Quantitative
Investment
Decisions

The Safety Net For Your Portfolio

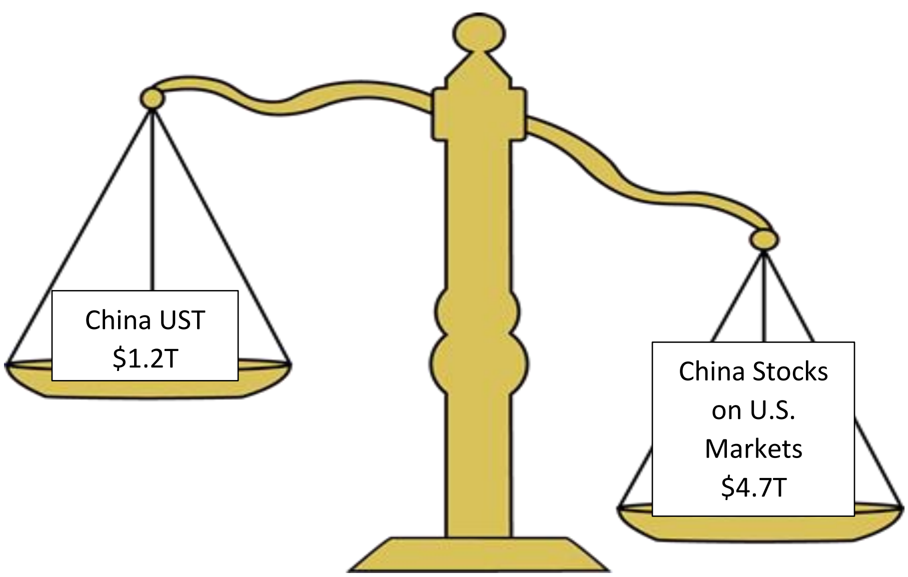
Who is Funding Whom?

Executive Summary:

- **China owns $1.2 Trillion of U.S. Treasuries**
- **China companies traded on U.S. exchanges are valued at $4.7 trillion**
- **Neither country would appear to benefit from a funding war.**
- **Solution to trade war is critical to our long term bull market thesis.**

We constantly hear that China is funding the U.S. deficet by puchasing over $1.2T of treasury debt. What is not talked about is the fact that the U.S. is funding Chinese companies. As of the end of April 2019, the market capitalization of U.S. listed China stocks was $4.7 Trillion. The risk is that China stops buying our debt or sells our treasuries off. However, would China risk having their corporate funding source cut off. So who is funding whom? It would appear that funding is a stalemate and would be best for China and U.S. to find a trade solution.

