# MAI STRATEGIES

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### **MAI Tactical - Asset Allocation - May**

The MAI Tactical model portfolio is a pro-volatility portfolio - structured to benefit from unexpected market moves and to be un-correlated to common market benchmarks. We made significant portfolio reweightings and new asset allocations to the MAI Tactical model portfolio as of May 1. Below, please find portfolio holdings and weightings as of May 1 and a discussion of position changes:

MAI Tactical Model Portfolio - Holdings (May 1, 2017)

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Sector	Asset	Ticker	L/S	Weight	Gross	Price	Yield
				20.00%	170.00%		-0.21%
TSY - Long Term	ProShares 20+ year TSY	TLT	L	20.00%	20.00%	122.35	2.81%
High Yield	iShares iBoxx \$ Inv. Grade Corp Bond	HYG	s	-20.00%	20.00%	88.12	-5.17%
Inv. Grade	iShares iBoxx \$ High Yld Corp Bond	LQD	L	10.00%	10.00%	118.99	3.29%
				10.00%	50.00%		-0.14%
Value	iShares Russell Value	IWD	L	5.00%	5.00%	114.72	2.16%
Growth	iShares Russell Growth	IWF	s	-5.00%	5.00%	116.33	-1.33%
Preferreds	iShares US Preferred Stock	PFF	L	5.00%	5.00%	39.01	5.67%
Japan	Wisdom Tree Japan Hedged Equity	DXJ	L	5.00%	5.00%	51.07	1.93%
Cons. Discretionary	Consumer Discret Sel Sect SPDR	XLY	S	-10.00%	10.00%	90.06	-1.61%
Financials	Financials Sel Sect SPDR	XLF	S	-10.00%	10.00%	23.53	-1.62%
Emerging Markets	Vanguard FTSE Emerging Markets	VWO	L	5.00%	5.00%	40.34	2.32%
Mining	Rio Tinto	RIO	L	5.00%	5.00%	39.82	4.25%
US Real Estate	Vanguard REIT	VNQ	s	-12.50%	12.50%	82.79	-4.66%
US Homebuilders	iShares US Home Construction	ITB	s	-12.50%	12.50%	32.33	-0.39%
Uranium	Cameco Corporation	CCJ	L	5.00%	5.00%	9.58	2.80%
Natural Gas	US Natural Gas Fund LP	UNG	s	-5.00%	5.00%	7.57	0.00%
Agriculture	PowerShares DB Agriculture Fund	DBA	L	15.00%	15.00%	19.74	0.00%
Gold	Gold (Physical) or GLD	GLD	L	20.00%	20.00%	120.77	0.00%
				10.00%	120.00%		-0.06%
	END						
	TSY - Long Term High Yield Inv. Grade Value Growth Preferreds Japan Cons. Discretionary Financials Emerging Markets Mining US Real Estate US Homebuilders Uranium Natural Gas Agriculture	TSY - Long TermProShares 20+ year TSYHigh YieldiShares iBoxx \$ Inv. Grade Corp BondInv. GradeiShares iBoxx \$ High Yld Corp BondValueiShares iBoxx \$ High Yld Corp BondGrowthiShares Russell ValueGrowthiShares Russell GrowthPreferredsiShares Russell GrowthPreferredsiShares US Preferred StockJapanWisdom Tree Japan Hedged EquityCons. DiscretionaryConsumer Discret Sel Sect SPDRFinancialsFinancials Sel Sect SPDREmerging MarketsVanguard FTSE Emerging MarketsMiningRio TintoUS Real EstateVanguard REITUS HomebuildersiShares US Home ConstructionUraniumCameco CorporationNatural GasUS Natural Gas Fund LPAgriculturePowerShares DB Agriculture FundGoldGold (Physical) or GLD	TSY - Long TermProShares 20+ year TSYTLTHigh YieldiShares iBoxx \$ Inv. Grade Corp BondHYGInv. GradeiShares iBoxx \$ High Yld Corp BondLQDValueiShares Russell ValueIWDGrowthiShares Russell GrowthIWFPreferredsiShares Russell GrowthIWFJapanWisdom Tree Japan Hedged EquityDXICons. DiscretionaryConsumer Discret Sel Sect SPDRXLYFinancialsFinancials Sel Sect SPDRXLFEmerging MarketsVanguard REITVNQUS Real EstateVanguard REITVNQUraniumCameco CorporationCUJNatural GasUS Natural Gas Fund LPUNGAgriculturePowerShares DB Agriculture FundDBAGoldGold (Physical) or GLDGLD	TSY - Long Term     ProShares 20+ year TSY     TLT     L       High Yield     iShares iBoxx \$ Inv. Grade Corp Bond     HYG     S       Inv. Grade     iShares iBoxx \$ High Yld Corp Bond     LQD     L       Value     iShares Russell Value     IWD     L       Growth     iShares Russell Growth     IWF     S       Preferreds     iShares Russell Growth     IWF     S       Japan     Wisdom Tree Japan Hedged Equity     DXJ     L       Cons. Discretionary     Consumer Discret Sel Sect SPDR     XLY     S       Financials     Financials Sel Sect SPDR     XLF     S       Emerging Markets     Vanguard RTSE Emerging Markets     VWO     L       Mining     Rio Tinto     RIO     L       US Real Estate     Vanguard REIT     VNQ     S       US Homebuilders     iShares US Home Construction     ITB     S       Uranium     Cameco Corporation     CCJ     L       Natural Gas     US Natural Gas Fund LP     UNG     S       Agriculture     