JONATHAN DAVIS WM
Leaders in Wealth Management

Chartered Financial Planners

Booms and Busts Report

Have you heard the one about the quality global level asset class that went up 1000% in the 2000s, then down 80-90% since and could be headed for another 1000% rise over the next several years?

Before we get to that, I have been generally bullish financial markets, the last 2-3 years, because the global economy has been fair to middling and because markets have been bullish. Why do anything other than what the markets are actually doing or suggesting? What the economy has not been is recessionary - which is all we seem to read or see in the media. Every report, every article - it seems to me - is Trump, Brexit, China and we're **obviously** (!) all going into economic apocalypse.

Well, it sells audience and subscriptions I guess.

But it has been and is patently nonsense.

The global economy, in 2019, will grow 3-4%. Not a recession.
The US - the largest economy - will grow 2-3%. Not a recession and one of the biggest growths in the developed world.
The UK will grow its usual lacklustre 0-1.5%. Not a recession.

Has the last year been a song and dance for investors? No, of course not. Sure, China (#2 economy) has been hit hard by US tariffs (in retaliation to massive Chinese tariffs).

This also affected, detrimentally, the German economy - a huge exporter to China.

But, literally, this week, the big guns on both sides are meeting in the White House. The idea - that is generally espoused - that Trump is an idiot and is putting the world in crisis is plainly idiotic. He's a dealer. He's a negotiator. He sets a high deal bar, as do the Chinese (as do everyone! Well except the UK when (not) negotiating with the EU).

Neither side wants to lose. The Chinese, above all, will do whatever it needs to do not to lose face.

They will most likely kiss and make up.
(If they don't then the stock market will be the least of our problems...)

Global stocks and commodities had a hiccup in much of 2018. The Chinese stock market and other Emerging Markets had a bad entire 2018, having had two fantastic years of soaring stocks prices.

The day we see the headline "Trump and Xi embrace" is the day we will have it confirmed the multi year (multi decade?) stocks bull market continues.

Let us look at where stocks are, historically, and consider the outlook. The FTSE 100 index is one of a handful of global indices that can inform us of most other market indices.

FTSE 100 long term

As you can see, the index is around 7,000.

The small range of around 6700 to 7100 (the blue rectangle), you can also see, is the level above which the price of our top 100 international public companies could not breach, FOR THE LAST NEAR 20 YEARS.

It tried four times. Finally, it managed, on the fourth attempt, to break up in late 2016.

Last year, however, it fell back below but stayed within the 20 year range.

Where are we now? After a strong push, the last few weeks, we are back up practically to the top of the rectangle.

Isn't it surprising the top index has done NOTHING in 20 years? Not at all good for those large pension schemes that had all that money in stocks in the late 90s. Perhaps investment returns is an important reason why occupational pension schemes have curtailed benefits and raised contribution requirements? And not all the other reasons (excuses) we have heard for 15 years...

The FTSE chart is not dissimilar to that of Global Stocks, generally.

So, the question I have is:

Was the break UP, in 2017, false and are Global Stocks ready to break down, down, down?

Or was the break DOWN, late last year, false and are Global Stocks about to break up, up, up? Did we simply see a normal successful retest of the 7000 level breakthrough?

In the last quarter of 2018, US stocks fell a hefty 20%. They did that also in 2015-16, and they fell 24% in 2011. Falls happen. Frequently. It doesn't mean stocks are a no go investment area. On the contrary!

There is no question, we are at a pivotal point in stock markets history.

My thesis is this, as I presented to you last year:

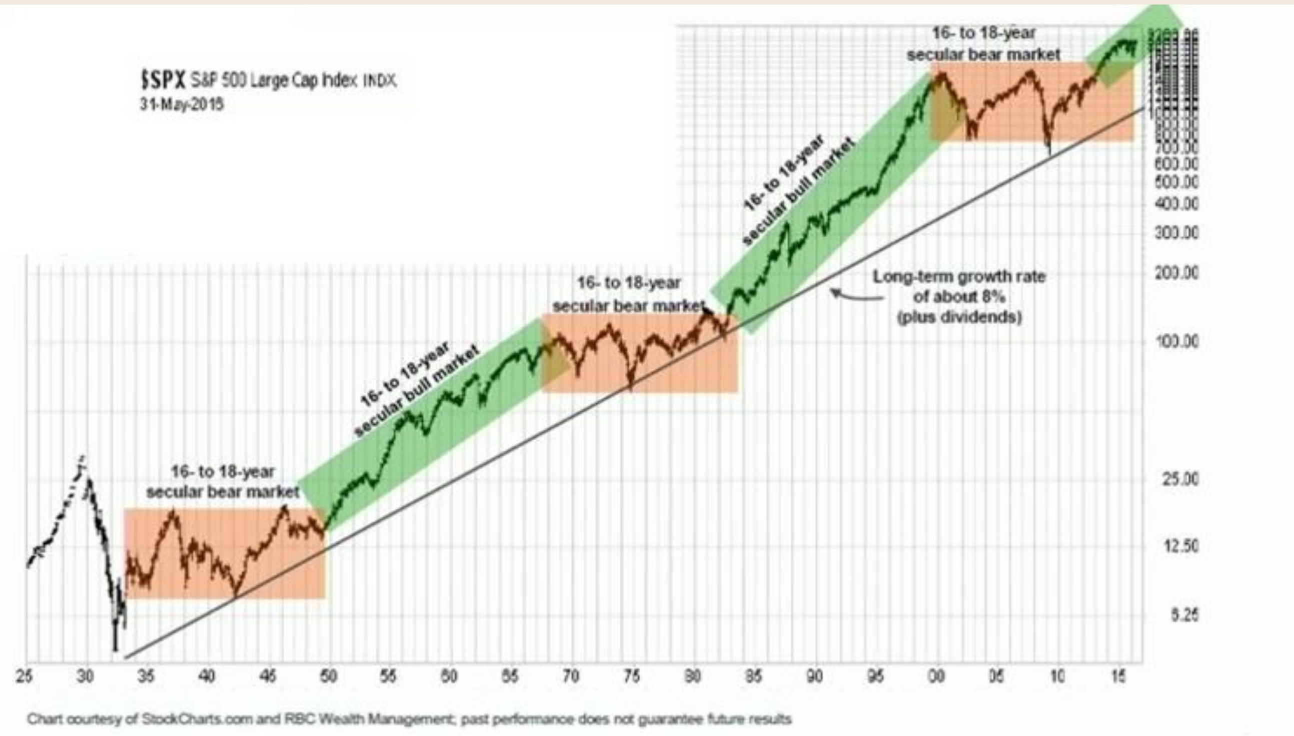
The stock market has done nothing in 20 years.

The global economy is OK (not great at all but not recessionary). In the US, we have not seen a quarter with falling corporate earnings, since 2015. To that year, we saw five in a row. We haven't recently seen one!

China and US can (and need to) make up.

