



COMMENTARY FOR JANUARY 2016

NEARING THE FORK IN THE ROAD

Volatility, uncertainty, a sense of growing fear and demoralization are rampant and they are sapping the life out of the confidence in the markets and its central bankers. Geopolitical stress on so many different fronts is only making matters worse.

In the process of reaching a fork point, one local event, one miscalculated or miscalibrated policy measure, even one slip of the tongue from a central banker could become decisive and tilt the economy and its finances to take the turn left or right. (Left or right here has no political meaning.)

If the economy goes left, it will mean deflation and recession, war and poverty. The big financial reset, uncontrolled and chaotic.

If the economy goes right, it will mean cost-push-inflation. This would be furthered by hiking interest rates, first in the States. And it would reach a level where debt deleveraging becomes manageable and leads to a controlled financial reset. This road would also be painful, but at least some hope would remain.

Gold, which functions as an individual patrimonial hedge, will in such environment become a necessary tool for wealth preservation.

We think the fork point will be reached in the coming months but as a third scenario it could be farther away. Decision time could be drawn out through the whole year. In this third scenario, gold would be stable and well-managed-precious-mines could still be one of the best performing assets.

FIRST LET'S ENVISION THE RIGHT TURN SCENARIO

Here the Fed has to continue hiking, after having completed the taper of QE and the first rate hike in December, if it wants to show it really cares for Main Street and not Wall Street.

Main Street, the real US economy is really healing. This has been confirmed by the latest figures.

Unemployment dipped to 4.9%. Labor participation growth was another sign of diminished slack in the economy. Wage growth was at 2.5% and the hours worked saw growth.

The savings rate went up, a precondition for normalized capital formation. Private non-financial credit growth surpassed expectations. US banks are well capitalized and higher rates will

lead to expanding their interest margins. The credit multiplier will boost the velocity of money if the banks start lending their surplus capital currently deposited at the Fed.

Household formation is recuperating which is a good sign for construction jobs in the coming years.

The US auto market should be able to maintain its current level of 17-18 million vehicles per year even with rates a bit higher.

Low energy prices are a boon in the consumption driven economy.

The US government will add some 0.4% to GDP in 2016 compared to 2015 in consequence of federal budget projections.

THE FED HAS TO HIKE BUT THERE ARE SOME RISKS

The communication, timing and calibration of the tempo in normalizing rates will be crucial.

A rapid rising dollar would mask internal US inflation, temper US exports and kill of emerging growth.

Political pressure could be expected from Wall Street to stop hiking, as they always blame someone else for their losses. They try to brainwash Main Street, selling them the idea that losses on Wall Street is bad for Main Street, by controlling the press and by corrupting the political agenda. (Did you see how Goldman financed Hillary and so many other establishment candidates?) This pressure on the Fed can be tremendous during a presidential election year.

Pressure from abroad would come from diverging central bankers in Europe and Japan who are experimenting further with NIRP.

Stumbling emerging currencies from countries loaded with too much US dollar dominated debt are another risk as long as the US dollar remains king in worldwide central bank reserves.

Miscalculating the dollar rise could put too much pressure on commodity prices, especially on oil. In turn if distressed debt in the energy sector would become contagious and high yield markets become chaotic than the US and world credit markets could panic and become nonfunctional.

A too rapid rise of the dollar could lead the US to use trade barriers to protect parts of its national industries. Together with the retaliations from other countries, international trade and



world growth would be choked.

In our opinion the Fed has to take these risks. If they would stop hiking to please the market clamor, they would definitely push the world economy for the left turn. To pause from time to time but not stop the hiking process is the only option towards a controlled financial reset. We hope they will keep further rate hikes open at the next meeting in March. We hope Wall Street's plunge ends in the coming months, with the Dow not beneath 13,900 and that commodities find a bottom before the second semester, be it after a touch down to the low twenties per barrel.

Once a virtual momentum of rising yields and cost push inflation is reached, we remain open to a blow-up formation with the Dow reaching 30,000 as bond markets deflate, resurrecting TINA.

THE LEFT TURN

If we take the left turn and the Fed goes NIRP too, world economies would ultimately fall in despair.

Currency wars would reach unsupportable instability. Debt would be unsustainable even at zero rates in a deflating world.

Taxation would kill the rest of the free economy and animal spirits. Capital would be hoarded worldwide. International trade will fall over the cliff. Yes, war and poverty would engulf the world. Not in a blink of an eye but in a continuous demoralizing one-way road to hell.

Precious metals are a necessity now. We see gold reaching \$5000 even in a managed non-chaotic financial reset before 2020. A warned investor, this January market turmoil speaks loud enough, should now be aware that we live in too dangerous times not to pay his insurance premium.

We can't exclude volatility and although one last dip in gold prices before we reach the fork point is not impossible, its probability is cooling of already. We believe precious metals will produce its first positive returns in 2016 since 2011. We definitely live in interesting times.

Best regards,

for iW Alternative Alternative General Partner,

the fund manager



PERFORMANCES FOR JANUARY 2015

	Class	ISIN	MTD	YTD	NAV
iW Alternative SIF – Low Risk	P	LU0762435906	-2.65%	-2.65%	€ 8,923.73
iW Alternative SIF – Commodities & Gold Equities	P	LU0762436201	+0.90%	+0.90%	€ 259.94
iW Alternative SIF – Real Value Growth Fund	I	LU0762436037	-1.68%	-1.68%	€ 53.96
	P	LU0762436110	-1.72%	-1.72%	€ 52.54
iW Alternative SIF – Apis Lucrosa	I	LU1071453895	-2.83%*	-2.83%*	€ 1094.26*
	P	LU1071456054	-2.87%*	-2.87%*	€ 1042.60*

* The official NAVs for Apis Lucrosa are only available on the 16th of each month so the figures given are based on our best estimates and could differ from the actual official NAVs

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