Biamonte Financial

Mega-Themes: Creating Alpha

Quarterly Investment Advisory

October 2015

This quarterly newsletter will focus on worldwide major demographic, societal, technological and political developments that create long term (macro) investment opportunities, henceforth identified as “mega-themes .” These mega-themes will guide the financial advisor beyond the short term, hot trends of the typical thematic mutual fund or ETF with the intent of providing a thesis for adding measurable alpha to clients’ portfolios**. For an update through the 3rd quarter, see page 2. (Readers, please note that each newsletter will include the original text from the first edition, identifying mega-themes, plus an update on the previous two quarters).**

Mega-theme investment opportunities arise from being able to recognize and capitalize on major secular changes on a worldwide or regional level. They may have different definitions: mega-trends, major theses, but clearly, they must be compelling long term opportunities to qualify as mega-themes. **Examples of recent mega-themes:**

1. **Gold and Gold Stocks 2004-2012**

Gold transitioned from an 18 year bear market, to a bull market due to a number of socio-economic and structural trends and adjustments worldwide (central bank purchases, quantitative easing, culturally sparked demand, etc.). Money managers who recognized this mega-theme capitalized on gold prices and mining stocks soaring to record levels

2. **Emerging Market Debt 2002-2012**

After the Asian currency crisis of 1997-98 followed by U.S. and International Monetary Fund (IMF) bailouts along with subsequent regulatory and structural adjustments in developing markets, corresponding sovereign debt outperformed almost all equity markets (in U.S. dollar terms) with half the volatility.

Mega-themes update, 3rd quarter results

Valuations within every mega-theme identified in this newsletter corrected (or adjusted downward) during the 3rd quarter. China, India, Japan, biotech and energy saw declines. In every case, however, an argument can be made that each represents a buying opportunity.

China: this was the big news. After the Shanghai Composite (SHCOMP) rose 157% in thirteen months, it seemed reasonable to expect a correction. Yet, pundits and prognosticators fell over themselves proclaiming the death of the China story (the mega-death of a mega-theme). As soon as the SHCOMP dropped 20% bear market rhetoric rolled from their tongues, like water lapping on boulders in a woodland brook.

When a market, that few investors fully understand, is up 157% in just over a year, then drops 20%, is that a bear market? I think not. Even now, with Chinese (SHCOMP) stocks down 41% from their peak, I am still not yet inclined to call that a bear. A correction? Okay.

During this period of decline, the talking heads drummed onward, seemingly blind to the obvious. China isn't going away anytime soon. There are too many positive forces driving the China growth story. Transition? Yes, of course (please seem my original case for China on pagem8). But here is a list of additional factors that will power the Chinese economy forward:

1. **Start-ups –** In 2014, China had 3.6 million start-up businesses. Currently, that number is up 46% from 2014. Clearly, the government start-up program giving entrepreneurs access to 60 million yuan is the primary engine. Although the government takes an equity position, management is left to the private sector. Along with help from private venture capital sources, Chinese small businesses are thriving, which is the a driver for employment and growth in any market based economy.

2. **E-commerce –** With and admittedly weak brick and mortar infrastructure, the internet explosion continues to drive business with over 600 million active users.

3. **The China Silk Road Mega-project and the Asian Infrastructure Investment Bank --** This is a mouthful, but it underscores the magnitude of this endeavor – a major highway linking China with Portugal, far bigger and more lucrative that anything the old Han Dynasty ever conceived. Although a decades long project, it is already having a positive

4. impact on China's and neighboring countries' economies, as investment capital is pouring in from numerous worldwide sources.

   The groundwork for this new China Dragon – The Silk Road – and its ancillary implications are enormous and advancing rapidly in the development process. The Asian Infrastructure Investment Bank (AIIB) is very close to becoming operational, with its mandate and charter already in place. The bank's modus operandi will be (allegedly) lean, clean and green with strong policies on governance within environmentally and socially conscious frameworks. And its most significant function will be to support the Silk Road Project.