In the 90s we had the PC boom. In the 2000s - the internet. In the 2010s - mobile.
Now, the next big thing is, well take your pick: AI, automation of vehicles, robotics, biotechnology. (I read that Israeli scientists believe they are about a year from a cure for cancer. It may be pie in the sky but if it's true, the economic (never mind well-being) benefits would be enormous.)

A century of stocks



Over the last 100 years, the stock market has had 15-20 year cycles. It has gone up for many years, consolidated for many years - then rinse and repeat.

We have had the 20 year consolidation. Next comes a multi year (or even multi decade) bull market for global stocks. And, like the 2000s, they will be led by Emerging Markets, rather than Developed Markets.

However, there is the question of FTSE 7100+ or 6700-. When I see the impressive strength in global stocks, since the lows last Autumn and Winter (depending on which markets), I remain bullish. Below 6700 on the FTSE will require me to turn, at least, neutral and heading towards bearish.

What impressive strength?

Since the lows in 2018, some of our assets have moved as follows:

The Emerging Markets fund in which we invest is up 10% since the October low. And up 100% over 3 years.

Global Stocks are also up 10%, since the December low. And up 40% over 3 years.

Global Energy stocks are up 14% since the December low. And up 33% over 3 years.

Someone berated me a couple of weeks back for not knowing where the stock market was going. How funny. Imagine not knowing the future... I have breaking news for you: NO-ONE DOES!

(If, however, you know of someone who does I will gladly subscribe to their newsletter.)

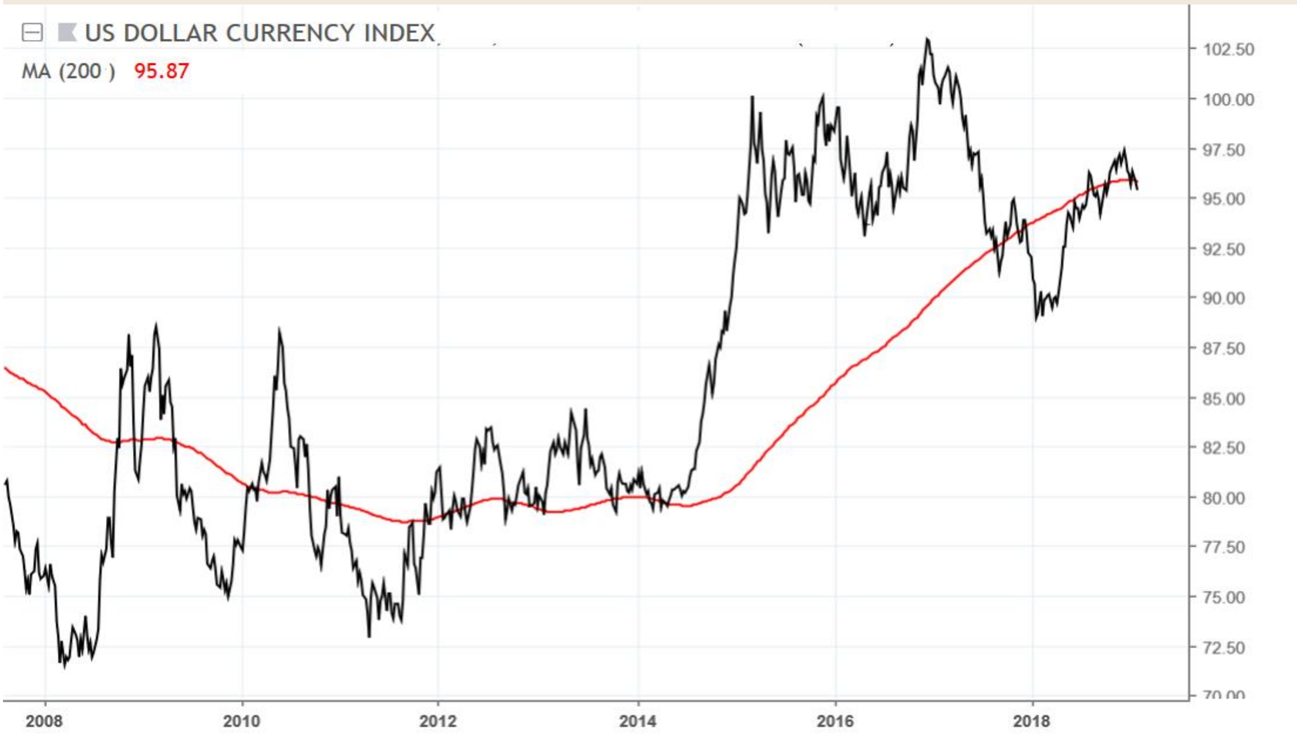
No, what we can do is consider what we have had, where we are and, ON THE WEIGHT OF EVIDENCE, consider what is more likely.

It seems to me one financial instrument, in particular, is pivotal to where the bulk of financial assets are headed: The US Dollar.

In times of trouble, financial markets participants (hedge funds, mainly) will sell (falling) assets and buy perceived safer assets, given the then troubles. One of those 'safer' assets is to hold money in the US$. It is generally accepted, with excellent reason, that the US will still be around after a bout of markets' turbulence. So, if the US$ is rising - against other world currencies, generally (ie not relative to just one or two) - that often signifies problems in the global economy and in stocks and in commodities.

Of course, therefore, a falling US$ suggests markets' strength.

US$



The US$ index - the US$ relative to a basket of major currencies - soared in 2008. This was The Great Recession, as they call it.

After correcting, it then trended up for the next several years, as the global economy was at best lacklustre and Emerging Markets and commodities were a sorry state. (Due to commodities falling for years, that is why we had such low inflation/deflation for years.)

It peaked in late 2016. It may now be trending down - having fallen a lot in 2017 - and risen again last year - BUT TO LOWER THAN THE 2016 HIGH.

It seems now to be rolling over. It went down way below the 200Week Moving Average and bounced back to just over that line.

If, indeed, the US$ is falling over, is trending down since late 2016 and is going to go down below the 2017 low (the index level of 88), then we will have MAJOR support and push for

