

# Outlook 2017

Chen Lin December 2016

The outlook for 2017 is probably one of the most difficult ones in years. Because a lot of the investment thesis will depend on the new president of the U.S., Mr. Donald Trump, and his policy. The key questions are, is Trump going to be able to successfully push through his corporate tax reform through congress? How about personal income tax? Is Trump going to tax the import goods as he pledged in his campaign? How about banning or restricting Muslims from entering the country? Building the wall? Until we have definite answers to those questions, it is very difficult to put an investment thesis together. I will try to give the answer as 2017 unfolds and will keep you posted.

Gold has been having a roller coaster ride in 2016. I had a prediction last year that I saw gold to be likely bottom in 2017, I could still be right. The reason behind this is that USD in bull market usually rises for at least 6 years. The 6<sup>th</sup> year is 2018. If USD top out around 2018, then it is reasonable to predict gold to bottom around 2017, a year earlier. However, the main risk is that USD rises longer than the previous bull market.

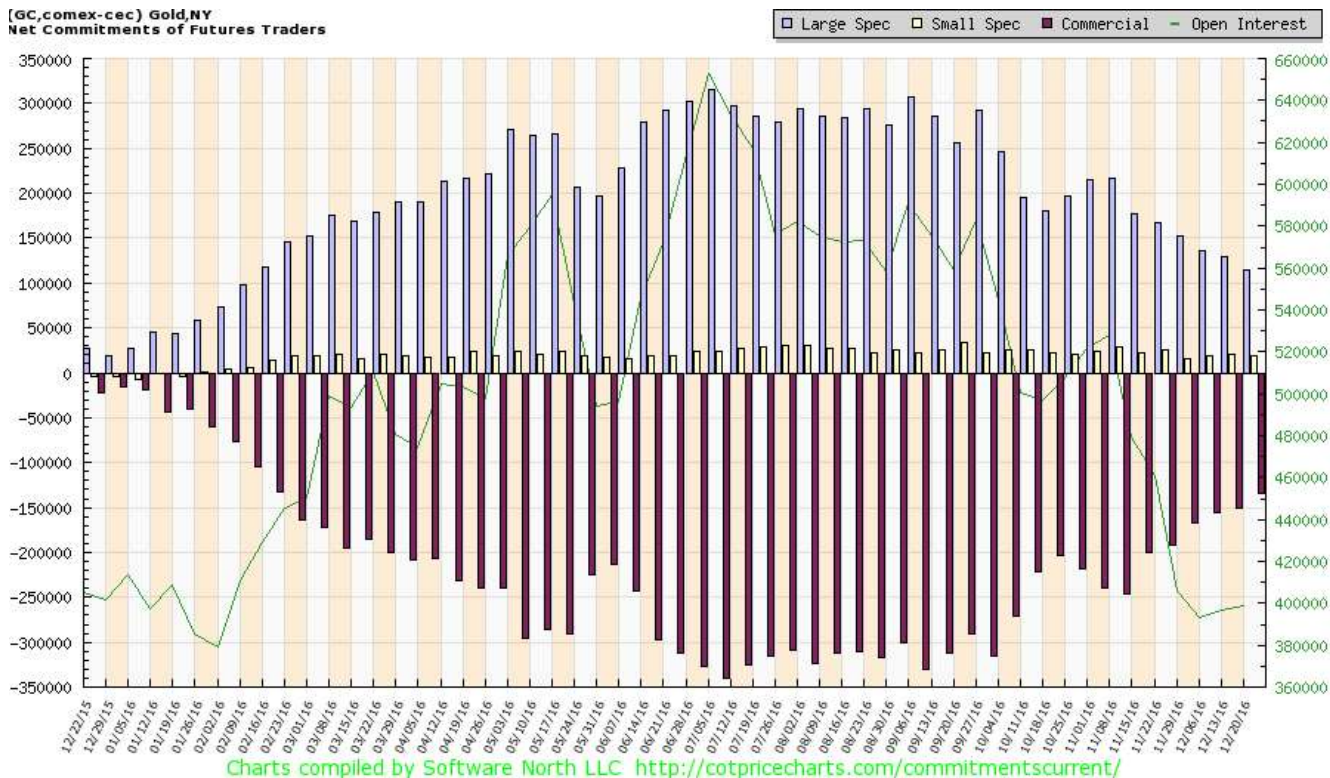


USD is having a textbook breakout

The rising USD is the biggest concern for the gold investors. That is my main concern too. I would think new president Trump will have to bring USD down in order to bring jobs back to America. But exactly opposite is happening after he won the election. I think and hope one day he will “tweet” again rising the USD. But until the government takes action, the USD is on the rising trajectory unmistakably.