5. **Mortgage down payment cut --** At the end of the 3rd quarter, just before the week-long Golden Holiday, the regulators in China cut the mortgage down payment requirement adding significant liquidity to the real estate market. It would seem that the development glut that plagued the real estate sector may be diminishing, which has played a major role in slowing economy.

6. **Devaluation of the yuan –** Readers may note that in an earlier rendition of this newsletter, I indicated that China may be forced to devalue their currency (see 2nd Quarter Results 2015, page 13). Though Wall Street acted surprised (suggesting investors were asleep) and the knee-jerk reaction was typical, the discount to the dollar was only 2%. The impact on the U.S. economy will be negligible, but China's gain may be more significant.

7. **(October 5, 2015 as of this update) IMF – economic growth projection for 2015 –** 6.8% is the latest figure for China from the IMF which is a growth rate in total economic activity (GDP) as high as it was nearly 10 years ago when the economy was less than ½ the size, but growing in double digits (at that time).

Japan: the structural and long term secular and cultural adjustments that triggered the Nikkei's surge (up 147% since mid-2012) in a are still in place as corporate revenues and Japan's economic growth exceeds most analysts' expectations. View any market correction as a buying opportunity.

India: hooray, a majority of the talking heads have been onboard with this call, though stocks in India have also languished after rising significantly in 2014. This gives investors time to add this mega-theme to their portfolios for long term growth potential.

Biotech and Healthcare: Hilary Clinton attempted to derail this sector (a current mega-theme) in 1994 and she is doing it again. But nothing has really changed, and it appears unlikely that Hilary will have any measureable impact on the fundamentals and the vast amount of money flowing into this sector over the long run. Those fundamentals remain intact. Buy.

Energy: the so-called revolution or renaissance is occurring only in the U.S. The buying opportunity is in the mid-stream space – the MLPs. This is the best buying opportunity ever in this asset sub-class. With a 9% average yield, MLPs look very attractive. If oil prices continue firming, look for a significant rebound in share prices.

Note that history tells us that when the spread between the MLP yield and the ten year treasury has reached a level 15% below where it is today, prices appreciated 20%-40% one hundred percent of the time.

Meanwhile, Russian Energy Minister, Alexander Novak announced that Moscow is ready to capitulate and meet with OPEC. When oil is state owned (or controlled), as it is in Russia, as well as in most energy producing nations outside of the U.S. and Europe, your country is a hurtin' pup in this environment. And Russia, with the added burden of sanctions, is crying "uncle" and begging OPEC to cut production. The stage is set for a Russian-Saudi pow-wow preceding the broader OPEC summit, setting up for further improvement in oil prices at some point in the reasonably near future.

Developing Mega-themes update

Cyber Security and Artificial Intelligence – The PureFunds ISE Cyber Security™ ETF HACK was down 21% (bear market territory) from it's July high, by Sept. 29. It has since rallied. Though further downside is possible, the decline looks like an excellent opportunity to get into this space. Cyber security as a theme will continue to develop and as investment opportunities expand, this specialized sector could become a major long term theme (Aha! A mega-theme, perhaps).

Cyclical Nature of Mega-themes

It is important to recognize that current and future mega-themes may transition through boom and bust cycles or may take considerable time to manifest as geo-political and economic forces often act to stall growth and profitability. But correctly identified mega-themes will survive market forces that can temporarily cage long term potential. History is replete with mega-themes that have had secular staying power. Recent examples are internet technology and biotechnology and on the international, socio-economic level; China.

How Should Mega-themes be added to Portfolios?

Advisors should recognize the importance of diversification using the tenets of Modern Portfolio Theory (MPT). A well balanced portfolio may exhibit a lower standard deviation over the long term, but it will rarely out perform its corresponding benchmark. Adding a 5% position to a mega-theme that meets expectations can enhance upside – providing alpha. Several different mega-theme holdings may push performance above benchmarks over the long term.

Holdings of 5% in additional mega-theme positions may improve the upside even further, albeit consideration must be given to added risk. Further, deciding when to reallocate profits in mega-theme holdings or when to add more on weakness will impact outcomes and should be part of an advisor’s overall management philosophy, based upon clients’ needs and objectives.