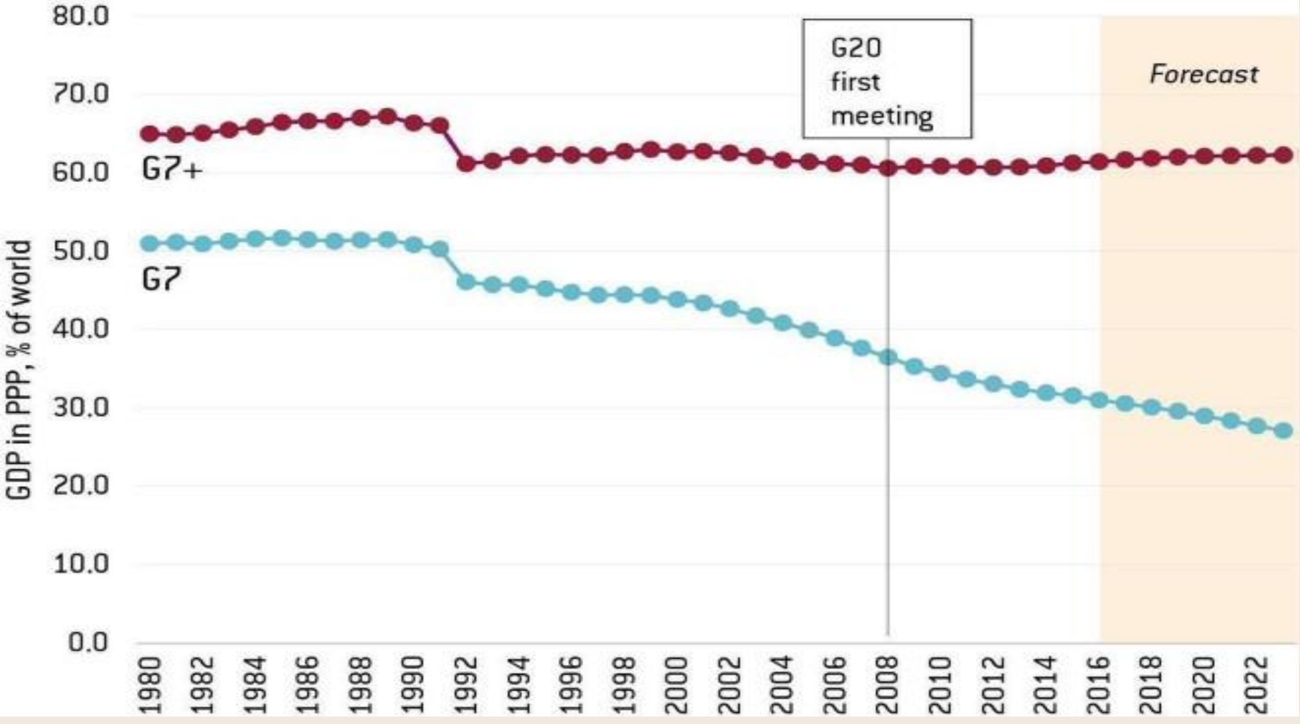
1. GLOBAL STOCKS
2. EMERGING MARKETS
3. COMMODITIES.

There is strong correlation to each of these major asset classes.

How are Emerging Markets doing?

The next chart shows the **G7 Developed Markets, as a proportion of the global economy, before and after the G20 (including EMs) was established.**

In blue, you can see G7 falling, for many years. Yet, G20 staying static. Thus, the 13 next countries (Emerging Markets) have become a bigger and bigger part of the global economy, and are expected to continue to be so.



It would also reaffirm my thesis that we are moving to an era (AN ERA!) of rising global interest rates. I have made this thesis repeatedly, since mid 2016.

Since December 2015, the US Federal Reserve has raised the US Base Rate NINE times, from 0% to 2.25%.

If you have wondered why UK Sterling has been weak for years, look no further than Mark Carney, the Governor of the Bank of England. We are still at 0.75%. Why would you want to own the £ at such a paltry rate?

(Actually, as global markets see inflation trending up in the UK - not last few months but over 3 years - they have been recently finally buying the £ because they know Carney will HAVE to raise rates. Expect a Base Rate of 1.5% by the end of 2020. Markets are forecasting devices, remember.)

I have written and spoken of this bull thesis on many occasions. If watching is more your bag, take 10 minutes or so out to hear from Mr David Burrows, the President and Chief Investment Strategist at Barometer Capital in Canada.

On 14 January 2019, he published this investments' commentary video which, largely, mirrors what I have been writing and saying.
Barometer capital manages CAD$2Bns for 400 families.

It may help clarify what I have been writing.
It is a little technical, in parts. However, please call me to discuss and clarify. The overall message, I hope, is clear.

Watch David Burrows here

Incidentally, for those who hold Fixed Interest Government Bonds in their portfolios, you should note that they have had a 35+ year bull. IF - big if - we are indeed now in an ERA of rising rates, **those assets will be decimated for many years.**

When interest rates fall, Fixed Interest Government Bond prices rise. And vice versa.

Check your portfolios.

Long term performance of US stocks and Fixed Interest Government Bonds

So, back to the asset class that went up 1000% then collapsed and could be setting up a new massive bull market:

What might you think of if I say it is 20% of America and 11% of the World?

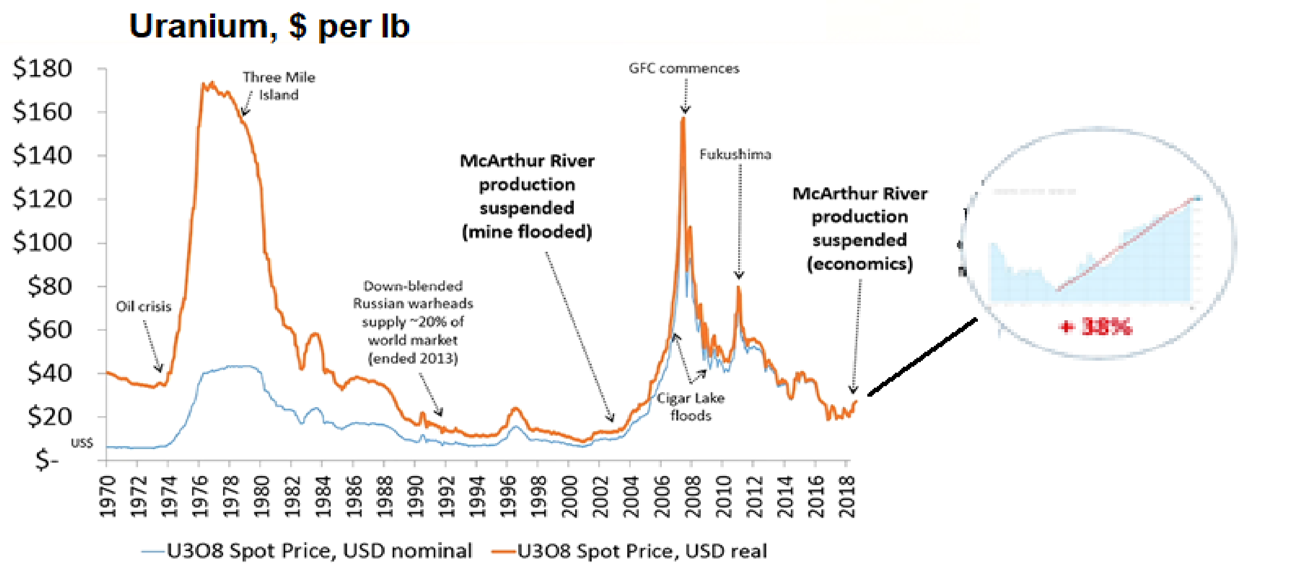
Housing wealth?

McDonalds restaurants?

Soccer?