On the plus side, the market is getting quite bearish on gold. See attached chart on gold future long position, you can see it went all the way back to February lows. That is a contrarian indicator that gold

could have a bounce from oversold condition.



--- Large Speculators ---			----- Commercial -----			-- Small Speculators --			Open			
#	Long	Short Bullish	#	Long	Short Bullish	Long	Short Bullish	Intrest				
11/22/16	311	241,646	74,561	76%	106	97,975	290,147	25%	52695	27,608	66%	461,062
11/29/16	295	229,731	78,161	75%	95	92,628	260,451	26%	45567	29,314	61%	405,661
12/06/16	318	227,675	91,295	71%	95	86,237	241,181	26%	45639	27,075	63%	393,524
12/13/16	335	229,755	100,444	70%	98	86,143	236,029	27%	46092	25,517	64%	397,034
12/20/16	318	219,067	104,233	68%	96	87,960	221,982	28%	47292	28,104	63%	398,661

My trading on gold and gold miners are clearly stated in my recent letters. I stopped out most of my liquid positions when gold couldn't hold at 1200. I started to buy back gold miners during the week of 12/18 for year end trade. Tax loss plus rebound in January when the market realize Trump can't deliver everything he promised. So far it is working brilliantly. My plan is to take profits into the Chinese new year, which is traditionally the peak of gold seasonal market. 2017 could still be a very tough year for gold and gold miners, depending on Trump's policy and how much he can push through the congress.

The liquid names I like in gold mining space are, **OceanaGold Corporation (OGC.TO)** , **Pretium Resources Inc. (PVG)** , **MAG Silver Corp. (MAG)** , **Gold Fields Limited (GFI)** , **Osisko Gold Royalties Ltd. (OR)** and **First Majestic Silver Corp. (AG)** . The juniors I like are **Maya Gold and Silver Inc. (MYA.V)** , **Alexco Resource Corp. (AXU)** , **Goldquest Mining Corp. (GQC.V)** and **Novo Resources Corp. (NVO.V)**. In general, I swing trading the liquid names with the rise and fall of gold. In juniors, I tend to buy and hold.

The outlook for energy is a little better. Trump seems to be friendly with Putin and OPEC and Russia just reached deal to curb oil production. I expect the market to work off the surplus oil in 2017. However, the upside of oil is limited. As soon as oil is over 55-60 the fracking machine in the U.S. and Canada will start running. In addition, Trump will likely approve the Keystone pipeline. That means the heavy oil in Canada can be brought to the U.S. refiners easily.

I have simple buy and hold strategy for 2016, so far it is working well. I own 3 major energy plays they

are **Pan Orient Energy Corp. (POE.V)** , **Canacol Energy Ltd (CNE.TO)** and **CUB Energy Inc. (KUB.V)** .

POE.v is my largest position in energy. I have been holding it for 5 years, so far it was still trading slightly higher than it was 5 years ago if you consider the 2 large one time dividends I received. I have been waiting for the results of East Jabung, one of the largest onshore conventional target in the world. It was planned to be drilled in H2 2016, but was delayed till Q1 2017. The Repsol is a large company, it is moving at its own speed. Plus the bureaucrats in Indonesia slowed down the drilling. I won't be surprised that the actual drilling will happen in Q2 of 2017. But Repsol already committed and it will be drilled in 2017. The lead equipment were ordered and road construction is starting soon or if not already started. The P50 case NAV is over 20CAD/share and it was not priced in the stock at all. The company has about 1 CAD in cash and Thailand oil field worth at least 20c. The Canadian oil sand is free and the drilling in Indonesia is free for investors. Minimum downside and huge upside, that's why it is my largest holding in energy.