Mega-themes May Not Be!

Many prognosticators proclaimed green energy a mega-theme as the U.S. administration took office in 2009. But lack of political will and economic incentives have not yet made alternative energy sources the profit generators that some were expecting. Other examples of potential mega-themes dying before the finish or just not germinating are: two of the BRICS (particularly Russia), satellite radio (a minor mega-theme, at best), “shovel ready infrastructure projects” (but they may not be dead yet), nano-technology (time will tell), and the largest by default (or perhaps, forfeit), the European Union (despite near to medium term upside potential in European markets due to significant increases in corporate profits and the easy monetary policy).

Further, cyclical economic trends should not be confused with mega-themes. Certainly, thematic investing attempts to capitalize on trends such as interest rate movement or societal fads. These factors may steer investment strategies, but will not likely be defined as

mega-themes as described in this paper. Generally, MPT tools and strategies should add the necessary efficiency to portfolios seeking to capitalize on the less significant dynamics of trends and cycles.

Current Mega- Themes (identified in the first edition of this newsletter Feb, 2015)

India is On Fire

India's story began in the mid-nineties when it was recognized that the country was undergoing a transformational shift. The middle class was growing rapidly and within a few years had reached 400 million, becoming a powerful force for growth especially after the 1997-98 currency crisis. India needed structural reforms to sustain its growth rate and the next world-wide financial crisis of 2008 put a damper on the big picture. But that is old news.

Recently, the strong mandate of India's new government for implementing structural reform, boosted investor confidence in 2014, driving stock prices sharply higher. Upward cyclical forces, lower commodity prices and the agenda of the current administration for cutting red tape and regulatory excess, is likely to boost economic growth. Augmented by the RBI's (central bank) rate cut, India's economy is expected to grow 6.3% in 2015 according to Goldman Sachs. Certainly, the strong U.S. dollar is a positive factor, as it is for most export nations. Exports are growing rapidly while China's have diminished (It appears India is capturing some export business abandoned by China).

But it is the dynamic trend of long term growth emanating from the power of the middle class, (which is larger than the population of the U.S.), that will determine India's future. This socio economic segment, growing more educated and affluent, will be the impetus for the mega-theme.

Bushido No More (Japan)

No doubt, Japan still holds a major position in the world economy, albeit having fallen from the number two spot, recently supplanted by China. Consideration must be given to significant changes that have begun to transform Japan. After more than two decades of mediocrity, its economy is finally showing indications of a strong upturn. Partly a result of a long-awaited

cyclical emergence and partly a result of a policy environment that is once again friendly toward productivity, Japan will likely see considerably higher growth in the near term.

Goldman Sachs predicts corporate profits in Japan will jump significantly and produce record levels of Return on Equity (ROE). Japan's corporations are adopting a stewardship code making ROE a top priority. A new market index, the JPX Nikkei 400 has strict ROE standards for listing. Japan's major companies are competing in earnest for inclusion.

Added to this picture is an expected additional reduction in the corporate tax rate and a postponement of the consumption tax. Japan's quantitative easing, while continuing to grow the money supply, will favor a weaker yen, making Japanese exports more attractive.

Japanese investors have returned to buying equities after a 20 year hiatus. Pension funds and institutional money managers are eager to invest in Japan's brightening future. But more importantly impacting the longer term outlook for Japan are significant corporate structural changes that are arising from a major cultural shift.

Factors contributing to corporate profit growth include the gradual disintegration of centuries old practices that do not apply in the post-modern world. Of these, derived from the traditions of the old warlords and their subjects, is the concept of lifetime employment. A corporate structure, based upon the ancient Bushido Code, where hard work has historically been rewarded with employer loyalty and a sense of obligation to the employee, was instrumental in digging Japan from the ruins of WWII and building the country into a modern economic power.

But this was also the largest element contributing to the demise of Japan's prominence in the world; the custom of hiring employees for life and never laying them off despite declines in corporate profitability. This led to Japan's inability to rebound from the economic and market weakness of the late eighties and early nineties. So when the Nikkei crashed in 1989, it never rebounded, as unsound labor practices, among other factors, created roadblocks for growth.

