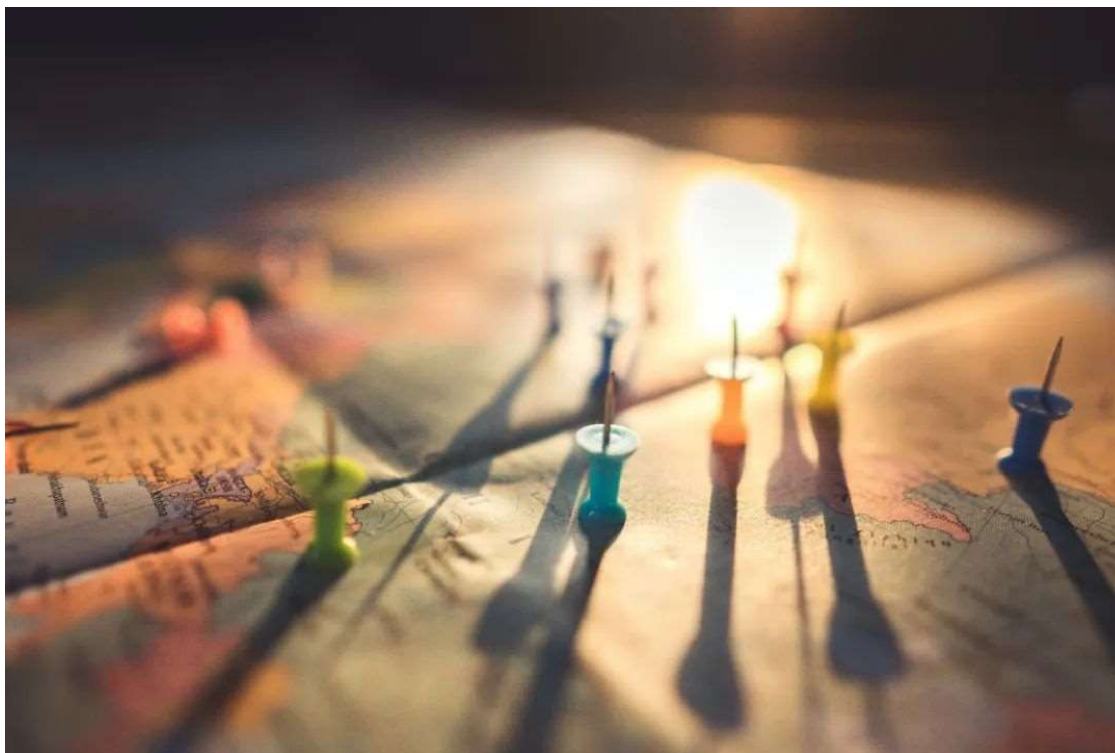


Rosefinch Research | 2022 Series # 12

Dalio: How to Deal with the Changing World Order?



When we talk about investment, people often think about Buffett and Soros who stand at the two extremes of value and trend. Buffett is most well-known for betting on the national spirit by going long US, while Soros is best remembered for breaking the pound, shorting the Thai Baht, and shorting the world. Aside from these two succinct approaches, there's another style known as macro hedge fund. The macro hedge fund managers must have very strong skills in macro and economic cycle analysis. Bridgewater fund's All-Weather strategy that was established in 1996 is the most well-known attempt for a risk-parity strategy, which is often identified as a jewel of macro strategies. Interestingly, Dalio is better known in China for his long-China views than his macro hedge fund views. Dalio has long identified China as a true competitor to the US, having become competitor to US in many areas, and still growing stronger and faster in others. As we enter into a more complex and uncertain world, how do we deal with the changing world and welcome the new era?

In Dalio's book "Principals for Dealing with the Changing World Order", he used the long cycle model to identify the drivers behind the world's changing wealth and power in the past 500 years. Much of his summarization and predictions revolve around one single concept: cycle. We also see cycle as the secret behind investment success and even human history. We've paraphrased some key ideas from Dalio's book here to share with you:



1. In one's lifetime, the great boom or great bust will probably only happen once. So unless we study the history across multiple generations, it's very hard to anticipate such periods.
2. Even though it's a reasonable approach to predict future based on the past, don't be surprised if the future differs from your expectations.
3. In our whole lives, there's never been a period like now, where so many yield curves are at low or even negative levels; in my life, wealth, values, and political differences have never been this big; in my life, US has for the first time met a real competitor.
4. Ever since the dawn of time, conflict comes and go just like the ocean tide, which impacts people's lives in many areas, from tax, economy, to how people live with each in times or boom and bust, war and peace.
5. The destruction/construction periods hurt the weak and confirm the strong, who in turn emerge victorious and set the foundation for boom times by establishing new world order.
6. Which nations win the contest and achieve more wealth and power is mostly determined by its internal capabilities.
7. During rising phase of each cycle, all the great nations will develop world-leading financial centers, from which they attract and distribute the capitals of their times.
8. One key element of success is to deploy the debt and capital to increase productivity, create good investment returns; but if the invested capital does not increase productivity or increase income, the currency will devalue massively and reduce the purchasing power for the government and the society at large.
9. When difficulties and conflicts worsen people tend to strictly label someone as member of one of more groups who are either enemy or ally.
10. Debt/currency/capital market/economic cycle are the most important factors driving economic fluctuations. These economic fluctuations have major implications to politics (both internal and external) and war, so know where each nation is in their respective cycle will be crucial to forecasting future possibilities.
11. In the long term, the biggest risk is the "currency value" risk, yet most people aren't focused on this. The reserve-currency countries who have huge deficits, because the deficit and debt are denominated in their domestic currency, they can pay back by printing the currency, thus transfer the risk from the debtor to the debt holder. The main risk is therefore not whether the debtor will default, but whether the debt holder's asset will devalue.
12. Quantum computing and artificial intelligence's advancement and wide-spread applications will dramatically increase the speed of learning and improvement, and bring about changes to the global wealth and power. In



the next 5-20 years, these changes will compound and bring about an unprecedented transfer of wealth and power.

13. In order to face the future: we must become aware of and get accustomed to the things that are happening, even though they couldn't be predicted; predict future scenarios and the probability of them occurring; fully understand what may happen, so we can protect ourselves from getting irreparable damage, even if we can't do it perfectly.
14. He who lives by the crystal ball will eat shattered glass.

Disclaimer

The information and data provided in this document is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of any financial products or services. This document is not intended for distribution to, or usage by, any person or entity in any jurisdiction or country where such distribution or usage are prohibited by local laws/regulations. The contents of this document are based upon sources of information believed to be reliable at the time of publication. Except to the extent required by applicable laws and regulations, there is no express or implied guarantee, warranty or representation to the accuracy or completeness of its contents. Investment returns are not guaranteed as all investments carry some risk. The value of an investment may rise or fall with changes in the market. Past performance is no guarantee of future performance. This statement relates to any claims made regarding past performance of any Rosefinch (or its associated companies') products. All rights are reserved by Rosefinch Fund Management Co. Ltd and its affiliates.