

# Trump will "fail"

"I personally am convinced that he is going to fail," George Soros told Bloomberg during an interview at the World Economic Forum in Davos, Switzerland yesterday. That particular example of Confirmation Bias nearly cost Soros a billion. As Quantitative investors, we don't make Macro calls. We leave that to the Masters of the Universe whose crystal balls are much clearer than ours. The unedited WSJ article below is available here: <http://www.wsj.com/articles/billionaire-george-soros-lost-nearly-1-billion-in-weeks-after-trump-election-1484227167>

## **Billionaire George Soros Lost Nearly \$1 Billion in Weeks After Trump Election**

By Gregory Zuckerman and Juliet Chung

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Billionaire hedge-fund manager George Soros lost nearly \$1 billion as a result of the stock-market rally spurred by Donald Trump's surprise presidential election.

But Stanley Druckenmiller, Mr. Soros's former deputy who helped Mr. Soros score \$1 billion of profits betting against the British pound in 1992, anticipated the market's recent climb and racked up sizable gains, according to people close to the matter.

The two traders' divergent bets are a stark reminder of the challenges even acclaimed investors have faced following Mr. Trump's unexpected victory. Many experts had predicted a tumble for stocks in the wake of the election, but instead the Dow Jones Industrial Average has climbed about 9% since Election Day.

Stocks have fallen broadly in the past couple of sessions, hurt in part by a reversal for smaller companies and the financial industry. A decline in both sectors helped push the Dow industrials down more than 150 points in the past two sessions.

For the past couple of years, hedge funds and other professional investors have complained that placid conditions made it difficult to generate trading profits. ...

Last year, Mr. Soros returned to trading at Soros Fund Management LLC, which manages about \$30 billion for Mr. Soros and his family. Mr. Soros was lured back by perceived opportunities to profit from economic troubles he was anticipating in China, within the European Union and elsewhere, according to people familiar with the matter.

Mr. Soros was cautious about the market going into November and became more bearish immediately after Mr. Trump's election, according to people close to the matter. Mr. Trump has raised the possibility of tariffs on Chinese imports and other steps that could upend global trade, which had some money managers forecasting a move lower in stocks.

The stance proved a mistake—the stock market has risen over the past two months on expectations that Mr. Trump's proposed economic policies will boost corporate earnings and the overall economy.

As a result, some of Mr. Soros's personal trading positions incurred losses approaching \$1 billion, the people say. Mr. Soros adjusted his positions and exited many of his bearish bets late last year, avoiding further losses....

Soros Fund Management was converted by Mr. Soros from a hedge-fund firm managing outside investors' money into a family office in 2011, partly to avoid additional regulatory scrutiny.

The firm is currently interviewing candidates for a vacant chief investment officer position. Some close to the firm say Mr. Soros could play a reduced trading role when someone is hired to fill the role. In recent years, the 86-year-old billionaire has focused on public policy and philanthropy. He was a large contributor to the super PAC backing Democratic presidential nominee Hillary Clinton and has donated to other groups supporting Democrats.

Mr. Soros, who was born in Hungary and came to the U.S. at the age of 26, found early success on Wall Street, where he helped pioneer the hedge-fund industry.

He has gained attention for his support of liberal causes and for funding local prosecutor races and other activities. Mr. Druckenmiller, who left Mr. Soros's firm in 2000 and now invests his own money with his own firm, took a very different stance on the presidential election.

Days before the election, Mr. Druckenmiller predicted to a money manager that if Mrs. Clinton emerged victorious the stock market likely would rally initially but then would fall. Mr. Druckenmiller said if Mr. Trump won the election, the opposite result likely would occur—stocks first would tumble and then soar, according to the manager.

Mr. Druckenmiller's call was prescient.

Stock futures fell sharply on the evening of Mr. Trump's victory, but the market has since surged.

Mr. Druckenmiller has said on television that he exited bearish positions on the night of the election, for example, exiting long-term positions on gold.

He also became bullish on certain sectors of the stock market, and said he was shorting bonds globally and expected the dollar to rally against the euro.

These trades have paid off as Mr. Druckenmiller's firm, Duquesne Family Office LLC, scored gains of more than 10% in 2016, the people say. (HCM clients were up from 10.1% to 15.6% last year.) As a private office, the firm doesn't have to disclose its assets under management.

Mr. Druckenmiller also was politically active during the campaign, donating to Ohio Republican Gov. John Kasich's candidacy. Overall, Mr. Druckenmiller gave about \$3.5 million to Republican candidates, according to the Center for Responsive Politics, while Mr. Soros gave more than \$20 million to Democratic candidates during the 2016 election cycle.

In October, Mr. Druckenmiller told Reuters that he backed Republican candidates for Congress in the hope of creating a "firewall" against Mrs. Clinton's likely economic policies, including more government control of health care. He also said Mr. Trump had an "unstable personality," and Mr. Druckenmiller added that he might not vote in the presidential election.