In fact, what I am talking about is the proportions of electricity generated by nuclear power. Hence, I refer to it, above, as a quality global level asset i.e. not esoteric and a tiny niche.

Look at the chart of **Uranium** prices.



Over the past 50 years there have been two exceptional bull markets in Uranium. The chart shows the inflation-adjusted price in orange. (The current inflation-adjusted price is the same as 20-30 years ago...)

The chart shows some catalysts for change in the price. Essentially, they refer to points when either supply or demand was affected, suddenly.

In the past decade we have had substantial oversupply, especially since Fukushima.

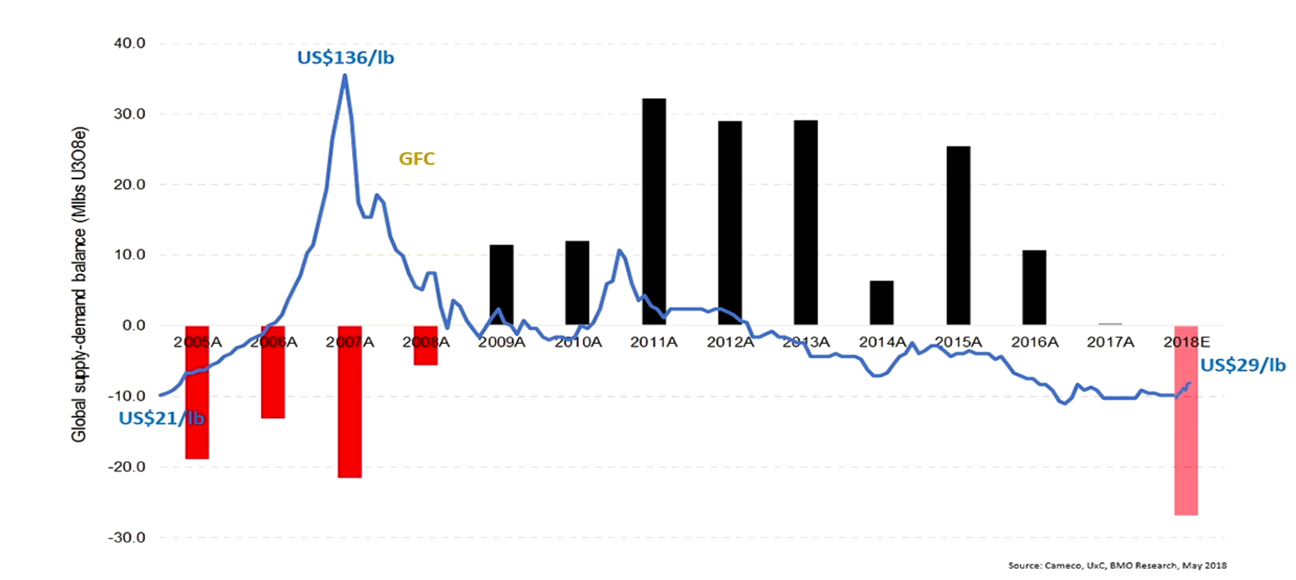
More recently, we have seen supply level or fall, yet demand has been generally rising.

Last year, Cameco, the largest - by far - private uranium mining company in the world, shut down the largest mine in the world. This was the equivalent to Saudi Arabia stopping producing oil. Demand, now, exceeds supply.

More and more countries are building nuclear power stations, especially China, and/or reopening closed ones, especially Japan and/or extending the lives of operating plants. Over the last couple of decades safety has improved materially in the nuclear industry.

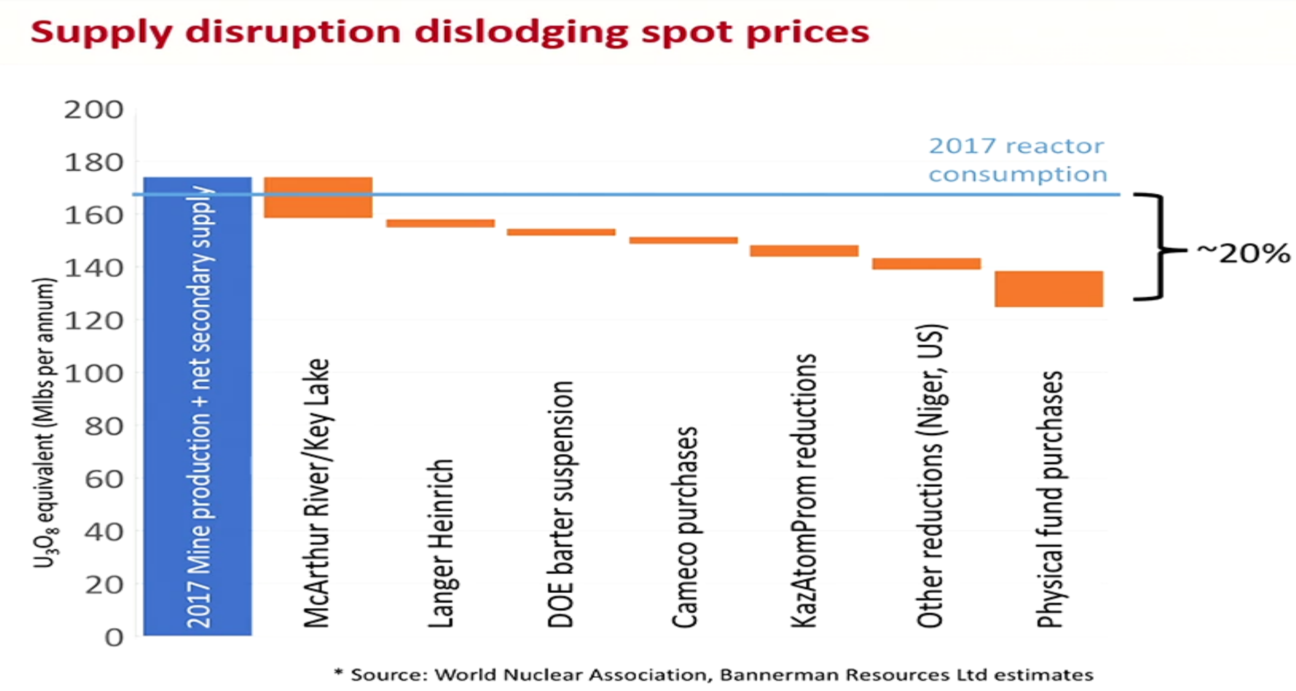
Finally, even the Green movement now recognises the carbon-free beauty of nuclear energy.

Look at **Supply and Demand**



In the last major bull, we saw demand exceeding supply, up to 2008. Then supply exceeded demand. Prices collapsed.
Last year we saw Demand exceeding Supply and this is expected to continue for many years.

By just NEXT YEAR the World Nuclear Association (WNA) expects a massive 20% shortfall in supply, as shown in the next chart.



