# INVESTMENT FOR WEALTH

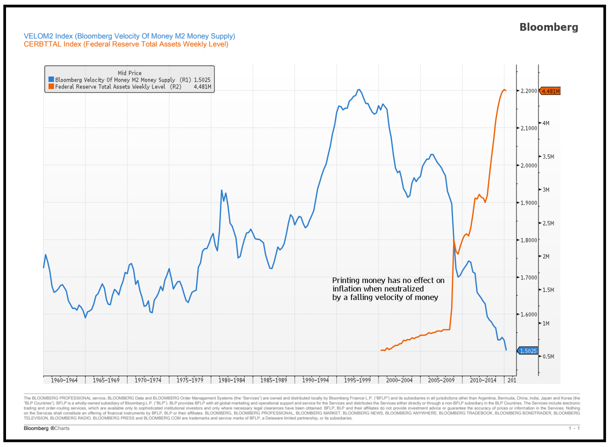
General report

## Comments for May 2015

The picture has become clear

Some call it a conundrum, others a market mystery; why hasn't the worldwide QE, ZIRP and in some places even NIRP, created inflation?

With hindsight it becomes crystal clear. The expansion in base money, what some have called central bank power money, did not produce real money in circulation growth. Looking at the Fed stats, the M2 velocity shows that the velocity is still in decline. Deflation risk followed.




Why did this happen?

Unease, fear and some post shell shock symptoms, fiscal constraints and balance sheet repair.

The consumer was really shocked by the post Lehman crisis. His fear for the future was not stilled by the central bank actions. The (sub)conscious feeling that an even deeper crisis was in the making strengthened and even more so, every time more unconventional monetary policies where implemented by central banks and especially by the Fed. So no wonder that the expected boost in consumption did not occur. No trickle down of the Fed induced asset inflation for the masses, only the one-to-ten-percenters (the rich) boosted their consumption. This unease to consume for the 90% was seen again when the bonanza from falling energy prices was saved instead of being spend by the average Joe. Is the death of the famous ardor of the American Consumer a structural change?

Fiscal constraints. Governments had to take on lots of debt to save the banking system from a financial-derivatives-implosion-induced collapse. Lack of liquidity and solvency in the banking system forced the states to expand their deficits and their debt/GDP ratios. In the fall out public expenses had to be cut or frozen in real terms. This became thus also a deflationary force on the economy. Another factor inducing lower money velocity. When the government tried to repair its balance sheet, many times it passed through higher and higher taxation, producing additional stress on individual consumption, slowing again the money velocity.

Balance sheet repair. First banks had to refund state help, furthermore the New Regulation forced the banking sector to have more liquid capital. Again a negative force on money velocity. General enterprises from big to small also had to repair their balance sheets. Lack of easy access to bank financing became an obsession. Seeing government and final consumers trapped, enterprises hesitated to invest, seeing too much worries on the demand side. Again a negative force on money velocity.

As no reasonable help will come from aliens, does this mean deflation becomes a certainty? How to stop a negative self-feeding loop of deflationary forces in the real economy tomorrow?

Some Hope is still warranted!

Don't discount out the Fed.

The Fed has just to taper QE and start raising rates. Tapering already happened, be it after (in our vision) too many quarters of hesitation. Take a look now again at money velocity. Since the tapering started, velocity has begun a clear bottoming process.

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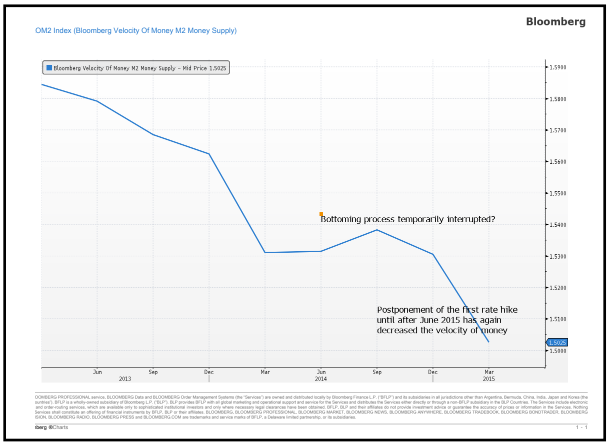


What will happen if rates are raised?