CNE.to is one of the oil companies with highest profit margin at the current oil price. Because its main production is natural gas, paid at fixed price in USD, just like utilities. The stock had a good 2016, likely moving higher in 2017 because its oil assets are basically free. In early 2017, high impact shale wells JV with major oil companies results will come out plus company's own oil exploration wells results. At 50 dollar oil, its oil assets will worth a lot of money. In addition, we should see rapid growth in the gas production in 2017 and 2018 thanks to the successful drilling campaign. These will add to the upside of the stock in 2017. In the near term, they will likely refinance their debts that could remove any uncertainties of the balance sheet. I have been holding a core position in CNE and trade around the stock using the oil price fluctuation.



KUB.v is a even simpler story. It was devastated by the Ukraine war. First, its eastern field was very close to the conflict zone. Second, during the war, the government double the tax(royalty) on natural gas in order to pay for the bill. Now the war ended and will unlikely to restart during the Trump presidency due to his friendly attitude to Russia. Under the IMF guidance, Ukraine revert the gas



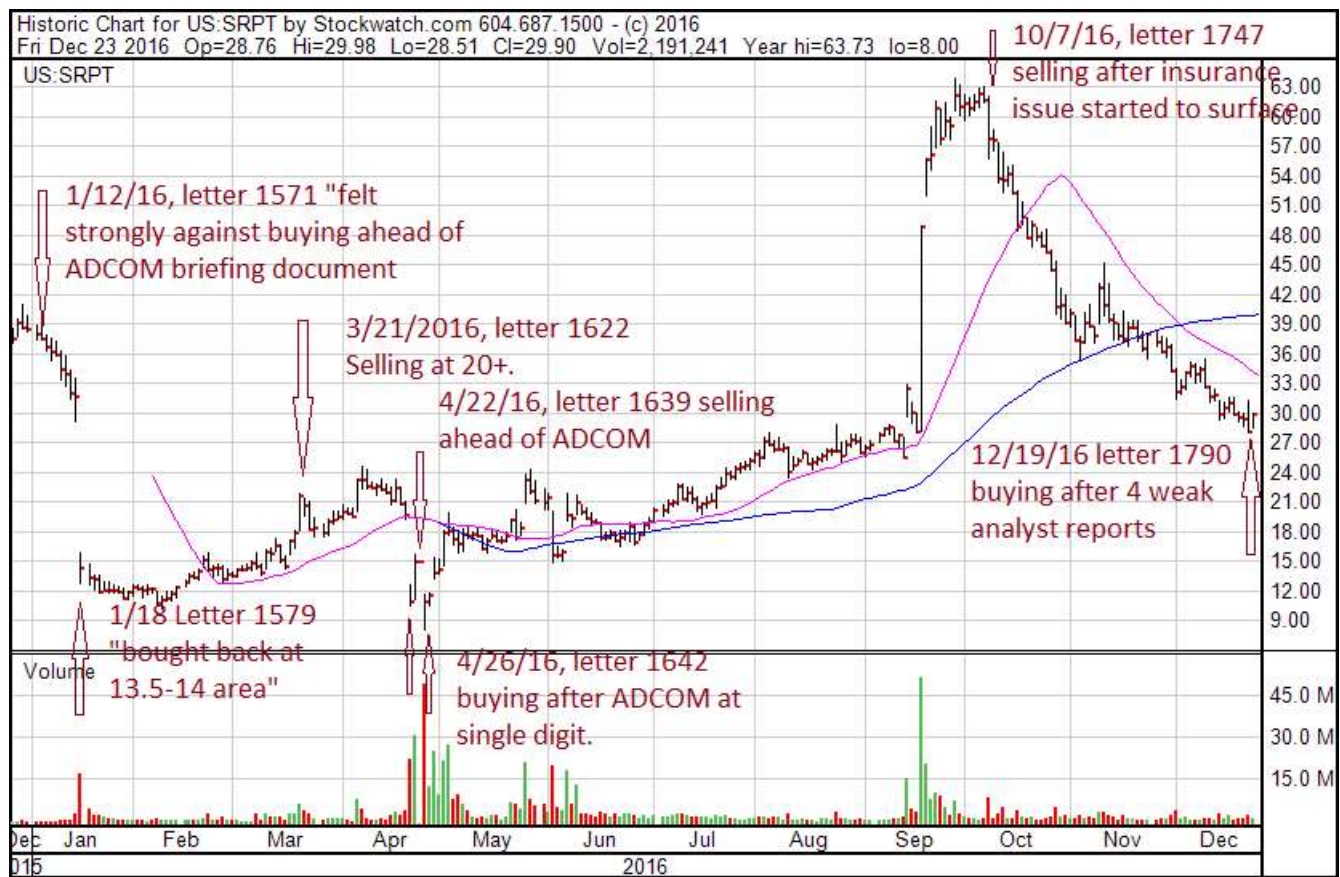
royalty back to prewar level started in 2016. There were talks about cutting the new well royalties further by 60%, but so far nothing materialized yet. Now the production is less than half of the level before the war. Cub owns its gas facilities, which is running at 20-30% of capacity. The technical team is in tact, we just need to wait and see its production goes back to prewar level and higher in the next 1-3 years.