Over the last two decades this warlord mentality has changed. Corporate Japan is leaner and more aggressive. Though layoffs are still taboo in the largest companies where unions are strongest, most firms are managing labor more effectively and are more likely to be able to

adapt to change and to the dynamics of worldwide competition. Implementing sound labor practices throughout Japan has been a major part of Prime Minister Shinzo Abe's new agenda.

Employees are recognizing that employment by any one company isn't a lifetime guarantee and they (the employees) must remain nimble and adaptable to change. It is largely a result of this cultural shift that makes Japan a long term mega-theme.

China's Vision

When President Nixon visited in 1972, it triggered the birth of a new age for China. And it changed the world. But not necessarily the way Nixon had intended. The purpose of his visit was for the U.S. to establish diplomatic relations with China to gain leverage over the Soviet Union. And, indeed, it did. It also set the stage for China's transition to what the Chinese call a "market economy" through privatization of most state-owned industries (though State Owned Enterprises (SOEs) still play a major role).

Although China's version of capitalism differs considerably from established free-market constructs, China realized unprecedented economic growth. From 1978-2013, China's economy increased by 9.5% (average rate) per year.

China surpassed Japan in 2010 and is now the second largest economy in the world (outside the European trading block). Today, though slowing, China is still expected to grow at more than 7% even as it wades through housing and credit excesses. But restructuring and low inflation (recently helped by lower commodity prices) serves as the backdrop for a gradual shift from a primarily export driven economy to one that is consumer oriented. Like India (with less class structure), China has a growing middle class and the country's broader population of 1.3 billion have an increasing thirst for the good life. As China's urban areas grow and modernize, the demand for products both imported and produced internally is skyrocketing.

Though inbound capital flows have driven investment in China by foreigners, a huge shift is underway. Chinese investors awash in $3 trillion of wealth created by two decades of growth, (particularly in real estate), are now making purchases worldwide, plunking down $12 billion in the U.S. real estate alone in 2013.

600 million internet users in China with a highly developed infrastructure for payment and physical delivery (of products) represent a huge market opportunity and tremendous potential

for growth in internal demand. Consumer leverage mainly among younger Chinese is evolving rapidly and will represent a major factor in contributing to China's e-commerce evolution.

If China can work through its credit and housing imbalances, the transition to a consumer based economy will likely become the next permutation of explosive growth for the country – and a long term mega-theme.

Jeans and Genes

An aging population in the U.S. serves as the basis for long term investment; the healthcare mega-theme. Added to this picture is the increasing role of insurance as a direct manifestation of the Affordable Care Act signed into law in 2010. An enormous wall of capital is flowing in the direction of the health care industry. Total projected expenditures exceed $4.5 trillion by 2020 which will represent over 19% of U.S. GDP. The fleeting idea that healthcare spending, as a percentage of GDP, was likely to decline as efficiencies entered the system, belied plausibility.

And as a large percentage of the remaining 30 million uninsured enter the system, that "wall of money" will only ratchet upward. Of course, some aspects of this picture could become derailed as the political climate changes in the U.S., but the fundamentals are unlikely to disappear altogether. More likely, health care may be changed or retooled once again at some point, but the flow of capital will likely continue. Ultimately, the big players: insurance and pharmaceutical companies and the biotechnology sector will be the big winners.

Lastly, the incorporation of artificial intelligence technology in the bio-tech aspect of the health care industry will play a prominent role in its growth and may become a separate identifiable mega-theme (see page 7 for details). In any case, healthcare and biotechnology is a mega-theme that cannot be overlooked.

Evolution of Tight Oil and Fracking

Tight oil became the topic of conversation in the energy sector several years ago, especially among the drillers. And "drill, drill, drill" was the call from those on the right side of the political aisle. And despite a different tune from the left, indeed, "drill, drill, drill" became the mantra of the day in the U.S. Oil along with natural gas production has skyrocketed in the last 6 years from shale in the U.S. and oil sands in Canada (i.e., tight oil), and from more effective fracking techniques (mostly for natural gas). In 2015, the U.S. is expected to become the largest

oil producer in the world and, if it remains on its current path, will likely become energy independent by 2020, or shortly thereafter.