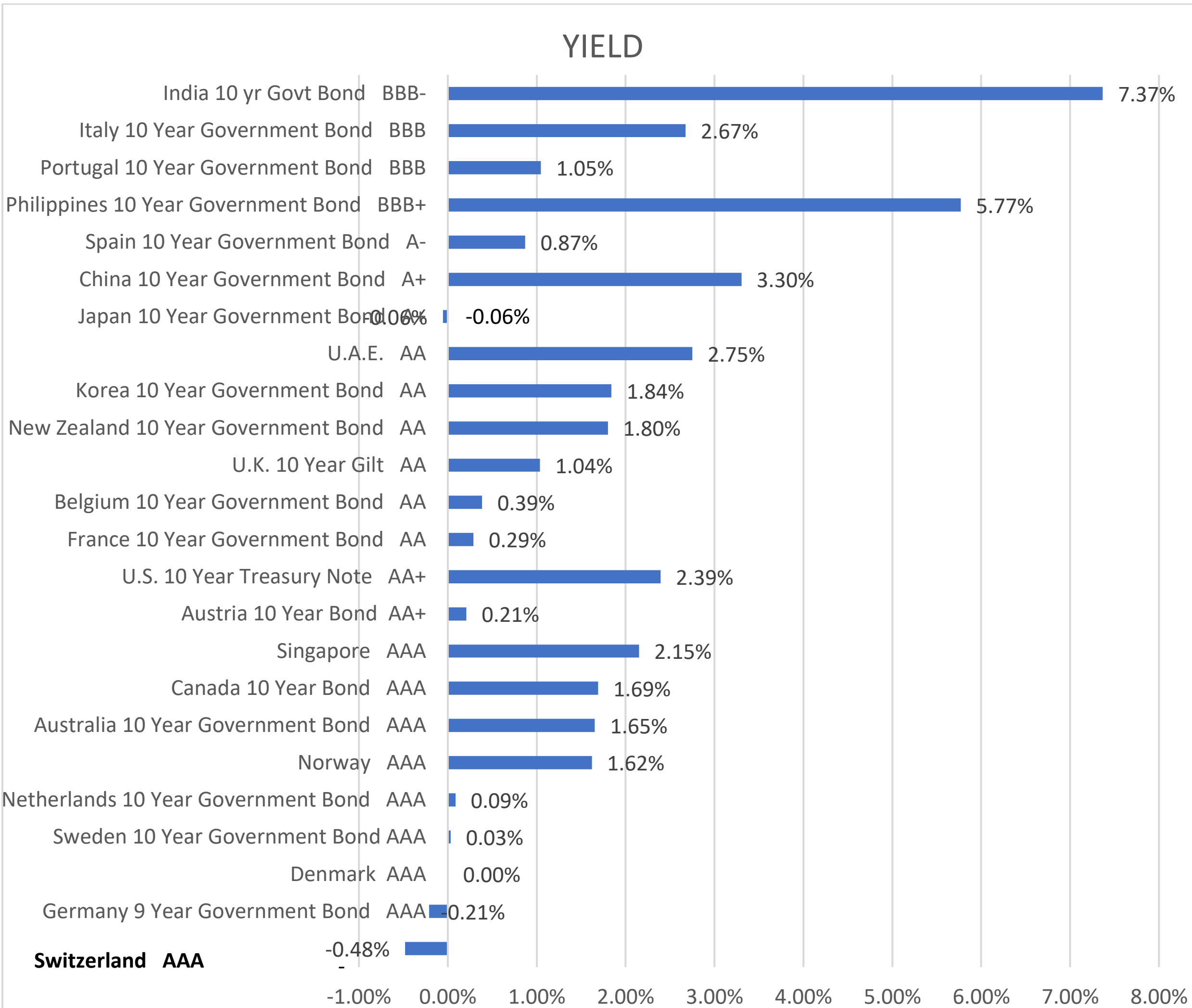
Exhibit 1. Who is funding whom?



Source: Morningstar Direct and People's Bank of China

Granted that China's investment into U.S. treasuries is from their central bank. These excess reserves are driven from their attractive trade surplus position. As of 2019 China was reported to have $3.1Trillion in foreign reserves, approximately one-third invested in U.S. Treasuries. I am sure that China could find other sources for their investment but how many are as safe and liquid as the U.S.? According to MarketWatch, see exhibit 2, the U.S. is one the highest yielding 10 year bonds available from a high credit quality country. Of the countries with AA credit quality or better only the United Arab Emirates has a higher yield at 2.75% vs 2.39% for the U.S. Singapore at AAA also has an attractive yield at 2.15%.

Exhibit 2. Country Yields on 10 Yr Debt or equivalent



Source: Market Watch

If China starts selling off massive amounts of U.S. Treasury , the dollar would most likely depreciate. China's Yuan would most likely appreciate causing the cost of their goods to increase and become more expensive for their trading partners. China could take the sale proceeds of U.S. treasuries and invest it back into local projects to reduce the impact to its econmomy or it could incur a dramatic devaluation to stay competitive. None of the options appear appealing but in economic wars I don't believe rational actions are the expected.

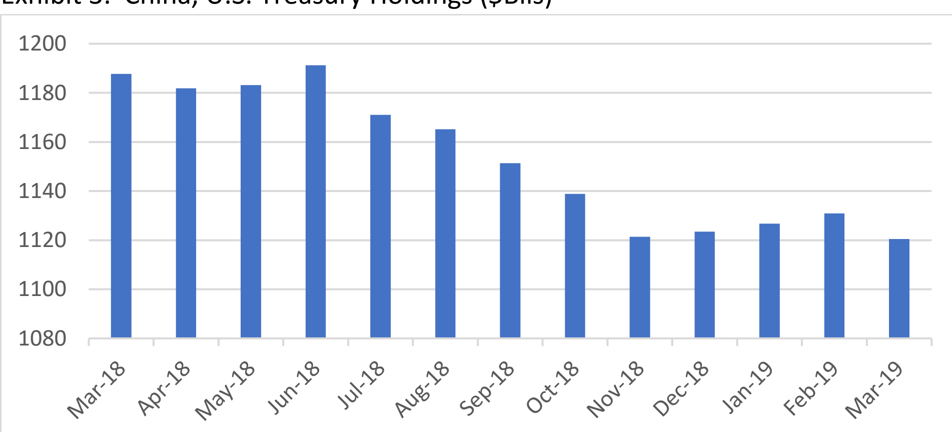
The difference for the U.S. is that stock investment in Chinese firms is investor led not government initiated. U.S. investor's want access to Chinese companies that will most likely be the major beneficiaries of their 1.7 billion population's purchase of goods and services. In addition, our firms want access to the Chinese economy as it is expected to become the largest in the world as the standard of living improves over time.