PowerShares DB Agriculture Fund     DBA     L       Gold     Gold (Physical) or GLD     GL	TSY - Long Term   ProShares 20+ year TSY   TLT   L   20.00%     High Yield   iShares iBoxx \$ Inv. Grade Corp Bond   HYG   S   -20.00%     Inv. Grade   iShares iBoxx \$ Inv. Grade Corp Bond   HYG   S   -20.00%     Inv. Grade   iShares iBoxx \$ High Yld Corp Bond   LQD   L   10.00%     Value   iShares Russell Value   IWD   L   5.00%     Growth   iShares Russell Growth   IWF   S   -5.00%     Preferreds   iShares Russell Growth   IWF   S   -5.00%     Japan   Wisdom Tree Japan Hedged Equity   DXJ   L   5.00%     Cons. Discretionary   Consumer Discret Sel Sect SPDR   XLF   S   -10.00%     Financials   Financials Sel Sect SPDR   XLF   S   -10.00%     Emerging Markets   Vanguard FTSE Emerging Markets   VWO   L   5.00%     US Real Estate   Vanguard REIT   VNQ   S   -12.50%     US Homebuilders   IShares US Home Construction   ITB   S   -12.50%     US Homebuilders   US Natural Gas Fund LP   UNG   S   -5.00%     Natural Gas   US Natural Gas Fund LP   UNG   S   -5.00%     Agriculture   PowerShares	Zo.00%   170.00%     TSY - Long Term   ProShares 20+ year TSY   TLT   L   20.00%   20.00%     High Yield   iShares iBoxx \$ Inv. Grade Corp Bond   HYG   S   -20.00%   20.00%     Inv. Grade   iShares iBoxx \$ High Yld Corp Bond   LQD   L   10.00%   10.00%     Value   iShares Russell Value   IWD   L   5.00%   5.00%     Growth   iShares Russell Growth   IWF   S   -5.00%   5.00%     Preferreds   iShares Russell Growth   IWF   S   -5.00%   5.00%     Japan   Wisdom Tree Japan Hedged Equity   DXU   L   5.00%   5.00%     Cons. Discretionary   Consumer Discret Sel Sect SPDR   XLF   S   -10.00%   10.00%     Financials   Financials Sel Sect SPDR   XLF   S   -10.00%   10.00%     Emerging Markets   Vanguard RTSE Emerging Markets   VWO   L   5.00%   5.00%     US Real Estate   Vanguard REIT   VNQ   S   -12.50%   12.50%     US Homebuilders   IShares US Home Construction   ITB   S   -12.50%   12.50%     US Homebuilders   IShares US Home Construction   ITB   S   -12.50%   12.50% <t< td=""><td>TSY - Long Term       ProShares 20+ year TSY       TLT       L       20.00%       170.00%         High Yield       ishares iBoxx \$ Inv. Grade Corp Bond       HYG       S       -20.00%       20.00%       88.12         Inv. Grade       ishares iBoxx \$ High Yld Corp Bond       HYG       S       -20.00%       20.00%       188.12         Inv. Grade       ishares Russell Value       IVD       L       5.00%       10.00%       118.99         Value       ishares Russell Value       IWD       L       5.00%       5.00%       114.72         Growth       iShares Russell Growth       IWF       S       -5.00%       5.00%       114.72         Growth       iShares US Preferred Stock       PFF       L       5.00%       51.07         Japan       Wisdom Tree Japan Hedgel Equity       DXJ       L       5.00%       51.07         Cons. Discretionary       Consumer Discret Sel Sect SPDR       XLY       S       -10.00%       10.00%       23.53         Emerging Markets       Vanguard FTSE Emerging Markets       VWO       L       5.00%       5.00%       39.82         US Real Estate       Vanguard REIT</td></t<>	TSY - Long Term       ProShares 20+ year TSY       TLT       L       20.00%       170.00%         High Yield       ishares iBoxx \$ Inv. Grade Corp Bond       HYG       S       -20.00%       20.00%       88.12         Inv. Grade       ishares iBoxx \$ High Yld Corp Bond       HYG       S       -20.00%       20.00%       188.12         Inv. Grade       ishares Russell Value       IVD       L       5.00%       10.00%       118.99         Value       ishares Russell Value       IWD       L       5.00%       5.00%       114.72         Growth       iShares Russell Growth       IWF       S       -5.00%       5.00%       114.72         Growth       iShares US Preferred Stock       PFF       L       5.00%       51.07         Japan       Wisdom Tree Japan Hedgel Equity       DXJ       L       5.00%       51.07         Cons. Discretionary       Consumer Discret Sel Sect SPDR       XLY       S       -10.00%       10.00%       23.53         Emerging Markets       Vanguard FTSE Emerging Markets       VWO       L       5.00%       5.00%       39.82         US Real Estate       Vanguard REIT

