

## Gonzalez, Javier – How to Make Money With Global Macro

2016, [Finance] Grade ★★★

In his book the Penn State economist and investment strategist Javier Gonzalez takes the reader to the dynamic world of global macro trading, or “higher dimensional puzzle” as he calls it. To succeed in investing you need to think and do things differently than the mainstream crowd. Gonzalez presents an intellectually spirited view of the world that I think could serve him well as a macro trader.

The book has two parts but the first of them could in turn be divided into two themes. The first topic in part one is a presentation of the theoretical model that Gonzalez utilizes to understand the workings of the global economic machine. Then follows a chronological review of the historic global macro events decade-by-decade starting with the 1970s, including a set of price graphs to illustrate the happenings. In the second part of the book the author writes a number of chapters on various themes within economics, politics etc. that influence a global macro trader’s environment.

A centerpiece in Gonzalez’s worldview is the core-periphery paradigm that divides world currencies into the reserve currency – currently the USD, hard currencies that appreciate in times of risk aversion and soft currencies that do the opposite. The key to understanding is the global flow of resources and the importance of the reserve currency. The reserve currency country’s central bank dictates much of the global monetary policy allowing it to optimize the conditions to its benefit. Having a global demand for its currency the US can engage in counter cyclical monetary and financial policy measures without the same market restrictions as other countries.

One of the topics in the second part is war. As Gonzalez sees it the successful macro trader cannot only think in terms of cyclical or secular changes, he must also consider structural changes – i.e. the events that alter the basic conditions for the functionality of the economy and invalidate previous patterns and experiences. Only if this

additional dimension is added on top can the macro trader make sense of the world in a profitable way. In this the author is obviously influenced by George Soros and his former chief analyst Jim Rogers. Others who Gonzalez quotes extensively are Warren Buffett, Jesse Livermore and Bernard Baruch. The most number of quotes however goes to a number of central bankers, but then the purpose is not to gain inspiration but to point to their low understanding of the machine they are trying to run.

According to the author most economic relationships are time dependent and hard to invest by. Then some are more permanent like how various assets react to the varying strength of the global reserve currency. The investor should focus on these key variables and then react to trend shifts in these. Gonzalez views the events in the economy as effects of underlying causes and catalysts. If one instead views the economy as a complex adaptive system many of the events could instead be generated by the intrinsic functionality of the system itself making the cause-and-effects even harder to decipher. The more important then to focus on understanding what is happening instead of forecasting what is supposed to happen.

I very much appreciated how the book portrayed the dynamic nature of the global economic system and how the actions of the FED start a number of multinational self-feeding loops that other countries must react to. The book would have benefited from illustrating the many cause and effect chains described. The book could also do with some editing. For me the second part was the less interesting one, as the text became so dystopian with regards to war and the environment and unnecessarily agitational on how Wall Street and other vested interests run the political-economic institutions. It didn’t really fit well with a book on macro trading.

An interesting view into global macro trading while not entirely solid as a coherent book.

Mats Larsson, Dec 11, 2016