Meanwhile, an over-supply in the U.S. along with Iraqi production returning to the world markets, as well as an inability of OPEC to hold prices stable through its usual manipulative practices, has led to a precipitous decline in prices . But even when oil futures are in contango, oil keeps flowing and therein lies the opportunity.

The infrastructure to move oil and gas is insufficient to match the supply and lower prices will likely increase demand at some point, pushing prices higher. The supply lines are contracted for specific terms and remain intact and operating regardless of demand issues. Cash flow will remain steady over the long term and gradually increase as demand grows, while new infrastructure will be built to meet future needs.

Master Limited Partnerships (MLPs) along with mutual funds and ETFs that own them, are the conduit for investment in the infrastructure, meeting the energy demands of the U.S. and ultimately supplying the resources for export. The energy sector – specifically the MLPs, offering steady dividends along with the opportunities for growth represent a narrower theme within the energy sector.

However, pipelines though utilized for oil flow, are primarily a natural gas play, whereas railroads move 90% of the oil supply in the U.S. Railroads are, therefore, an even more focused theme in energy.

Keep an Eye on Them

1. **Artificial Intelligence (AI):** cognitive chips and algorithmic logic will form the basis for thinking computers in the future. And if a free-thinking cyber intelligence doesn't take over the world, or at least, become a threat to humanity (a la the dire warnings from Elon Musk of Tesla and SpaceX fame, Dennis Hassabis, the Google Deep-Mind founder and Noam Chomsky of MIT), there may, indeed, be some profit potential in this category (for investment).

Certainly, cyber security is rapidly becoming a major investment theme and may become a stand-alone mega theme at some point, especially if AI becomes a more

important aspect of its development. Consider the possibility of cyber logic becoming adaptable spontaneously to the latest cyber threats using AI to develop defense mechanisms.

2. **U.S. Highways and Bridges:** infrastructure for shipping. When serious "shovel ready projects" manifest, whether they be entirely government funded or implemented through public private partnerships (PPP, or P3), look for long term opportunities. Up to $3 trillion is necessary to take the highway system in the U.S., rated D+ by the American Society of Civil Engineers in 2013, to grade level B.

3. **Drones:** this is the newest and latest developing mega-theme to be added to this list. CBS Money Watch recently reported that commercial drones are an entire "industry waiting to be born." It's not a matter of "if" at this point. It's a matter of "when." The drone industry will be truly massive... *Fortune Magazine* tells us the economic impact of drones in the U.S. alone is already $82.1 billion.

According to *Reuters*: "Military drone technology, which has revolutionized warfare over the last decade, will be ready for civilian use within [two] years and **could create a market worth more than $400 billion."**

It's no wonder Facebook and Google just spent nearly $100 million scooping up drone companies."

Other companies to watch: Amazon, Sony, GoPro, Raytheon

4. **South Korea:** The won (KRW) may begin to weaken in response to the country's loss of market share since 2009 which could significantly benefit Korean companies' competitiveness. As China's economy transitions with reduced export capacity, Korea (like Japan) will benefit especially given their exchange rate flexibility (which China doesn't have).

   The KRW has strengthened since 2009 hurting Korea's export capacity. Watch for the trend to turn, perhaps like the yen/dollar trend over the past several years. If the won declines significantly and remains lower relative to the dollar for a period of time, some significant opportunities will likely develop in Korea. Government policies to increase competitiveness (weaken the won) seem inevitable. Stay tuned.

2015 2nd Quarter Results and Additional Considerations (July, 2015)

India

At the time of this writing, India is demonstrating that mega-themes should be viewed from a long term perspective. Year to date (ytd), the Bombay Sensex index is flat.

Investors have shed some exuberance from 2014, but not enough to trigger a sell-off, often seen in volatile emerging markets. Although that may yet manifest. The long term outlook remains favorable, however. HSBC India Manufacturing data for March was above the prior month at 52.1 (51.2 in February).