The failure to fund each others needs is not a suitable solution. Nearterm, China's sale of U.S. treasuries would have an immediate impact to U.S. markets. However, longterm the loss of high tech components, equity capital and a key market would also negatively impact China. The most likely outcome would be a global recession.

China's current holdings of US Treasuries is down $60 billion in the last couple of months. Supposedly, China is selling some treasuries to use the proceeds to support its currency. However, holdings are down $180 billion from their all time high. The impact to our ibnterest rates to date has been minimal as no one is questioning our economies viability.

We continue to view the tariff war as the largest risk to our long-term bull outlook.

Exhibit 3. China, U.S. Treasury Holdings ($Bils)



Source: U.S. Treasury

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Disclosures

Quantitative Investment Decisions, LLC ("QID") claims compliance with the Global Investment Performance Standards (GIPS®).

Firm Definition

Quantitative Investment Decisions, LLC ("QID" or the "Advisor") is registered investment advisor in the state of Florida organized as a Limited Liability Company ("LLC") under the laws of the State of Delaware, whose principle place of business is in Naples, FL. The entire investment team and critical operations staff became affiliated with QID on January 2, 2015.

QID reviews a total firm AUM report broken out by account on a quarterly basis to ensure that only actual assets managed, or sub-advised, by QID are included. All accounts deemed to be advisory only, hypothetical, or model in nature are excluded from total firm AUM. Total firm assets are all discretionary (whether fee-paying or not) for which QID has investment management responsibility, including assets managed by sub-advisors that QID has authority to select.

Obtaining a Compliant Presentation and the Firm's List of Composite Descriptions

A compliant presentation, including the performance data for the composite, may be obtained by contacting QID at 239.631.8912 or by emailing info@qidllc.com.

The Quantitative Investment Decisions' (QID) Tactical U.S. Equity Strategy, Tactical International Equity Strategy, Tactical U.S. Fixed Income Strategy, and the Tactical Alternative Investments Strategy are long-term growth portfolios that invests in Exchange Traded Funds (ETF) as markets are rising and scales to cash as markets weaken using a trading algorithm. Their objective is capital appreciation. The portfolios represent United States markets, international markets, United States fixed-income markets and a blend of commodities and REITs that constitute the alternative investments strategy. The charts above show the total return, including reinvestment of all dividends. Returns are shown net (NR) of management fees and transaction fees for the composite account of the portfolios. The U.S. dollar is the currency used to express performance. QID claims compliance with the Global Investment Performance Standards (GIPS®). QID has been independently verified and its composites receive a quarterly performance examination by Ashland Partners & Company, LLP. **From April 30, 2012 through December 31, 2015 the performance shown is that of a composite of client accounts according to the dictates of the Program**. The quantitative engine providing strategy signals was enhanced effective April 1, 2014. The portfolio weighting scheme was also enhanced effective September 1, 2014.

Benchmarks are used for comparison purposes to correlate to each portfolio. The returns for the indexes shown include dividend reinvestment. Individual client accounts may have experienced investment results during the corresponding time periods that were materially different from those of the composite returns. **Performance data shown is past performance. Past performance is no guarantee of future results. Investments are subject to risk, and any of QID's investment strategies may lose money. QID's actively managed portfolios may underperform in bull or bear markets. The investment strategy presented is not appropriate for every investor and individual clients should review the terms, conditions and risk involved with specific products or services. The portfolio is constructed with Exchange Traded Funds that seek investment results that, before expenses, generally correspond to the price and yield of a particular index. There is no guarantee that the price and yield performance of the index can be fully matched. ETFs are subject to risks similar to those of stocks.**

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