Commentary for November 2015

Changing of the guards

The answers are coming in from the East now! The big magicians of the West i.e. the Fed and the ECB, were last seen swimming with their pants down; they are not completely naked, just yet.

Fed officials anticipating the US November job figures confirmed the imminence of a December rate hike … and the market responded with a big yawn, sending the euro more than 450 pips higher on the news.

Draghi lowered the discount rate and prolonged the European QE … and the market cried for mommy, saying this isn't whatever it takes.

When does a non-delivered promise become a blatant lie?

The Fed:

> *We will start hiking because we are there to protect the real US economy and not Wall Street or the rich. We see our maximum employment mandate within a 2% inflation range being achieved and so we will start normalizing rates, be it in a slow pace. Crashing commodities? It will pass, it does not a present a permanent drag on our service economy; we see it as a welcome tax cut for American consumers. Crashing emerging economies, that is the responsibility of their respective governments and central bankers. A big US government spending program on infrastructure can easily overtake the impact of falling US exports. We have repeated so many times that Congress should take courage, just like we have.*

A clear allusion to Bernanke's 'Self Coronation' as a man of courage in his last publication.

Draghi or Super Mario:

> *We do more QE because it works. See, even Italy and Spain can now borrow at negative rates for the short term. See, I deliver even when the Bundesbank and some other members don't support ECB decisions. We, the ECB will continue to calibrate our QE policy, trust us. If the current Euro economy is not vibrant enough then blame it on your governments. They should do more structurally, and we will accept every infrastructure program with a benevolent eye, even if it is debt financed.*

But is the US economy really healed?

What is the labor participation rate? What about the expansion of part time and low paying jobs? What about household incomes that still haven't recovered from their previous high after seven years of ZIRP. What about US government debt expanding by more than 320 billion in October and November each, driving the debt to GDP ratio farther and farther from the 100% level. What about crashing high yield corporates? What about the lack of interest in the most risky tranches of new CDOs, in the energy and mining sector but also beyond. What about the growing pension funds' underfunding? What about the youth staying at hotel mama, succumbing under student debt and the lack of wage perspectives? What about the shift in the residential market, as humble families become more and more renters instead of proprietaries?

What about leverage and speculation? Really, no bubbles in sight? Why is the art and collectibles market giving the impression of a bubble already over its top? High valued apartments and McMansions lost 2.2% during the 3rd quarter of 2015. The fall in Sotheby's share value has been a good preceding indicator in the past! The 'nearly' failed A. Taubman collection auction is for us just another warning.

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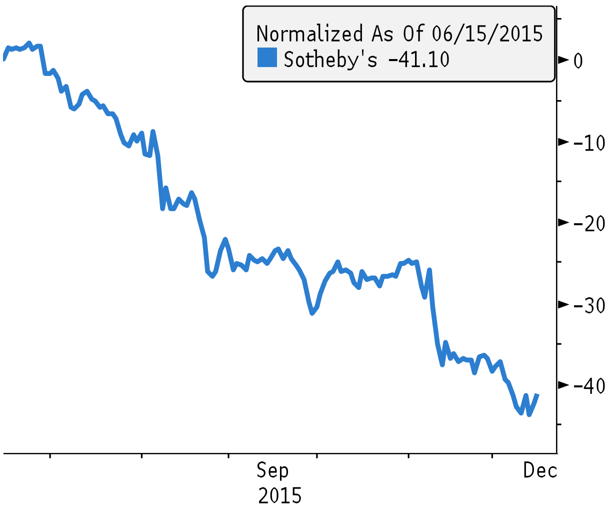

And no, the ebullient US stock market is not a sign of US strength. It is just TINA and ZIRP causality. Flight from emerging markets and in a short while also from Europe and Japan would reinforce this process we foretold you. And yes, we have already explained the rules of 'bubblenomics'. When you think a bubble is past reasonability, know that bubbles have a habit of doubling a last time before imploding. Hence nothing new about our prevision of a possible blow up top in US equities towards the 30.000 Dow level before this also ends.

And for the Eurozone?