## Our thoughts

While Mr. Market's post-election schizophrenic high has faded, economic reality hasn't registered yet. However, for anyone contemplating a macro bet of their own, a note of caution from Keynes: **"The market can remain irrational longer than you can remain solvent."**

# Why Trump Can't Make It 1981 Again

By RUCHIR SHARMA JAN. 14, 2017

As if [Donald J. Trump](#)'s victory wasn't surprising enough, the economic reaction has been even more stunning. Despite forecasts of a stock market meltdown if he won, the market registered one of its strongest postelection rallies in more than a century. Now the euphoria is spilling into the wider economy, with business confidence skyrocketing and consumer confidence hitting a 15-year high. Much of this excitement is inspired by a growing consensus that Mr. Trump could be the most-business friendly president since Ronald Reagan.

Indeed Mr. Trump's advisers say that over the next decade, their plans for tax cuts and deregulation could push the average annual growth rate back up to 3.5 percent — the same as during the Reagan presidency. Mr. Trump says the country can grow even faster. His backers dismiss skeptics as defeatists and have insisted there is "no law of nature or economics" that would prevent the United States from reviving the boom of the 1980s.

Only there is such a law. The forces that underlie economic growth have weakened significantly since the Reagan years, worldwide. No nation, no matter how exceptional, can try to grow faster than economic forces allow without the risk of provoking a volatile boom-bust cycle.

The potential growth rate of an economy is roughly determined — and limited — by the sum of two factors: population and productivity. An economy can grow steadily only by adding more workers, or by increasing output per worker. During the Reagan years, both population and productivity were growing at around 1.7 percent a year, so the potential United States growth rate was close to 3.5 percent. In short, Reagan did not push the nation's economic engine to run faster than it could handle.

When Mr. Trump and his advisers promise to make America great again, they are in effect envisioning Reagan 2.0, while overlooking how much has changed. In recent years, America's population and productivity growth have fallen to around .75 percent each, generously measured, so potential economic growth is roughly 1.5 percent, less than half the rate of the Reagan era. Any policy package that aims to push an economy beyond its potential could easily backfire — in the form of higher deficits and inflation.

The population and productivity formula is well known and undisputed — yet widely ignored amid the current euphoria.

In the last 1,000 years, no economy has ever broken free of the limits imposed by population growth. Before the late 19th century, global population growth did not exceed half a percent, and global economic growth did not exceed 1 percent for any sustained period. Before World War II, population growth increased to 1 percent, and economic growth accelerated to about 2 percent. After the war, the baby boom pushed population growth toward 2 percent, and economic growth rose to nearly 4 percent for the first and only time in world history.

Now, as families around the world have fewer children, global population growth has fallen to about 1 percent. The baby boom has gone bust, and the best any nation can do is contain the economic damage. With the United States population growth rate falling — last year to the slowest rate recorded since the 1930s — it is extremely

unlikely that any president could juice the economy to grow at a steady 3.5 percent or more over the next decade.

Slow population growth undermines the economy by delivering fewer young people into the work force. Nations can partly compensate by raising the retirement age or admitting more immigrant workers. Mr. Trump, however, has no such plans. His advisers focus instead on bringing back the many American workers who have given up on finding jobs and dropped out of the labor force. But this strategy can have only limited effect. The main reason fewer workers participate in the nation's labor force is not that they are discouraged, but that they are over 55, the age when many people stop working or work less.

In general, commentators who believe the United States can go back to the 1980s focus not on population but on productivity. They argue that Reagan-style tax cuts and deregulation can increase investment in new plants and equipment, and substantially raise output per worker. But productivity is much harder to measure and forecast than population.

Rather than enter that foggy debate, then, let's assume Mr. Trump's team can more than double United States productivity growth to the rate achieved in the Reagan era, 1.7 percent. Given the irreversible fact of slowing population growth, that productivity miracle would still raise the potential growth rate of the domestic economy to only around 2.5 percent. If that doesn't sound so different from 3.5 percent, consider that every percentage point of growth in the domestic economy is worth more than \$100 billion — the difference between feeling pretty good and Great Again.

The nub of the problem here is nostalgia for a bygone era. The postwar world grew accustomed to the rapid growth made possible by the baby boom. Not every country with rapid population growth enjoyed a steady economic boom, but few economies boomed without it. And for most countries, the era of population growth is now over.

The pressure of falling population growth means that every class of countries needs to adopt a new math of economic success, and bring its definition of strong growth down by a full point or more. For developed nations like the United States, with average incomes over \$25,000, any rate above 1.5 percent should be seen as relatively good.

Comparing United States growth unfavorably to China's, as Mr. Trump has, makes little sense because poorer countries always tend to grow faster. If your starting income is lower, it's much easier to double it. But slowing population growth is also weighing on countries in China's income class, and for them the baseline for economic success should also be revised downward, to around 4 percent.

The risks of excessive ambition are real. In recent years the actual growth rate of the United States economy has been about 2 percent, which is disappointing in comparison with the 1980s, but far from horrible, given its diminished potential. Often, if a country pushes the economy to grow much faster than its potential, it will start to suffer from rising debts and deficits. Inflation will rise, forcing the central bank to raise interest rates aggressively, which can prompt a recession. This risk is particularly high at a time, like the present, when the United States is already running the largest deficit ever recorded at this stage of an economic expansion.

It will be difficult to persuade people to accept the reality of slower growth. Voters in many countries are already turning to populists who are promising miracles and attempting nationalist economic experiments. The coming era is likely to bring more such experimentation and diversion, but the new math of slower growth will remain.

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