#### **Discussion of Asset Positioning & Changes**

We left the Fixed Income portion of the Tactical model portfolio unchanged from last month. We remain bullish on long duration Treasury prices and bearish on high yield credit prices. We hold investment grade credits because they help offset negative carry from the short high-yield position and because we think they will eventually benefit from a migration out of high yield.

We made significant changes to MAI Tactical's equity basket. To begin, our highly cautious outlook for global equity, which would reduce prices across the board, suggests a reduction in overall market sponsorship. We reduced long allocations to US value, US preferred, Japanese and Emerging market equity, from 10 percent to 5 percent each, and we eliminated the portfolio's 5 percent position in small and mid-cap US shares.

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We retained the portfolio's 10 percent short positions in Consumer Discretionary and Financial sectors and 12.5 percent short positions in REITs and homebuilders. These sectors and industries would be hurt by a decline in US output. We reduced a short position in US growth from 10 percent to 5 percent to better balance the portfolio's income carry exposure. We added a 5 percent allocation to a single name EM equity, Rio Tinto, in light of our view that certain resource miners will benefit from broad equity asset reallocations.

Along with Rio, we increased allocations to assets we feel will attract capital – and generate capital appreciation – whether or not there is a reduction in overall market sponsorship. A global slowdown will not affect demand for certain commodities. We increased exposure to the Agriculture industry from 10 percent to 15 percent and added a 5 percent allocation to Cameco. The market has priced grains and uranium as though they were industries on the verge of extinction. Logic and basic fundamental analysis argue against this. We think specific goods inflation, which we have argued will accompany declining overall output growth (i.e., stagflation), would benefit our new additions specifically (see <u>Counting Cards</u>).

Not all commodities will be inelastic to a global slowdown. We opened a 5 percent short position in natural gas, which we believe will be hurt by overcapacity and the incentive among producers to service and repay debt loads by continuing to pump un-economic quantities.

We retained a 20 percent allocation to gold, which provides insurance against the decline of fiat currency purchasing power in all environments including deflation and hyperinflation.

MAI member/subscribers may find a complete history of holdings and returns from all model portfolios, as well as specific asset return contribution, online at <u>www.macro-allocation.com</u>.

Paul Brodsky Macro Allocation Inc.



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