In Europe we see no real success from QE. Now that governments can trust the ECB that negative rates are staying beyond 2017 – at least in Super Mario's opinion – who can really be surprised by a bit of extra growth in the Euro zone? Having leeway to deficit spending – in the short term 'for free' thanks to NIRP – and paying less interests on existing debts, of course government budgets are giving a little temporary growth boost in Europe. Lower euro currency levels also help exports for now and low energy prices benefit the consumer. Apart from the 'pauvre Greeks' who lost their sovereignty completely with the third rescue plan, who is still preoccupied with austerity? Not France after the November attacks (they weren't before either). Not Belgium, see the budget shortfalls prognosticated for the coming years and the warnings from its central bank. Not Portugal, where social communists took the reins after the last elections. Not Spain, where structural unemployment figures are still daunting and which with the demise of Abengoa saw its most important bankruptcy in the non-banking sector in November 2015; Rajoy wants to be reelected at any cost, so he is not encumbered by any austerity reflex and we're not even talking about the Catalonian independence dream.

With what revenues will the emerging world buy more Eurozone exports if commodity prices decline even more? Look at the WTI under $39. With what tax revenue will the Eurozone pay normalized interest rates on rapidly growing debt ratios once the Ponzi falters? Who will pay for the cost of exploding immigration and anti-terror measures? Raising taxes will kill the last growth in the private sector. In Finland they are already planning full communism with the initiative to give everyone a tax-free income of €800-900, without working. This will certainly boost the morale of their private sector that sees all its efforts for bettering their incomes annihilated by the government's will to take from them to give to the non-working class. Sure Euroland becomes 'wunderland'

Even the core, Germany seems to lose its vigor. The latest economic data shows a slowing growth with growing deflationary pressure. If this monetary fallacy, pardon NIRP, continues a little longer, we see Germany becoming a sick man in Europe again but this time accompanied by a lot of non-flying PIIGS and a moribund France. The number of unemployed in France increased in October by 42.000 from a month earlier, the biggest monthly rise in two years. Congratulations Hollande you have just scored another record. This time it is not so much nein nein nein from Frau Merkel. It is the common German people that are saying more and more nein nein nein against Merkel's lunacy on immigration.

NIRP will rip apart the Eurozone pension finances and the rest of social (in)security will not withstand the real cost of immigration. Terror and war will just add to the Eurozone distress. A Brexit can be the last straw to brake the camel's back.

As Draghi lies about how successful the ECB's monetary policy is and his solution is still more accommodation, we see no hope for a better future in the Eurozone. In the end the government will only be financed by printing. Tax revenues will fall and the government will come and take what you have. The legislation for broad based bail-in is now active. Some day in the not too distant future, it will become an executive order from the IMF, as collateral for a euro salvation. Remember after they came for the Rich, they will come for the middle class and then for everyone. As always, the plebs will applaud in the beginning. The test case is now Greece. In a 52 page document addendum for their 2015 tax declaration, every Greek family must now report all cash holdings above 15.000 euro and all valuables (from coins to art, to family jewelry) above 30.000 euro to the TROIKA-nationalized Greek tax authority. Even deposit boxes in a foreign country must be declared.

What better way to distract the people than … warmongering and climate salvation actions?

The Fed and the US dollar are still in a better position compared to Europe

The Fed will now intend to raise rates in order to create inflation. They hope they can start to force the now overcapitalized US banks to start lending again. They hope the effects of what Greenspan called 'a tinder box waiting for a match' namely the transfer of +3.5 trillion non-circulating surplus reserves in US dollars now posted at the Federal Reserve towards the private sector, will start to help money velocity to rise. If the old bank fractional lending credit multiplication works even at only halve its ancient pace, this would present a boost of 15.75 trillion (3.5 X 4.5) to a less than 18 trillion economy. Normally the credit multiplication is about 9. Of course, not every surplus dollar will be lend out at the first day after the Fed reunion on December 17. At least there is hope that in the beginning, anticipating behavior for higher yields will stimulate corporates and that consumers will take out new loans before they become unaffordable.

The Fed's hope is that the traction for the US economy will be stronger than the fallout from emerging countries, a slower growing China and the risk of recession in Europe and Japan. So they will raise, independent of data. In this sense, yes the Fed lies when saying rising rates is data dependent! Think about

helicopter money passing through bank lending reaching at last the real economy. If the government also acts with a big infrastructure plan, it would help. War dispenses are not as good but still, they can help for a while.

This could work and won't expose the Fed as already swimming naked. They still have some power and some privileges thanks to the dollar's positions as 'reserve currency of the world'. It could work until the US dollar becomes too strong and the higher yields cause the deficit to explode beyond reason… but this is a 2017 story.