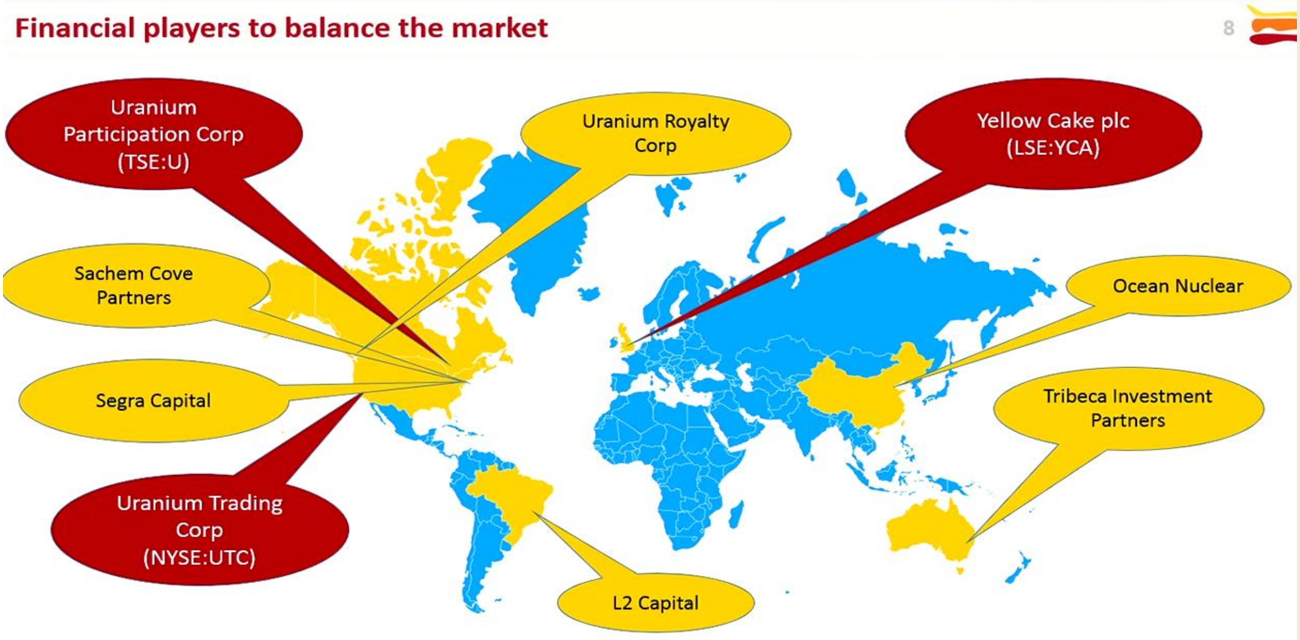
With what we know, already, since the Spring last year, the price of Uranium is up some 40%, to now, 38% as shown in the price chart, previously, to November 2018. I show that section again, next. That 38% is just the start, as far as I can tell.

Uranium price move - April to November 2018 / current (little changed from November)

There are yet other reasons why supply will not be as high as some years ago.

There is a new factor in the industry - the financial players. New investment funds have sprung up, last year largely, to invest in and STORE uranium - and not release to the power generating companies (the users of uranium) until the price of uranium is much, much higher.

Global Financial Players

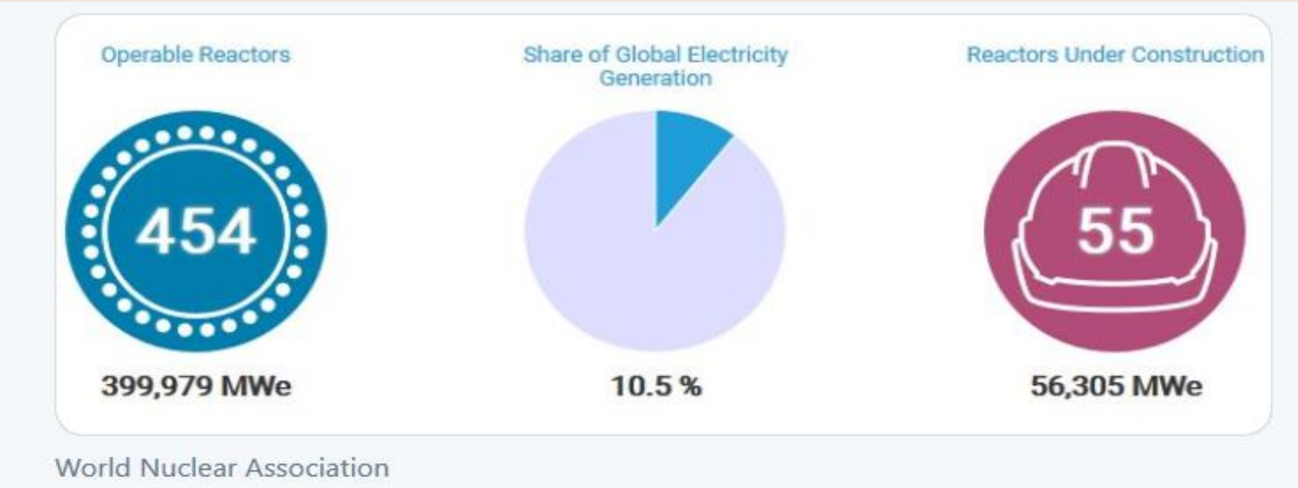


Some of them, in red, are listed on major stock markets and you can buy shares in them. As I say, that is investing directly in the price of the Uranium commodity.

So, supply is level or falling - few new mines, mines shut down due to low prices, supply being bought up and stored away.

Now, we turn to Demand.

Nuclear Reactors



There are 454 reactors in operation around the world, producing c 400 GWe (Giga Watts of electricity) in 31 countries.

Globally, 55 more are being built, as I type, to produce a further 56 GWe, over countries – an increase of 14% uranium demand to come.

15 new reactors should start producing electricity THIS YEAR, over 8 countries.

11 new reactors over 7 countries in 2020.

6 over 5 countries in 2021.

9 over 5 countries in 2022.