With the BRICS New Development Bank closer to becoming operational, and with India designated as choosing the first five year president (from India), along with the country's likely entry into the Eurasian Economic Union, upside potential continues to gather steam.

China

The Shanghai Composite jumped 17.8% in the 1st quarter and charged up to a 48% year to date return before getting hammered by a sell-off that brought the 12 month frenzy to an end. Stories abounded of farmers abandoning their crops to cash in on the jubilation as the index doubled over a 7 month period. By late June an estimated 90 million citizens had a stake in the market. But leveraged 5:1 many Chinese investors who jumped in at the top are crying in their soup today as the market is down 28% from its peak (but still up 14% ytd.)

The spectacular downturn, though disconcerting to many, revealed a number of important truths. First 90 million investors is barely more than a drop in the bucket relative to the overall population of 1.4 billion. And certainly, a large percentage of the 90 million are still holding on to profits considering that the index is still up 85% from 1 year ago. Which means the impact on the population of households has been negligible.

In addition, the 100% rise in stock prices (in the China A shares) was supported by fundamentals. Per capita GDP doubled in 6 years. The middle class, as a percentage of the total population, was 10 (%) in 2010. In 2015 it stands at 25% (and is expected to be 35% by 2020). Meanwhile, stocks were flat for several years during this growth period while corporate earnings rose significantly despite a reduction in exports.

Further, China is undergoing a massive transformation toward a consumer based economy, one that analysts predict will continue to power upward even if growth is subdued. Reuters' late

July forecast is still calling for 7% expansion this year and 6.7% next year. Of course that's down considerably from the double digit growth the world became accustomed to for nearly 2 decades, but it's still a steamroller. Expected to reach 11.5 trillion dollars in GDP, China will likely be the largest economy in the world by 2021 if current growth projections are correct.

As China continues its transition to a consumer based economy, the BRICS New Development Bank will be a factor in China (as well as India). Noteworthy is that growth of 7% this year will generate more additional output than a 14% pace did in 2007.

China's credit binge over the past decade allowed China to power through the global financial crisis but also saddled it with a heavy repayment burden. As that process works its way through economic strata, the cyclical slowdown remains a focus for investors. China's president, Xi Jinping, has cited slower growth as the "new normal" for China's transition to a consumer oriented economy. Meanwhile, the central bank has implemented a broad based, as well as targeted, monetary easing strategy designed to stimulate growth in the economy at large as well as in specific sectors where more intensified stimulus is desirable.

In addition, it has been difficult for China to maintain its implicit currency (yuan) peg to the U.S. dollar. Low inflation, high debt ratios, lower exports all seem to suggest that China may be forced to float its currency, in which case, it is likely to depreciate relative to the dollar and may, in the long run, be the most desirable course (for China).

Japan

Although the Nikkei sold off in recent trading, the ydt results show a positive 17.6% which makes Japanese stocks the best performers of the major worldwide markets (excludes Italy, and France from the criteria).

Japan's longer term prognosis remains unchanged, albeit still marked by a plethora of naysayers proclaiming, "Japan's population is aging. Japan is suffering from a labor shortage. Japan remains steeped in traditions that will constrain competitiveness." And so on. Meanwhile, Japan's equity rebound suggests a considerable degree of optimism, at least for the short term.

However, some institutional investors are finally cluing in to Japan's long term potential as well. Bailard International Equity Strategists, for one, calls Japan their best 10 year country selection.

In any case, consider most pundits still misinformed or misguided about Japan's long term prognosis. The country's aging population has saved more money than any for the last 40

years. Little has been invested in equities in recent decades and now this retiring segment is bursting with exuberance, i.e., pent up spending fever, tempered, of course, as Japan's iconic culture demands. Consequently, the savings rate has recently turned negative for the first time in decades.

Meanwhile, Japan has dealt with labor shortages for two decades by hiring from abroad. This has worked well and will likely continue. Lastly, Japanese traditions are changing. As already mentioned in this newsletter (see page 4), the concept of lifetime employment is rapidly becoming an anachronism as Japan's lifers retire, even as many have spent years in the so called "waiting rooms" per terms of union contracts. In fact, this practice of allowing employees to remain employed, even when not needed, will gradually become a relic, and corporations will be able to cut costs as lifers retire.