In the meantime gold stocks will love it. Indeed, a hike to boost the economy will not have the effect of a hike with the purpose of refraining the economy from overheating.

Why the future world center will transit to the East

November has brought us some news.

China

First, China's currency was recognized as a reserve currency by the IMF. Still, it is not yet time for the yuan to replace the dollar's role.

Second, in November the PBOC continued diversifying its reserves. In order to gain credibility it no longer expands its tenancy in US government debt, other than short term paper. It has created the $100 billion Asian Infrastructure Investment Bank (AIIB), an alternative world bank in order to gain influence in other parts of the world.

This process of internationalization of the yuan has a long way to go. Buying gold is also part of it. Part of its additional reserves will now continuously be placed in gold. Since the PBOC released its actual gold reserves 5 months ago, it has bought gold each month. In November it bought 21 tons. We see this to continue for years to come. It helps putting a floor on the gold price as it captures 150-200 tons of supply each year.

Third, China in opposition to Europe and the US is not touched by the zero lower bound constraint as it has still room to lower its rates before it would reach the zero level. Its transition towards a more domestic consumer driven economy is well on track. The ample financial reserves will also help overcoming hiccups on this road to transition. Yes, there is some excess leverage. Yes, there is oversupply in productive assets. Yes, the growth path is slowing, but even at 5%, growth in China in the coming years will be double that of the US. With a quasi-equal GDP to the US, the total stock market capitalization of China is only around 30% that of the US. So some pundits who can only see a crash for China and no bubble in the US are really biased. The Silk Road investment plan will also boost China's growth potential further.

Apart from China falling apart on social distrust, the Chinese market at today's valuation is still one of the best places to be for the long haul.

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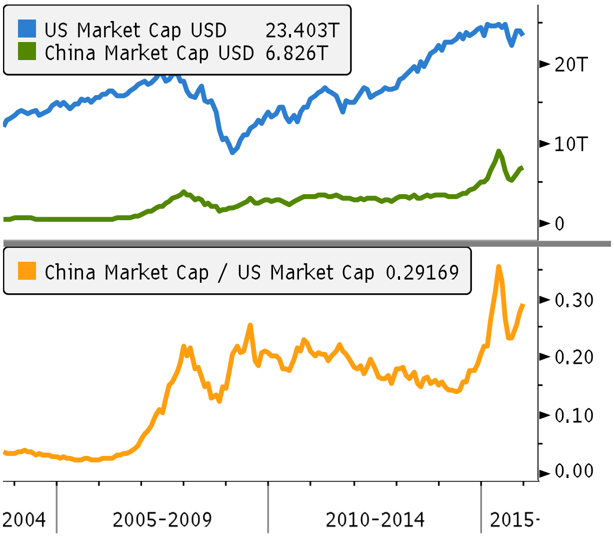


India

Second to china, another future giant is awakening in Asia: India. Even as a second year of a bad monsoon season is affecting the Indian economy negatively today and even as the market got a bit disillusioned with the pace of reform following Modi's election, the OESO, IMF and World Bank still see India growing at 7-10% per annum for the next ten years. If the announced GST bill gets passed in the coming weeks, it will boost FDI and growth in India. The chance is real that India can copy China's growth track from the last 40 years in the next two decades!

This is also an important data for future gold demand. An Indian spends five times as much on gold and silver relative to his income, compared to a Chinese.

Other Asian countries

Apart from Chindia, other Asian countries are boding well for future economic expansion. From the Mekong delta to Thai-

land and Indonesia, the better prospects for growth are evident compared to Europe and the US. Latin and South America are still busy combating corruption and childish populism. Just looking at Venezuela, Argentina and Brazil makes this clear.

Changing of the guards also alludes to changes in the gold market

Western Governments have sold central bank gold for ten years. Now in the last years Russia and the PBOC are continuously buying.

The London Bullion Market Association and the Comex are reforming and losing market share.

Dubai, Hong Kong, Shanghai and in the near future even an Indian futures market, are taking over. Prices will be made where the most physical exchange happens! The dominance from the paper gold market is slowly dying in the hand of the physical market forces. The physical market is now Chindia!

Together India and china are now buying some 2000 tons per year. If Chindia grows in the coming years, this will evolve to overpower mine supply.

In the jewelry market, the expansionist plans from Chinese and Indian retailers show their owners see a coming explosion in demand.

India is taking over the first place in refining precious metals from the Swiss. Another changing of the guards. This movement is reinforced with the plan toward gold monetization from the Indian government. In order to be successful, Indian gold bars need to reach the standardization and certification that gold refineries have...had in the West.

