



February 2019 - MBS Mantra MBS High Income/Absolute Return Strategy returns:

- Aggregated SMAs: +0.14% Net, +0.22% Gross; 2019 YTD: +0.98% Net
- Founder's Portfolios: -0.35% Net, -0.28% Gross; 2019: +0.04% Net
- Feb 2019 Income Aggregated SMAs: @ purchase price 0.77%; @ recent marks: 0.88%
- Feb 2019 Annualized (BEY) Income Aggregated SMAs: @ purchase price: 11.3%; @ recent marks: 12.7%

We are quite happy with the Income from our portfolios. We had a more-or-less flat month once marks and transactions are accounted for, with our income offset mostly as a result of some opportunistic portfolio transactions at prices that were different from the pricing service marks.

- We sold a sizable position at a 6% discount to the mark, that we had owned since 2015, where the income had run its course and was declining. Our total return was 26.5%.
- We added, and continue to add, to a position that we believe is significantly underpriced, at a 10% premium to the mark, overweighting a number of clients (including myself) with their permission.
- We had a small IO position mature, with a 30.5% total return.
- We had a small GNMA IO position purchased in Oct 2018 get called, an unexpected new risk discovered the hard way in Dec 2018 when it was marked down, resulting in -83% return (the hit was taken in Dec).

As promised in the January report, I wrote and sent out a new Economics/Markets toolkit and history piece that I called *T-Leaf Reading*. The [latest version of T-Leaf Reading](#) is attached here as well. This shares and demonstrates the toolkit that allowed me to predict Japan's purchasing of US Treasuries in the December report, in addition to numerous events in the past that others have called Black Swan events.

This is probably the most important piece I have written since the Crisis Notes in 2007.

Summary

- **We present a new toolkit** that adds Macro Economics, Money Supply, Foreign Central Bank activity, Currencies, Equity markets, Swaps, and Inter-Market concepts to the traditional Yield curve and TIPS-based measures for anticipating inflation, recessions and understanding asset pricing and Beta
- **We share the MBS Mantra Market-Macro Framework** and explain why current asset pricing theory is incomplete, and needs to incorporate the actions of Central Banks
- **We demonstrate usage of this toolkit and framework by explaining recent "Black Swan" events**, and show where we anticipated them using our framework
- **We show our model for market Beta based on Macro** elements in the toolkit – what we call Injected Capital – and describe how Modern Macro Economics works

This toolkit and framework can help CIOs and portfolio managers:

- **Avoid drawdown events**, allowing returns to continue compounding
- **Create Alternative Alpha**
- **Make Alpha Capture Systematic**

- **Understand and anticipate almost all asset price movements** in the modern era (since ~1990), from yield curve flattenings and swap spread movements, to significant events such as LTCM and the Global Financial Crisis
- **Identify false positives** (selloffs in asset prices that are temporary), allowing one to buy dips, or avoid selling
- **Make markets rational**

Once you have read it and would like to read more, you can either follow the links in the document or start with:

[http://mbsmantrallc.com/var/m_0/00/003/44984/666215-MBS Mantra - Viewpoint - 10th Anniv Crisis Note - Aug 10, 2017.pdf](http://mbsmantrallc.com/var/m_0/00/003/44984/666215-MBS_Mantra_-_Viewpoint_-_10th_Anniv_Crisis_Note_-_Aug_10,_2017.pdf)

<http://www.mbsmantrallc.com/macro.shtml>

Last week I spoke at Private Wealth conference, where I discussed **‘Investing in Fixed Income in a Rising Rate Environment’**. Call if you’d like to hear my thoughts on this topic.

If you are interested in E(SG), you might like to listen to this story on NPR, titled **“Toronto’s King Street May Lead to a Carbon-Neutral City”**.

<https://www.npr.org/2019/03/12/702464571/toronto-s-king-street-leads-to-a-carbon-free-world>

You might also enjoy reading one of my old Crisis Notes: **“Understanding the US Economy - The Route of All Evil”**, where I discuss the US Highway system, and the implications to the US Economy.

<http://mbsmantrallc.com/cn-2009-2.shtml>

Toronto is implementing a number of the suggestions I made in Feb 2009.

We welcome your questions and comments.

Regards, Samir

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