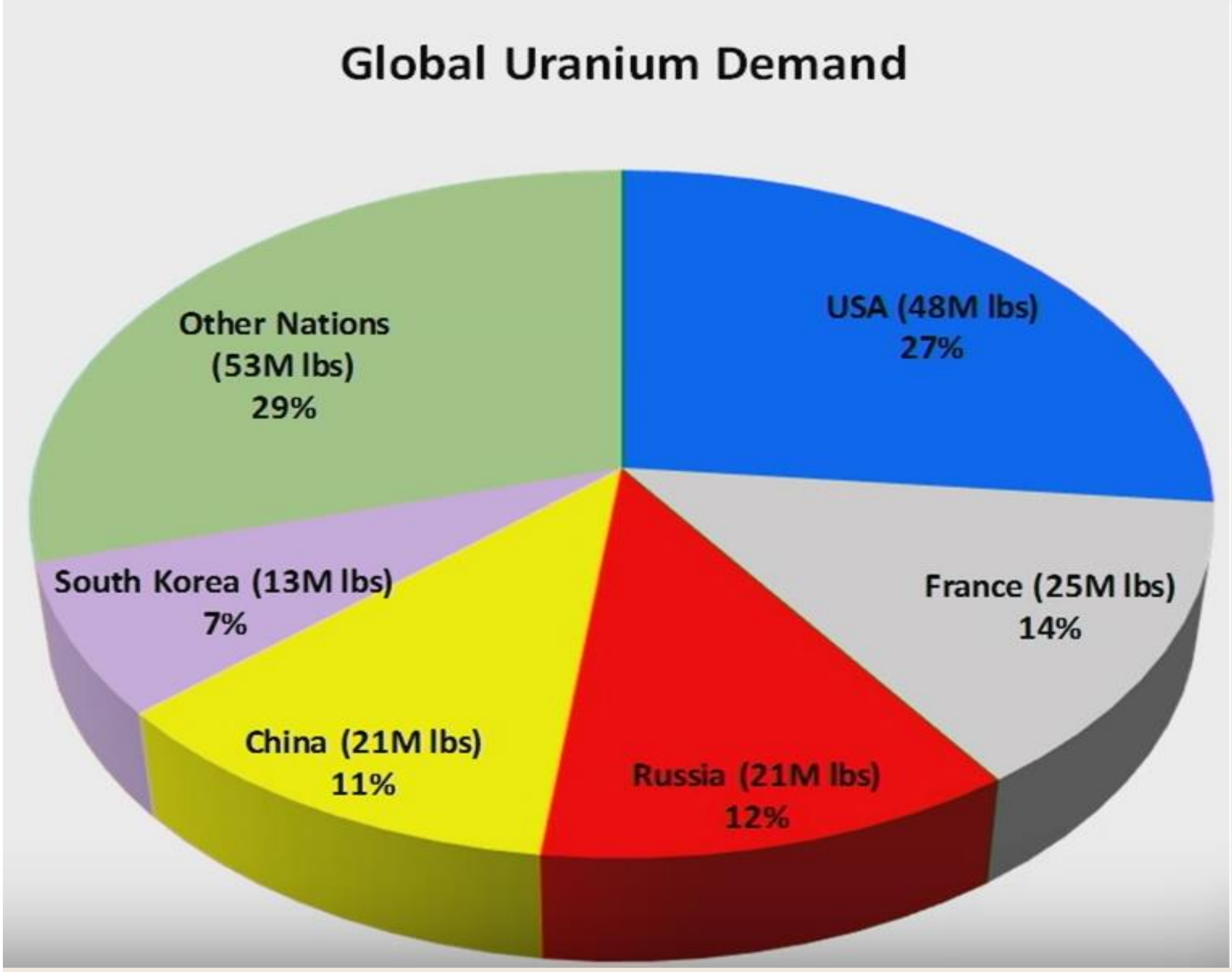
9 over 7 countries between 2023 and 2026 (including the UK).

On the other side, the WNA estimates that at least 80 of those now operating will close by 2035.

But again on the increased demand side of things, dozens of existing reactors - due to vastly improved global standard safety requirements - are being recertified with much longer lifespans, than originally expected. This will add, generally, 20 more years to their production capability. In Japan, alone, 9 reactors have been restarted, LAST YEAR.

If all of this is not bullish enough for you then I add, to the 454 reactors in operation, and 55 being constructed, **151 more are planned or already on order.**

For your interest, here is **current Uranium demand / nuclear power generation.**



China's share, in particular, is going to soar.

By NEXT YEAR China will consume some 45% of global annual uranium supply. What will the other countries do?

The WNA predicts China will use ALL of the **current** mined supply of Uranium by 2030. **ALL of it.**

Kazatomprom is the largely state-owned (ie Soviet-style) Kazakh producer of uranium. It is the largest producer in the world. (Cameco is the largest private company.)

Japan takes some 2/3rds of Kazatomprom's production. In a few years it will take all of it. What will the other countries do?

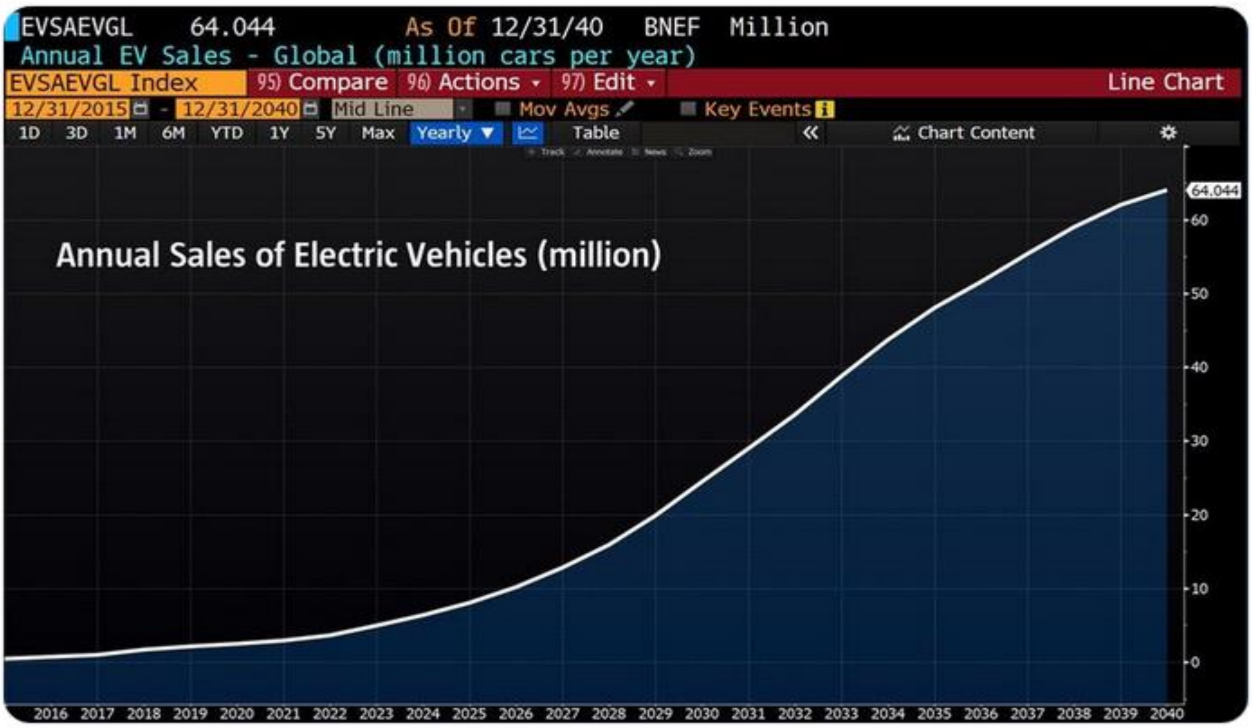
If China and Japan are going to use so much of global supply what are other countries going to do?

They are going to pay a lot of money for guaranteed supply.

