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The Most Obvious Macro Trade Everyone Seems to Be Ignoring

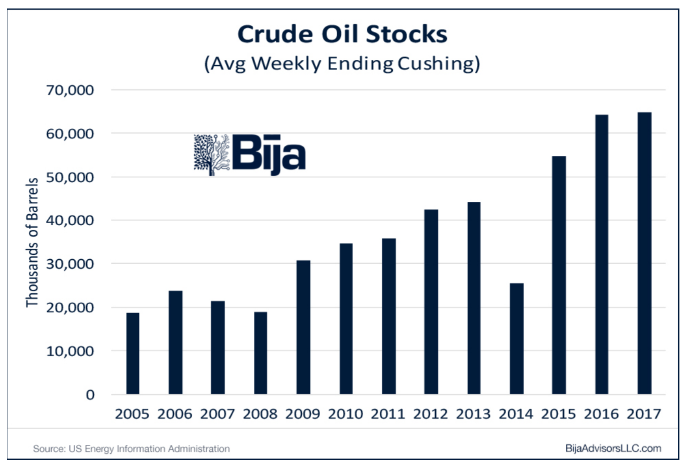
I recently gave a TED Talk titled, "How to Achieve Your Most Ambitious Goals." In it, I repeatedly tell the audience that I possess no magical gift of skill or talent. I don't say it out of humility, but rather because I believe it to be the truth. Listen in on any coaching call or read any of the publications I've written and you will discover that very little of what I say could be considered rocket science. In fact, it is all quite obvious. However, if there is something that separates me from the majority, it is that I actually enjoy frolicking in the domain of the obvious, the simple, and the easy to understand and predict. It is my philosophy that everything can be broken down into a simple, easy to understand form. Nothing is inherently complex. It is we who overcomplicate things by overweighting incidental factors and attempting to predict the inherently variable.

It happens all the time in this business, especially among macro investors. Rather than putting large bets on high probability occurrences, most in this industry would prefer to attempt lots of predictions on highly randomized, difficult to predict outcomes.

While it seems the entire world is putting all their chips on things like when the Fed will move and by how much, the demise of the Chinese banking system or even worse, which positions are crowded, I'm scratching my head wondering why everyone isn't focused on the most obvious trade in all of global macro. Yes, I've been writing about the global macro forces that are and will likely continue to weigh on the price of oil, potentially for years and even decades to come, of course it doesn't mean that you should always be short. However, thanks to OPEC's mistake and the market's lack of appreciation for one of the most powerful events in market history, we global macro investors have been presented with a wonderful gift. The gift of a fantastic risk/reward opportunity that can be expressed in at least two ways: short upside via defined risk strategies (see OIL2 - WTI Topped) and low delta puts. (If your immediate reaction was, "What should I be doing in CAD or NOK", you've witnessed evidence of our natural desire to complicate what needn't be complicated.)

Below, I share links to most of the pieces I've written related to oil over the past couple of years. In order to simplify this seemingly complex beast, you must invest the time and employ the cognitive strain necessary to gain perspective. Without it, you'll likely continue ignoring the most glaringly obvious trade available, in favor of the trade du jour. For those unwilling to make the investment, here's a synopsis.

1. It was the orchestration of the largest urbanization project in the history of man that caused the spike in oil, and every other commodity (read *The Real Reason Commodities Collapsed*).
2. The impact of that project is over.
3. There are no obvious growth drivers on the horizon anywhere in the world, and even if there were, none would have anything close to the impact on demand that the Chinese project had. So forget about reverting to the mean of an outlier event.
4. The historic spike in prices triggered two responses.
   - 4.1. On the demand side, technology set about reducing future demand by making us far, far more efficient users of energy.
   - 4.2. On the supply side, technology offered many new ways of satisfying energy demand and better at extracting every last drop.
5. The sudden disappearance of demand growth from China's project combined with more efficient usage and a supply side that is working feverishly to produce more and more, will weigh heavily on the price.
   - 5.1. See the persistent growth in inventories since the Chinese impact disappeared in 2009. Because specialists in oil like to focus on the weekly changes in this data, they seem to be completely oblivious to the obvious long term trend that has resulted in a more than tripling of inventories, and growing.



6. In the wake of previous urbanization projects of historic proportions, commodity prices were depressed for extended periods.
7. OPEC is impotent, but neither they nor market participants seem to realize it yet (read *OPEC's Dilemma*).
8. Deregulation under the Trump administration will only serve to speed up the eventual collapse of oil prices as production is ramped up.
9. Short-term supply and demand adjustments have very little correlation to the price of oil. It is all about the long-term (see *Supply, Demand and the Price of Oil*).
10. There is a tipping point in oil. In other words, there are discrete moments to be aware of, because they can be very impactful, and create great confusion if you don't recognize them (see *Two Certainties: Yield and Certainty of Yield)*.
11. Also see *What Makes High Yield Energy Different*.

About the Author

For nearly thirty years, Stephen Duneier has applied cognitive science to investment and business management. The result has been the turnaround of numerous institutional trading businesses, career best returns for experienced portfolio managers who have adopted his methods, the development of a $1.25 billion dollar hedge fund and 20.3% average annualized returns as a global macro portfolio manager.

Mr. Duneier teaches graduate courses on Behavioral Investing and Decision Analysis in the College of Engineering at the University of California. His book, *AlphaBrain,* is due to be published by Wiley & Sons in the Fall of 2017.

Through Bija Advisors' coaching and publications, he helps the world's most successful and experienced investment managers improve performance by applying proven, proprietary decision-making methods to their own processes.

As a speaker, Stephen has delivered informative and inspirational talks to audiences around the world for more than 20 years on topics including global macro economic themes, how cognitive science can improve performance and the keys to living a more deliberate life. Each is delivered via highly entertaining stories that inevitably lead to further conversation, and ultimately, better results.

Stephen Duneier was formerly Global Head of Currency Option Trading at Bank of America, Managing Director in charge of Emerging Markets at AIG International and founding partner of award winning hedge funds, Grant Capital Partners and Bija Capital Management.
His artwork has been featured in international publications and on television programs around the world, is represented by the renowned gallery, Sullivan Goss and earned him more than 60,000 followers across social media. As Commissioner of the League of Professional Educators, Duneier is using cognitive science to alter the landscape of American K-12 education. He received his master's degree in finance and economics from New York University's Stern School of Business.

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