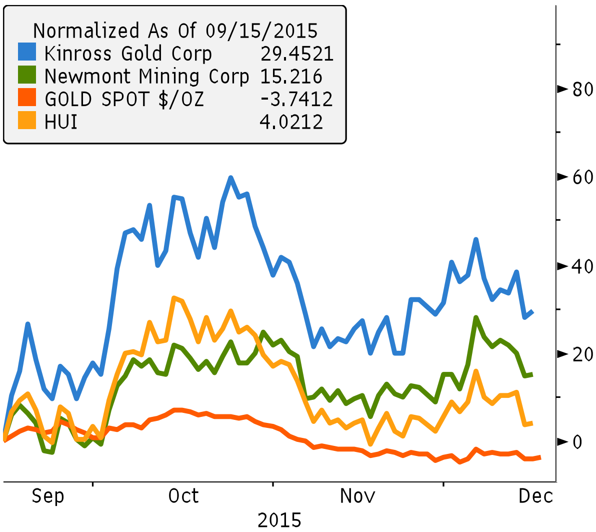
In another change of the guards, gold stocks are taking over the lead from gold in the precious metal sector. Gold mines have stayed above their year low in November even as gold touched a new low at $1043.

Why? Value money is taking over from the money gamblers, i.e. the hedge funds alias the momentum playing price chasers. We see this manifest itself in two ways.

First, a look at the COT reports shows that the bankers are lowering their short positions on the Comex and if this trend continues in the coming months (not years!) they will become long for the first time in years. Hedgers are still augmenting their short position trapped in their momentum play, still levering the last market movement which is now down for years. Again if players money (some call it stupid, greedy money) compared to smart money (played by the bankers) continues to go even shorter in the coming months, an explosive reversal will happen. And is not every big, lasting bull market always and ever born in the despair of a short covering frenzy started by momentum gamblers? History is 100% at our side.

Second, take a look at the charts from Newmont mining and Kinros to name just a few in last months. Value players are accumulating. They augment their investment with every drawdown in the bullion price. So in gold stocks, smart money is also sniffing a coming turn around while retail money is selling and hedgers are still playing the naked shorting game. We have stated before that the precious mining sector will precede a change in the gold market with some months. Has this started?