So, why all this increased electricity production and demand for uranium?

Well, one of many reasons is electric vehicles.

Number of EV Sales (annual)



It is forecasted there will be 64 million EV sales ANNUALLY BY 2040.

Currently, global car sales stands at 83m (2016 number).

In other words, EV is going to almost entirely take over within one generation.

In 2016 there were 1m EVs. There are now 5 million. We will need VASTLY more electricity. And it is NOT going to come from ANY OTHER source of generation.

Let us go back to the price of Uranium.

Nuclear power companies – which we call Utilities – like to enter into 7-10 year purchase contracts to buy uranium from miners at fixed or known agreed prices.

Those contracts, entered into from 2002-04, were at low uranium prices. Uranium then surged from 2005 to 2008. The utilities decided to buy more one-off supplies, hoping the price would stop soaring. The price kept soaring.

Look at the chart which shows the massive jump between 2004 and 2005 in the percentage of the global market that was sold at Spot.

[Spot is the price to buy and take delivery now. Exactly the same as buying a loaf of bread in the store.
It differs from an agreed price, for supply, over the next, say, 5 years.]

The proportion, bought at Spot price, soared in the huge mid-decade rally. And, look. The proportion bought at Spot has just soared.

Why, again, is so much of the market being bought by Utilities at the Spot price?

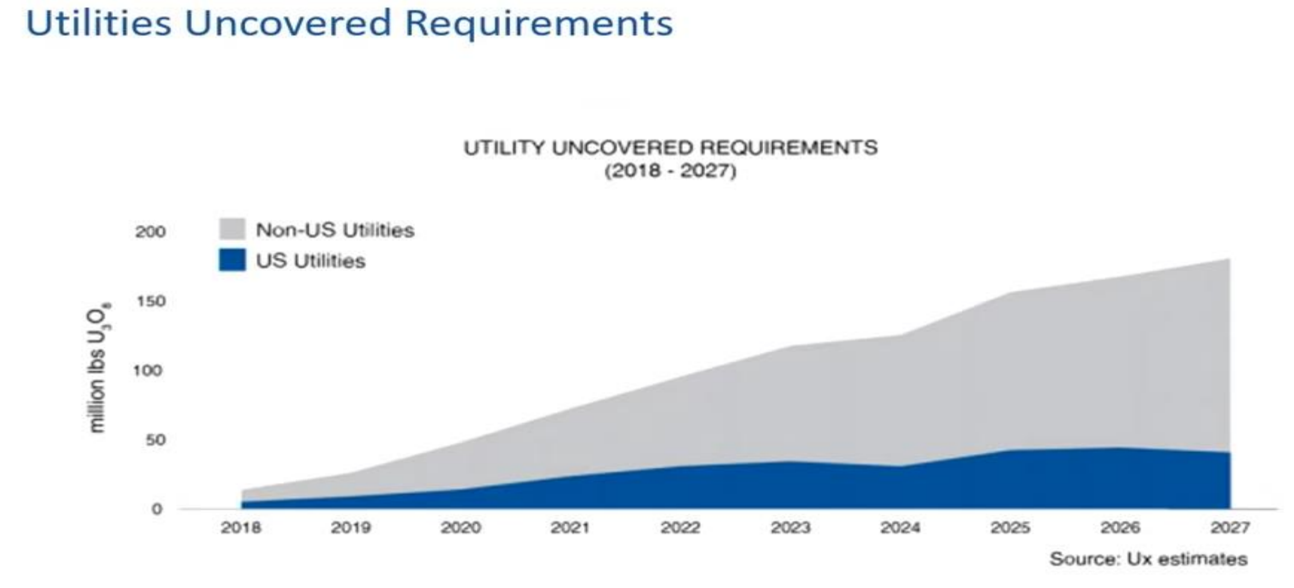
Because Spot is so much cheaper than that of a long term price. (Think a 2 year mortgage rate at 1.5% Vs a 10 year mortgage at 4%.)

By NEXT YEAR 20% of global demand will not be in long term contracts. They were long term. But the contracts ended.

By 2025, 65% of global demand will not be in long term contracts.

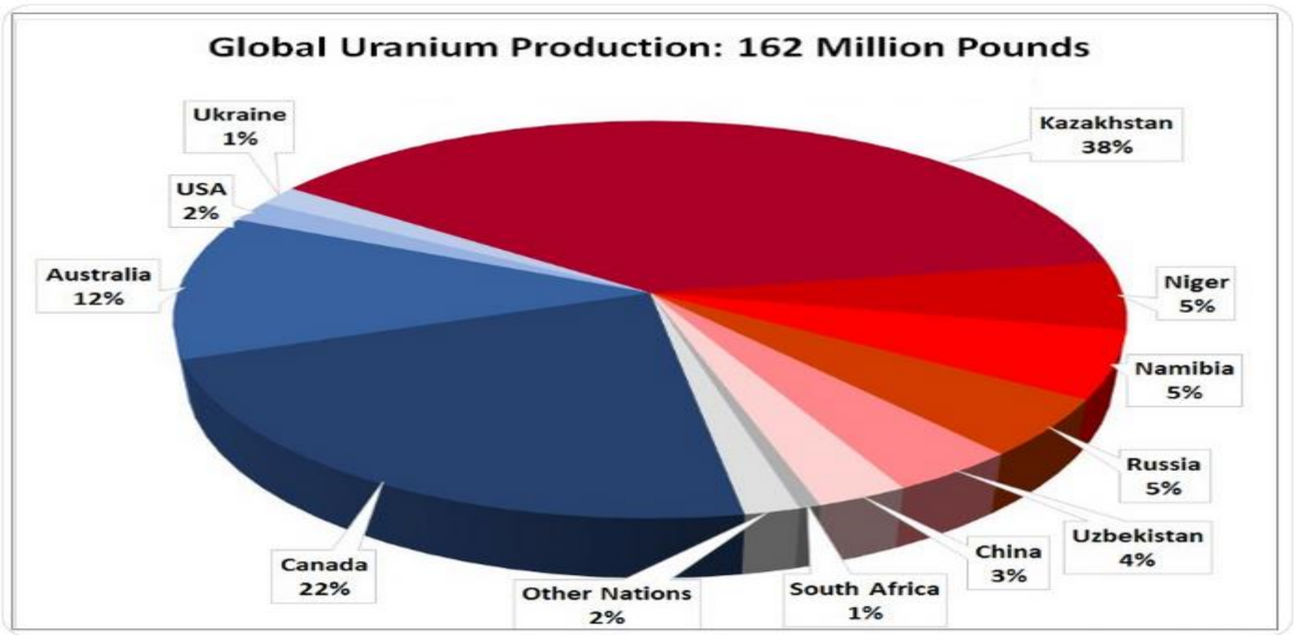
What would you do if you were a Utility CEO and you MUST guarantee demand? You would pay whatever it takes. Otherwise, you have nothing to do and you lose your job.