Consumers will become confident again as they see the Fed's rate hike as a confirmation that normal growth will start over. The Fed's action will transfer the Fed's confidence to the consumers' confidence. Of course it's a delicate act of communicating; success and some hiccups in this transmission are to be expected. Once the rate rises, it will helps to reflate prices so consumers develop a mentality to advance their consuming instead of postponing it by saving. Better take the credit now because it will cost more tomorrow, so the consumer will think if the Fed communicates successfully.

Funny how monetary transmission has become a confidence transmission. In the new normal world the central bank has to do everything in reverse. No more lowering of rates to help the economy; they need to hike rates instead, to start boosting the economy.

Fiscal constraints will diminish as growing consumption and cost push inflation - thanks to higher rates - help fund the government. Putting a ceiling on, or even lowering tax rates can become a new virtuous cycle. An additional boost can come from a big government program of (urgently needed) infrastructure investments. The cost push inflation will apart from helping to replenish the public coffers, also lessen the burden of public debt in real terms.

It's evident that in such an environment corporates will again invest more in productive investments. They will be pushed to have a supply response to the growing demand from consumers and governments. The need to invest, to stay ahead of the competition in productivity, innovation and quality becomes a drive for every self-respecting headquarter. Labor income grows again.

We hope that Yellen will raise rates in September but we can't exclude that she drags on to December or January to start the first rise. The confidence game would be better served if the Fed acts sooner rather than later, forced by market vigilantes.

We see gold bottom out within 30 days of the first hike. So after waiting for years timing this correction, the ending is now a matter of months. So a brutal move to the down side in the Bullion price just before the gold market turns around should neither be a cause for fear nor panic. Markets have a habit to put frustrated non-professional investors wrong-footed, after long drawn out corrections. The general public mood is quasi always wrong at the turn. In our opinion mines have already begun to discount such a move. So we predict the turn in October or Jan-Feb.

Equity markets can in the coming months correct some 15-20%; Europe, if the currency troubles restart, even more. For the US we continue to see a Dow Jones rising post the correction once stabilized after the first rate hike. It risks to see a blow up top in 2016 or beginning of 2017. What is a blow up top : a bull top formation defined by a rise of more than 80% in less than a year. Emerging markets risk to suffer dollar pressure in the start of the rate hikes and will become interesting only further on and have to be treated on a country by country basis.

The bond market will see a long term (decades long?) correction. This is the bubble that already has seen its top. A halo top can be formed if the equity market corrects more than 15% before the first rate hike is months old. A last time public debt could be wrongly seen as a safe haven in such an environment. Indeed at structural turning points, markets have a habit to chase the majority out of their correct positions.

We bet on the Fed. We fully agree with ex Fed member Charles Plosser : Madame Lagarde has no central bank mandate so her recommendation on a no Fed rate hike is valueless. And remember the Swiss central bank did not bother to inform Lagarde when they cut the Swiss euro peg in January 2015 either.

The problems of too much debt are a staying issue but will in our opinion - at least for the United States - only become preponderant after the Dow pops.

Enjoy the coming vacations and don't worry for a possible gold blip in the coming weeks, months. It will in fact just announce the turning point.

**Performances and trading**

**iW Alternative SIF – Low Risk**

The fund has increased by 0,1% in May, NAV 10.403,40 EUR.

**iW Alternative SIF – Commodities & Gold Equities**

The fund has increased by 0,6% in May, NAV 353,06 EUR.

**iW Alternative SIF – Real Value Growth Fund**

The fund has increased by 1,6% in May, NAV 69,36 EUR (I), NAV 67,00 EUR (P)

**iW Alternative SIF – Apis Lucrosa**

The fund has increased by 1,6% in May, NAV 1266,98 EUR (I), NAV 1177,90 EUR (P)

Best regards,
For iW Alternative General Partner,
The fund manager