And lastly, women, who have been traditionally shunned from the work force are beginning to transition from a culturally pervasive domestic lifestyle to one that embraces the idea of employment outside of the home. If even a small percentage of women enter the labor force, the impact will be greatly leveraged, relative to the cost of importing employees from neighboring countries.

Biotechnology

The S&P Healthcare Index is up 8.2% (ytd) while the Nasdaq biotechnology index has climbed 24% during the same time frame. Biotechs, on average, corrected 9% (down) at the end of the quarter 1st quarter. This newsletter called the downturn a buying opportunity that panned out well as the sector continues to look strong. But do not conclude that further weakness remains unlikely. Corrections will continue, but should be considered as opportunities.

The Affordable Care Act has added millions of people to insurance roles who are now paying premiums, with or without federal subsidies. But given high deductibles and co-pays that these newly insured are facing, health insurance companies' revenues do not appear to be suffering. On the contrary, the Affordable Care Act has been a windfall.

Energy

When oil prices surged after Arabia began throttling Yemen with airstrikes and put thousands of troops on the border, it suggested weakness in oil may have subsided. But as this newsletter indicated what may happen, that wasn't the case. Oil prices indeed dropped again although there appeared to be significant technical support at $40. The view from here at the time was

that continued over-supply through April and early May could bring prices down even further (below $40). But so far, prices have steadied recently at about $48 for WTI and the over-supply appears to be diminishing as production in the U.S. has dropped sharply.

Despite the volatility, it is becoming reasonable to conclude that oil is nearing a bottom and a buying opportunity in upstream services and production is becoming apparent. Looking at the upside potential for the S&P for the next two years, creates a perspective on oil. Which (oil or S&P stocks) have the most upside? A 50% increase in oil prices by early 2017 doesn't seem out of the question, although the same is unlikely for the S&P 500. Consider investments in oil production (upstream) during the next few weeks on oil price weakness. Additionally, consider that downstream services will also benefit in the long run.

Considering that 90% of the U.S. and Canada's oil supply is shipped by railroad, this represents an infrastructure play within energy. Rail stocks have dropped an average of 10% since late 2014 suggesting an interesting buying opportunity. Railroads are generally well capitalized with strong fundamentals.

Within the next 1-2 years, opportunities in liquefied natural gas (LNG) may develop as the Panama canal is opened to the large tankers that have been unable to ship to the Pacific where countries like Japan and the Philippines are paying huge premiums for this commodity.

Update on Developing Themes (July, 2015)

Artificial intelligence continues to advance. Linked to this potential mega-theme is **cyber security,** which is rapidly becoming a major investment theme. Cyber security utilizes algorithmic logic to provide protection for corporations, governments and individuals. Electronic security is rapidly becoming a major issue as advanced persistent threats manifest within the banking and retail sectors as well as government systems. Cyber conflict, or cyber war between countries is no longer science fiction. It is here.

The private sector in particular has been, until recently, completely unprepared. But attention and focus is coming from a select group of companies that has begun to address the issue in a meaningful way. In late 2014, the Cyber Threat Alliance was formed as Fortinet, Palo Alto, Intel Security and Symantec joined forces to combat the bad guys.

A look at stock prices in this sector reveals significant out performance recently with the broader sector up 63% in the last 12 months. But for investors, the number of opportunities is limited to a handful of stocks and one ETF (HACK) and a UIT (First Trust's BofA Merrill Lynch Cyber Portfolio).

There have been no new developments in **infrastructure** spending at this time.

Keep an eye on gold. Technical indicators suggest there is considerable support in gold prices and mining stocks at this time. A short term rally in the stocks could develop within weeks. Will this bring back the longer term secular upward trend? Stay tuned.

