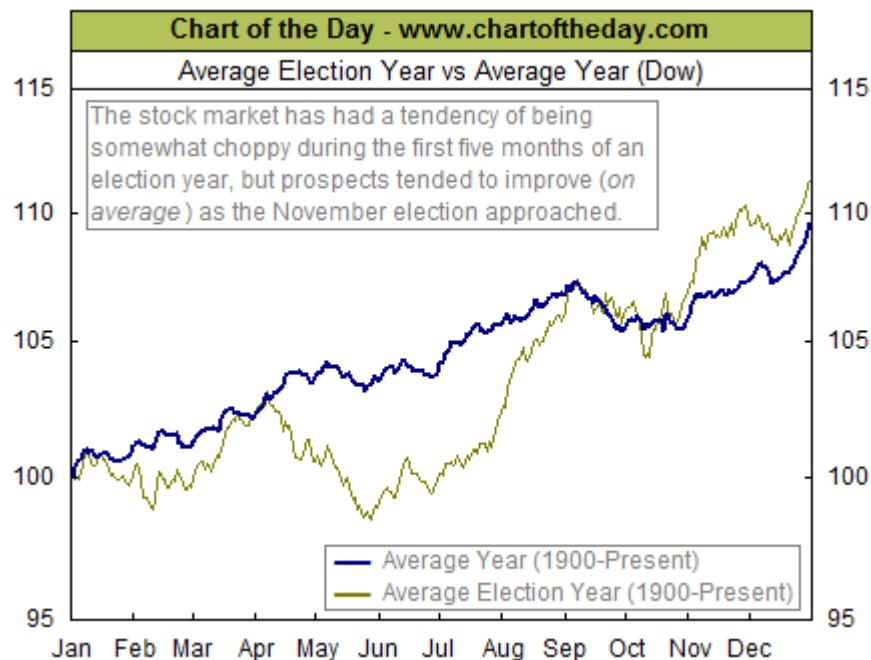


Outlook for 2016

Chen Lin
December 2015

2015 proved to be a difficult year for commodities as super strong dollar was the major headwind. I have been playing defense in commodities all year while focusing on other sectors like biotech. I was fortunate to hit a few big home runs in biotech like SRNE, SRPT, PTBI(Now ABEO) and EDT.to. I also had setbacks like IMMU and ACRX. The only regret I have is that I should have taken more off the table when biotech was at the peak during the summer. 2016 should be another exciting year. See the attached chart on election year. Usually we have a weak first half followed by run into election and run after election with average annual return well above 10%.



Outlook for gold.

I received many questions on this topic. I think we are getting close to the bottom though there can be more pain ahead. For the record, I started to under-weighting gold and gold miners since 2012. I have been trading around my positions in the past few years for reasonable success. These are the factors that I am watching carefully:

1. Dollar starts to turn. From the Fed rate guidance, it looks like they will “normalize the interest rate by 2019”. My wild guess is dollar can top in 2018, maybe 2017.
2. Gold production starts to drop. It looks like gold production is going to peak at around 2017.
3. Extreme negative sentiments in gold. If gold drops below 1000 and everyone on CNBC talking about shorting gold, it can create an ideal situation.

Therefore, the bottom line is that I believe we are getting close to the bottom in gold, likely around

2016-2018. I will keep my eyes wild open to see any sign of bottoming.

Outlook for energy.

As I discussed in my detailed energy outlook, I expect the oil price to stay low in 2016, likely bottom in 2016-17. A lot of companies are heading to bankruptcy. So it is truly a stock-picker's market. My top picks are discussed in details in my energy outlook.

Outlook on China.

China is a big wild card in the world economy. For the record I have been bearish on China for years. I tried to short AUD, copper and oil since 2013 with decent success. (I am not a future trader, these trades are designed as hedging purpose only.) However, I feel the bears overplayed China lately. My view is that China will slowly deflate its bubbles in housing and industry overcapacity. It is a little like Japan in the late 80s. It took Japan 20 years to reflate the bubbles. China could fare a little better because China can depreciate RMB while JPY was appreciating during the 20 years due to political pressure from the US. China is a little fortunate here. I guess the military power and the nuclear power matter at the end. Japan should have depreciated its currency long time ago but couldn't. The bottom line is that I don't see China collapsing as some analysts claimed. But there will be a gradual slowdown with the depreciation of RMB. I expect RMB has another 15-20% to go before stabilizing. Of course, the situation changes everyday, I reserve my rights to change my point of view at any moment. If there are any changes, I will let everyone know as soon as I can.

Outlook for biotech

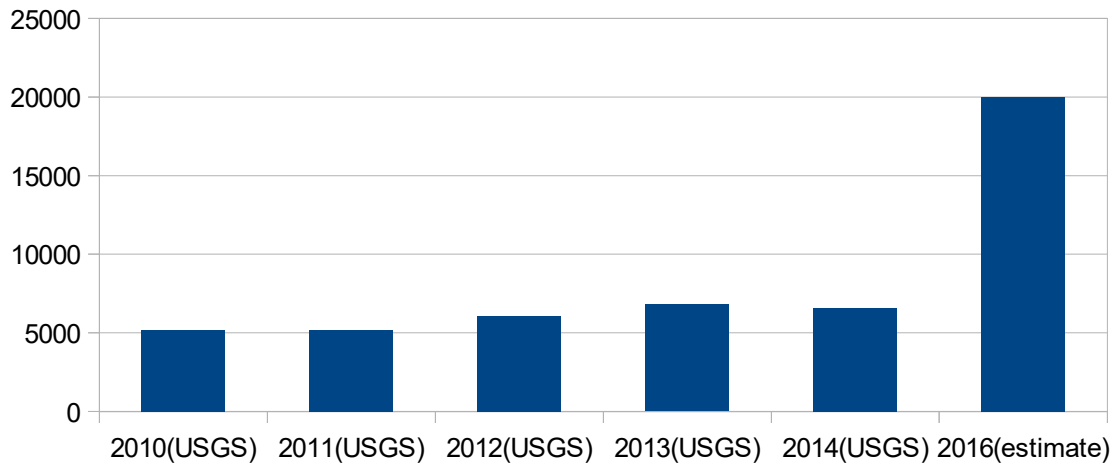
I am very interested in biotech. I have many interesting plays that have big catalysts in 2016. My top biotech position is SRNE. It should have many catalysts throughout 2016, including data from the biobetter candidates, progresses on Cynvilarq(1.2 billion in milestones plus royalties), deals with major pharmas on various JV etc. Most importantly, SRNE has a very strong balance sheet and doesn't need to raise money for a long time. SRPT will have the FDA ADCOM on January 22nd, and potential FDA approval a few weeks afterwards. ABEO plans to start the clinical trial in Q1 and EDT. It should have the phase 3 trial finished by the end of Q2. I am also looking for ACST/NEPT to finish its FDA discussions to start the phase 3 trial. The best part of biotech stocks are they are individual story driven, not too dependent on the general market.

Special Situation

I call investors' attentions to lithium as lithium spot price exploded in China in the past weeks. I believe it has leg as most of the brine mines in China are closed for the winter. Earliest relief may be April-May of 2016. In the mean time lithium price will likely tighten further. The details and stocks are discussed in my recent lithium report.

Lithium Carbonate Battery Grade

USD/ton



In conclusion, barring a market meltdown in 2016, I see great opportunities ahead, from biotech to energy to special situation like lithium and more to come. In the mean time I am watching gold carefully for any signs of bottom. My take is that you don't have to pick the exact bottom. Buying on the rebound is much better than catching the falling knife.