



April 2018

## Entropy: The Degree of Disorder or Randomness in the System

Accredited Investors Only

### Entropy: The degree of disorder or randomness in the system

When a high level of entropy exists, people tend to just shut down. When events occur too frequently, chaos develops, volatility increases to extreme levels and risk aversion ensues. With President Trump, through the desire to implement trade policy through the unconventional means of social media, the level of entropy has hit an extreme high. In reality, the trade war was actually lost decades ago. The key issue is the fact that in China's 2025 economic strategy high tech industries are the main focus, and this is the battle ground.

The reality is that this is not so much about trade wars but trade theatre. With mid-term elections coming in the fall, the President needs to be seen fulfilling his election promises. A deal on intellectual property rights will be made and it may take some time. In the end President Trump's bark is bigger than his bite.

The United States can no longer absorb the excess capacity generated by Germany and China. John Maynard Keynes warned that this bridge would eventually be crossed during the negotiations at Bretton Woods in 1944. He rightly predicted that the World Trade Organization was not strong enough to deal with the inherent problems created by a closed economy. Countries that manufacture trade surpluses are reticent to back up or create conditions to consume more internally. This is known, and will be dealt with through negotiations.

While economic conditions point to a period of strong company earnings, the heightened political risk, caused by concern regarding an impending trade war, has caused extreme volatility in the financial markets. Prudence suggests investors reduce exposure, and we have with the Pendragon Fund. While earnings will be strong, we expect the market to be volatile in the short-term and a deal will be made before the mid-term election season starts. When this happens, fundamentals will again take center stage. Until then, a high level of entropy will exist in the markets.

This does not mean the evolutionary process and the global economy has stopped. If the politicians and regulators step aside, the financial markets and the global economy will continue to grow and the new data driven economy will continue to evolve at a rapid pace.

Investors should look at this period as the pause that refreshes.

**Dr. James E. Thorne**  
Chief Capital Market Strategist  
& Senior Portfolio Manager

## FUND DETAILS

INCEPTION DATE - SEPTEMBER 15, 2016

Management Fee	1.25%	RRSP Eligible	Yes
Performance Fee*	20%	Auditor	Deloitte LLP
Subscriptions	Monthly	Legal Counsel	McCarthy Tetrault LLP
Liquidity	Monthly	Administrator	SGGG Fund Services
Minimum Investment	\$10,000	Custodian	Caldwell Securities Ltd.

\*Based on perpetual high watermark using series accounting, no reset, no hurdle rate.

## PORTFOLIO MANAGER

### James Thorne

Chief Capital Market Strategist & Senior Portfolio Manager

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Dr. James E. Thorne is the Chief Capital Market Strategist and Senior Portfolio Manager at Caldwell Investment Management Ltd. He is also a member of Caldwell's Investment Risk Committee.

From February 2001 to September 2014, he held various senior investment management positions at M&T Bank and its wholly owned subsidiary, Wilmington Trust Investment Advisors, Inc. in the U.S., including Chief Investment Officer of Equities, Managing Director and Chief Capital Market Strategist. During his tenure, he was responsible for the management of approximately \$23 billion in assets and developed small, mid and large-capitalization investment strategies which employed a combination of quantitative and qualitative analysis and achieved top-quartile performance.

Dr. Thorne received a Ph.D. in Economics in the fields of Finance and Industrial Organization from York University in June 1993 and was subsequently employed as a Professor of Economics and Finance at the Schulich School of Business and at Bishop's University.

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