1082 Malta  
Tel. +356 23479800

#### Italian branch

Via Cavallotti 8  
20122 Milano  
Tel. +39 02 36574500

#### Czech Republic

Pařížská 68/9, 110 00  
Praha 1 Staré Město

[www.aqa-capital.com](http://www.aqa-capital.com)

[info@aq-capital.com](mailto:info@aq-capital.com)