<u>Value players are accumulating</u>



Market implications

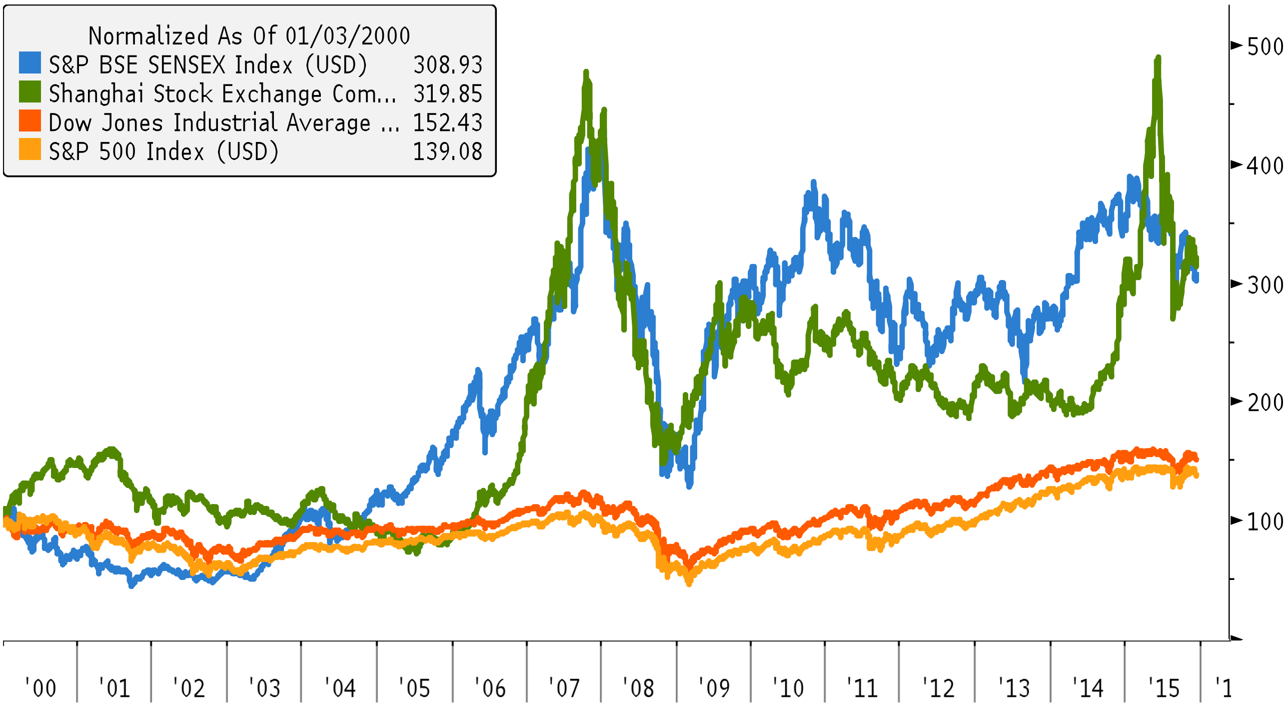
<u>Bonds</u>

Run away from government debt and high yield corporates. US treasuries could be the last standing in this market segment

<u>Currencies</u>

The dollar has still some upward potential. If the Fed does not act or if coming US data continues to deteriorate more, this move can be interrupted for some months. The dollar up move should restart ultimately in March 2016 in anticipation of the second Fed hike if it does not restart before. The end of the King dollar story is in our analysis a 2017 story not a 2016 one.

Chindia for the long run 2016-2026. These equity markets' track record, surpassing Europe and US equity, will continue, be it with short term volatility.



Equities

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Short term a correction of +15% could occur in all equity markets before March 2016.

Still this will not annihilate the possible last blow up top in the Dow. As such a top would be more driven by fear than greed, the most liquid pool, i.e. the Dow stocks should benefit the most. Fear driven from a defaulting government sector towards private refuge in equities.

Thus underweight Euro equities from March on.

Gold mines

For the best managed mines, those with the best assets and correct financial balances, we think the bottom is in. For the whole sector we still see some downward pressure from deflation fears and falling gold prices until March 2016. Even if gold falls towards $960-980 and in our most extreme scenario with a short dip towards $920, the HUI should stay around its 2015 low of around 100. After March we see a confirmed bull running for years.

Bullion gold

Risks from still lower commodities (will we see oil at $32 or even lower before the end of March?), misplaced fear of a Fed Hiking and a possible Indian attack on gold through a forced gold monetization for temple hoards (20.000 tons?) can push gold as we stated to $960-980 with a momentum dip to $920. Although Arun Jaitly on December 8 said that the monetization program will remain voluntary, this crook that installed a 10% import tax on gold can hardly be trusted and if some public enforcement has to happen it should come in the next weeks. A two billion swap from Argentina, with its central bank bullion reserve is possible as the Macri government will scramble for dollars, after it inherited a central bank with a negative cash dollar balance. If it happens it will be before March 2016. This could be a last bitter pill, more momentum impacting than important on the medium haul for gold investors.

If these forces have to draw gold down, it should happen before the end of March. If prices go down so much, jewelry demand will make the Love trade explode in Asia. Scrap supply

would crash in the East and the West. ETFs would be liquidated past their minimum level. A further dollar rise would boost the Fear trade in the West and emerging market. Mine production growth will stall in 2016 and is seen declining after that as past years saw underinvestment in building new mines and depressed exploration budgets. If the Fed is successful in creating money velocity and thus inflation with its first rate hikes, value investors will drive momentum players from short to long in 2016.

2016 the year of the changing of the guards!

Enjoy Christmas and New Year.

Next spring is not far away!

Best regards,

for iW Alternative General Partner,

the fund manager

Performances for November 2015

	Class	ISIN	MTD	YTD	NAV
iW Alternative SIF – Low Risk	P	LU0762435906	-0.83%	+5.50%	€ 9,421.08
iW Alternative SIF – Commodities & Gold Equities	P	LU0762436201	-1.84%	-3.74%	€ 271.36
iW Alternative SIF – Real Value Growth Fund	I	LU0762436037	-0.69%	-0.23%	€ 57.33
	P	LU0762436110	-0.71%	-0.61%	€ 55.58
iW Alternative SIF – Apis Lucrosa	I	LU1071453895	+0.01%	+5.59%*	€ 1172.53
	P	LU1071456054	-0.08%	+4.95%*	€ 1086.22