The next chart shows the demand which has not had a long term agreement. It is therefore **Uncovered Demand**. And it is soaring.



Also, look at who actually mines uranium.

The majority of global production is NOT the West. If ever there was a serious spat between the West and East, there has to be a risk that supply to the West could be stopped and Western demand would go vertical, thus prices would. This is not a serious risk but it is possible.



So, Utilities will, in the future, be either buying for immediate usage (on the 'Spot' market) or entering into new long term contracts.

Why are utilities now buying much more at Spot prices? Because they're not stupid. Spot is under $30.

Yet, this month a miner sold a long-term contract at $44/lb.

More and more long-term contracts will be bought, even at some 50% higher than for buying at Spot. It guarantees supply for the long term of the contract. If you were the CEO of a nuclear power generating company wouldn't **guarantee of supply** of your raw material be your number one focus?

Do you think the miners will sell at low prices, as demand rises and supply does not?

The power companies NEED to buy. The product price is beautifully inelastic (if you are a miner **or an investor in miners**).

So, uranium just now is $29/lb. Why MUST the price rise (soar)? It's truly simple. And this is why this is the most asymmetrical investment sector on the planet, of which I am aware. On average, it costs $60/lb to produce it. Thus, other than long term supply contracts that mines have, new sales either are not happening or are at $29. Thus, it makes current production unviable, other than continuously accepting operating losses. Of course, this is untenable and unsustainable.

Hence, mines are being shut until the price of uranium recovers.

Anyone who understands accounting will know that a large increase on your sales price will have a multiple effect on your bottom line, when you have such high fixed costs, as uranium mining does.

Simplistic but realistic example of how this may work:

If the price is $70, miners will make $10 profit.

But if the price goes to $80, miners will make $20. A 14% increase in the price of the commodity increases miners' profits 100%.

What if uranium goes to $100? Or $150? Over the next few to several years.

The price of uranium is likely to soar over the next few years.

Take a look at how the share prices of a few uranium miners performed in the last bull market.


CCO.TO Cameco Corp. TSE
1-Jun-2009
© StockCharts.com
Open 25.79 High 26.74 Low 25.64 Last 26.63 Volume 1.6M Chg +1.42 (+5.63%)
CCO.TO (Weekly) 26.63 (1 Jun)
Volume 1,586,819
49.60
41.20
38.58
41.68
36.99
33.34
30.99
29.21
30.50
26.82
25.08
18.39
20.80
11.97
13.42
10.71
7.86
5.62
4.45
3.42
3.98
26.63
J O 03 A J O 04 A J O 05 A J O 06 A J O 07 A J O 08 A J O 09 A

DML.TO Denison Mines Corp. TSE
1-Jun-2009
© StockCharts.com
Open 2.14 High 2.22 Low 2.12 Last 2.13 Volume 4.1M Chg +0.02 (+0.95%)
DML.TO (Weekly) 2.13 (1 Jun)
Volume 4,120,397
16.57
13.65
9.60
8.15
6.39
7.82
6.10
3.30
3.93
4.28
1.51
0.75
0.50
0.49
0.25
0.28
0.47
2.27
2.90
0.69
0.81
2.13
Jul Oct 03 Apr Jul Oct 04 Apr Jul Oct 05 Apr Jul Oct 06 Apr Jul Oct 07 Apr Jul Oct 08 Apr Jul Oct 09 Apr

EFR.TO Energy Fuels, Inc. TSE
1-Jun-2009
© StockCharts.com
Open 20.75 High 21.75 Low 20.00 Last 20.00 Volume 5,958 Chg -0.25 (-1.23%)
EFR.TO (Weekly) 20.00 (1 Jun)
Volume 5,958
274.00
140.00
124.00
90.00
68.50
54.50
38.50
39.00
15.00
25.50
13.25
11.50
2.00
4.00
5.75
3.50
35.50
22.50
32.50
8.00
20.00
J O 03 A J O 04 A J O 05 A J O 06 A J O 07 A J O 08 A J O 09 A

The above included the major, Cameco. So, not just little companies.

Uranium is up some 50% since late 2016. Over the next several years, it seems to me, Uranium has a lot further to rise in price.

The prices of miners will soar more than the price of Uranium.

We know miners with market capitalisations of $10-$50m. Yet they have known reserves of $1-$2Bns with uranium at $60-$70.

If you only want mega returns over a year then you need to speak to someone else. If you are sure your current investments will do well in the medium to long term then continue to do what you are doing.

Look back at the chart way above. Uranium soared from around $40/lb to $140 in just over a year. That is how quickly this market can go. Or it may be, say, 4 years.

Are you invested? You should be. Our clients are. It seems to me the returns are going to be astronomic onto Pensions, Bonds, ISAs etc.

Last year I said this was a 3-6 year investment. A year on, with Cameco shutting McArthur River and other developments - so an even stronger outlook, it is now a 2-5 year investment. No doubt, eventually, the price of uranium will eventually top and then crash, as more supply comes online. This is not a very long term investment. Uranium (as most commodities) is cyclical. The beginning of the cycle is now.

It takes several YEARS to find a mine and then develop it and obtain certification etc and supply into global markets.

Uranium is very much a BOOM & BUST industry.

If your wealth manager is not talking to you about Uranium, ask yourself why not?

The bulk of wealth advisers and portfolio managers has NEVER managed money in an era of rising interest rates.

They have only known falling rates, throughout their careers. Just like you.
What is your adviser / manager saying and doing?

What should YOU do to secure and grow your wealth and purchasing power?

Don't put it off till it's self-evidently too late.

If your portfolio, altogether (pensions, ISAs, other investments), amounts to at least £500k, why not arrange a no-obligation discussion with me about your plans and objectives?

I have space for 3 new clients.

We work for wealthy families (some with portfolios in significant 7 figures) and/or high earners, whose portfolios will get there.
We work for clients all over the UK and indeed on 3 continents.

We also have an association with an excellent financial planning firm who can advise interested parties with portfolios materially under £500k. Contact me for details.

Our most important and most often repeated philosophy is :
"We advise you based on what we would do, were we in your shoes, given what we know".

Call me personally to see how we can help.

Please note carefully the following important messages:

I believe most folk do not realise, in big picture, the changes happening right now in our economy and markets (interest rates, government bonds and property).

They will.

I think most folk also do not realise, in big picture, the amazing opportunities in our markets (global stocks, commodities, inflation-directed assets).

They will. But will they benefit?

If you have any queries over any of the issues raised do not hesitate to get in touch with me by calling me or emailing me at **jdavis@jonathandaviswm.com**.

Follow me **@J0nathanDavis** where I frequently comment and link to important commentaries on markets and economics.

See **Jonathan Davis YouTube** channel.

Kind Regards

Jonathan Davis **BA MBA FCII FPFS**
Economist and Wealth Adviser
Chartered Financial Planner

0345 862 2919
jonathandaviswm.com
The Mill, Vicarage Lane, Waterford, Hertford SG14 2PZ