During the war, Cub acquired a few important concessions. For example, Cub got the property next to the Slovakia boarder. On the Slovakia side of the basin, there was a producing gas field for 20 years. No wonder Slovakian gas producer sign the deal to pay Kub 1.5 million Euro in cash and carry it into production for 50% of the field. This field alone, probably worth the current market cap of Cub. In the east, Cub and its partner got a huge new concession where the largest gas wells in Ukraine were drilled. It takes time to do the 3D seismic and interpret the results. Both fields likely to be drilled out in late 2017 into 2018. I believe Cub is a long term buy and hold stock. Though I will likely cover my cost when it reach double digits. I see the stock go all the way back to old highs if they can deliver in the next a few years.

On the lithium trade, I am happily to report that I got back to ORL.to/ORE.ax at around 3 AUD/CAD after selling it at much higher price earlier 2016. I got back in October when I was expecting lithium price to bottom in China, which was right on target, see attached chart. I recently sold about half at 4+ and keep the rest for the long run.



2016 was a difficult year in biotech thanks to the election bashing of drug companies. However, I had a great year in my biotech trading. The biggest winner is by far **Sarepta Therapeutics, Inc. (SRPT)** and it was my biggest gain in years. As you know, I have been holding SRPT for about 5 years. In the prior 4 years, I studied hard and had deep understanding of its pipeline. I was able to use the volatility during the approval process to make huge profits. This is a picture of a few of my successful trades on SRPT that generated 4 digits of return for me in 2016.



Going into 2017, my biotech strategy remains the same. Stick with fundamentals but actively trade with the market to re-risk and book profits. These stocks have great near term catalysts. **DURECT Corporation (DRRX)** should have data out on NASH, one of the hottest area in biotech out any day now. **Abeona Therapeutics Inc. (ABEO)**, should have more new data out on its MPS IIIA program. **Immunomedics, Inc. (IMMU)** we will have the AGM in February. **Zynerba Pharmaceuticals, Inc. (ZYNE)** and **Argos Therapeutics, Inc. (ARGS)** important trial data should come out in H1. SRPT will have Q4 sales data and guidance out at the beginning of the year. However, the data will likely be weak. The key question is how much is priced in after 4 weak analyst reports? The EU 120 day questions will come out in March-April, and that will be the next key catalyst. The stock was cut in half and more since the insurance issue surfaced(I was fortunate to sell most after the news came out at 59). I think it is mostly in the stock already.

My final advice is that biotech is extremely volatile, you need to actively manage your portfolio and try to book profits to play with "house money". I will try to provide timely updates throughout the year like before.

In conclusion, 2017 will be a tough year to predict. The outcome will depend on the Trump policy, the EU election and many other fast changing factors around the world. I will try to keep up with the pace and provide timely updates to subscribers.