Appendix

Mega-Theme Investment Recommendations:

Fund or ETF recommendations are selected based upon total performance, sharpe ratio and alpha if applicable. Alpha performance is compared to Morningstar's Best Fit Index. Manager tenure is generally considered, but isn't the most significant criteria. Equity style is not identified in the listings, though most are large cap growth. Other offerings: UITs, REITs, structured products and various miscellaneous securities will also be recommended where applicable.

India

Matthews India Fund MINDX

Franklin India Growth Fund FINGX

Wasatch Emerging India Fund WAINX

Eaton Vance Greater India Fund EVCGX

EGS Shares India Consumer ETF INCO

The India Fund (Aberdeen) ETF IFN

China

Columbia China Fund NGCAX

John Hancock Greater China Opportunities Fund JCOAX

Fidelity Advisor China Region Fund FHKAX

Eaton Vance Greater China EVGGX Fund

Market Vectors China AMC A share ETF PEK

Guggenheim China Technology ETF CQQQ

iShares FTSE China ETF FCHI

ishares MSCI China ETF MCHI

iShares MSCI China Small Cap ETF ECNS

Global X Nasdaq China Technology ETF QQQC

Select Stocks: Apple (APPL) – the best way to play the China evolution without the risks associated with the A shares (or H shares)

Consider Alibaba (BABA) traded on the NYSE on weakness (below $60/per share)

Japan

Matthews Japan Investor Fund MJFOX

Hennesy Japan Institutional Fund HJPIX

Hennesy Japan Small Cap Investor Fund HJPSX

Fidelity Japan Smaller Companies Fund FJSCX

Nuveen Tradewinds Japan Fund NTJAX

iShares Hedged MSCI Japan ETF HEWJ

Deutsche X-trackers Japan JPX-Nikkei 400 Equity ETF   JPN

WisdomTree Japan Hedged Equity ETF BJX

WisdomTree Japan Hedged Smallcap Equity ETF DXJR

First Trust Japan AlphaDEX ETF FJP

First Trust Richard Berstein Adv Tactical Japan Opportunities 2015-2 **UIT FTKDAX**

Health Care and Biotechnology

Fidelity Advisors Health Care Fund FACDX

Fidelity Advsors Biotechnology Fund FBTAX

Fidelity Select Biotechnology Fund FBIDX

Franklin Biotechnology Discovery Fund FBDIX

Janus Global Life Sciences Fund JFNAX

Eaton Vance Worldwide Health Sciences Fund ETHSX

Prudential Jennison Health Sciences Fund PHLAX

BlackRock Health Sciences Opportunity Fund SHSAX

Eventide Healthcare and Life Sciences Fund ETAHX – my highest conviction biotech fund

iShares Nasdaq Biotechnology ETF IBB

Guggenheim Health Care Portfolio, 019 **UIT   CHCRSX**

Advisors Asset Management ADT 1503 Health Care Opportunities Portfolio Series 2015-2 **UIT HCOAX**

CNL Healthcare Properties REIT (non-traded)

Energy

Oppenheimer SteelPath MLP Alpha Fund MLPAX

Oppenheimer SteelPath MLP Alpha Plus Fund MLPLX

MainGate MLP Fund IMLPX

Mainstay Cushing Royalty Energy Fund CURAX

MainStay Cushing Rennaisance Advantage Fund CRZAX

MainStay Cushing MLP Premier Fund CSHAX

Prudential Jennison MLP Fund PRPAX

iShares Energy IYE

iShares Global Energy ETF IXC

iShares Oil/Gas Expl. ETF IEO

Invesco N. American Rail Portfolio 2015 -2 **UIT INARAX**

Guggenheim MLP & Energy Funds Portfolio, 010 **UIT CMLPJX**

Guggeheim Energy Portfolio, 019 **UIT CENPSX**

Franklin Square Energy and Power non-publicly traded (BDC)

Developing Mega-themes

Cyber Security

PureFunds ISE Cyber Security **ETF** (**HACK**)

First Trust's BofA Merrill Lynch Cyber Portfolio **UIT (FRBCLX)**

First Trust Cybersecurity 2 **UIT (FDLANX)**

Select stocks: Palo Alto, Fortinet, Intel Security, Semantec, Check Point

Created by Biamonte Financial
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