Commentary for March 2016

Grotesque

How else could we describe the market's fixation on every word, mumbled by any central banker, be it from Japan to China and from the EU to the USA.

Year after year, we see the previsions by central bankers about future economic growth being unsettled by the publication of the real figures. Their track record on future inflation predictions is even worse. But the worst has been their ability (or lack thereof) to predict any of the last six recessions since the last world war! So why should we bother with their forward guidance?

Has the market lost its sanity? Even if the result of the market behavior is grotesque – in reflection to the growing divergence between economic reality and the promised economic salvation – there is a simple and logical explanation.

Central bankers have entered 'hotel California' (you can enter but never leave) a long time ago. Since they have started intervening using unconventional policies such as QE, ZIRP, NIRP and DIA (Desired Asset Inflation hoping for trickle down wealth effects), the free market and moral hazard are slowly being killed.

Markets have become distorted in an increasingly grotesque way. The central bankers said their interventions were temporary. They said they would normalize as soon as possible. They lied.

Lower interest rates can never supplant a lack of demand in an environment of oversupply! Low borrowing costs can never supplant a lack of productive investments, if the act itself of going to zero and beyond just creates more unease about the economic future, while hindering capital formation based on healthy savings. It is a plain lie to say that the cure for debt is more debt… Ever tried successfully pushing on a string?

They pleaded for co-action from governments, saying that monetary policy could not do it on its own. They said government would come along with growth stimulating new regulations, with growth stimulating fiscal and social reforms and with 'wise' public infrastructure programs. They lied again.

They lied because they knew all too well that government finances were already levered to hell after the 2008-2009 bank salvations with public money. They knew all too well that after 4 decades of growing social transfers, ever continuing budget deficits and growing adverse demographics, any economic shock would compromise public finances beyond 'normal' repair. Still they did not hesitate to enable government debt to grow more rapidly than the underlying economy or its 'fair' tax revenues. Indeed, it is a lie to say that the cure for too much public debt is helping governments to continuously roll over their debentures and interest payments with ZIRP, NIRP and QE when the free market is not forthcoming enough with buy orders.

And of course they will negate the impact of the growing wealth inequality on the stability of the whole system. They say, they are not to blame for the fact that democratic institutions are becoming increasingly ransomed by political extremism. The financial repression on savers is just a modern translation of Marie Antoinette saying "let them eat cake".

Again, has the market become insane, buying all these lies? Again we have to repeat that even if the result of the market behavior is grotesque – in reflection to continuously hoping for positive effects from central bank lying – there is a simple and logical explanation.

Simple logic! The market has accepted that free market forces are now "usurped" by central banks!

… Macro-economic analysis is reduced to central bank "utterance" fixation. Markets go from risk-on to risk-off, currency up or down, inflation or deflation expectations, rates up or down, recession or growth expectations etc. all less and less based on data. Words from central bankers are now the new tealeaves to read the future of financial markets.

A bond fund manager does not buy 10 year JGBs at a negative 0.08% yield, or 10 year Bunds at +0.09% for his portfolio, hoping to accrue the client's capital with fixed income streams. He just buys them to play the central bank game, hoping to make capital gains when selling these bonds at a price, forced higher by central bank buyers. In search for yield he becomes a levered, risk-blindfolded momentum player. His hedge fund colleagues go just a bit further down this central bank complacent road. They will short the best quality bonds and lever up in less quality ones, knowing that a central bank will buy the bad quality later on. Think shorting Bunds and buying Portuguese or Greek debt for example.

An equity fund manager will not buy shares based on their own merits. He will buy the dips in the market, knowing that a central bank will come to the rescue. So he will buy more and more ETFs, as individual stock market analysis gives less and

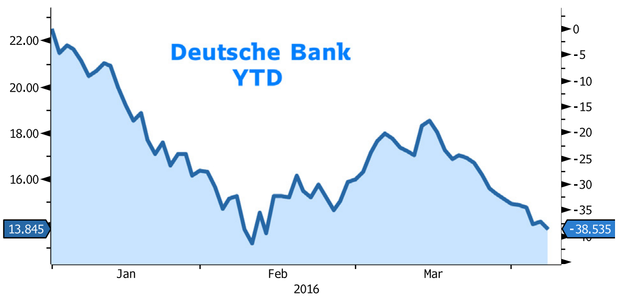
less excess return. His hedge fund colleagues will play it a bit rougher. They will use central bank guided carry trades to gain higher returns. They will collectively create a buying spree in the most shorted stocks when central bank speakers indicate the next risk-on phase is coming. Doing of course the complete inverse every time a central banker hints at rate and or policy normalization.

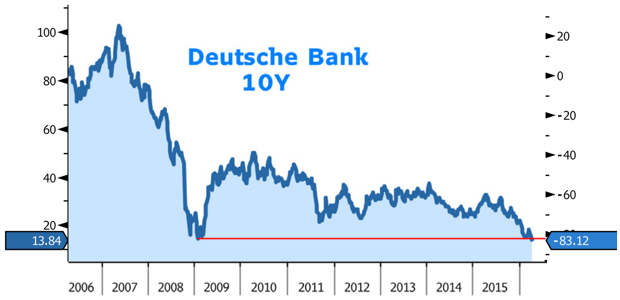
So what will the markets do in the near future? Honestly we don't know. We don't know what new policies central planners will invent next.

What we do know however is that stabilizing "hope" needs ever bigger and more interventions with ever less lasting effects.

Look at the BOJ and Kuroda's surprise action with negative yields for the first time. At the end of the first quarter, the Nikkei is down more than 15%, the yen went up 6-7% and everything points to a negative growth in Japan for this first quarter. Surely, not the success hoped for by the BOJ.

Look at the ECB and Draghi's 'more than expected' actions in February, especially going further on the QE and NIRP road… The DAX is down 10% on the year, the euro has risen and European bank stocks are again in the doldrums.





Look at the Fed. They've achieved their target data: February and March inflation above 2%, job creation above 200,000 per month … but no rate hike in their March meetings. They lie: "we look at the data" but having them, they bluntly disregard them under the mum of the rest of the world economic misfortunes. To us it seems the Fed just regards the market status but not the economic data.

It is clear that central planners still have the force to fix and stabilize the markets, but they seem losing traction in the real economy.

The IMF has just revised 2016 world growth down a full percent … again! Bank of America and others see the US first quarter growth down to 0.4-0.7%, Atlanta's Fed prediction is 0.4%. Germany is cooling down; France is still off the track. Japan will be officially in recession as this last quarter is again negative after the one before.

It is also clear that central bankers have less room for further action. Even if the zero lower bound is already annihilated as an economic fiction – multiple central bankers have now negative rates – there is still a boundary beyond where negative yields can and will not go. At a certain level, deposits will be retired; gold and other stuff – even the matrass – will become preferable above bank accounts … unless you prohibit all cash! Anyway with people 'hoarding money' the economy will encounter a depression at some point.

And yes, the central planners can go further with more actions. They can buy masses of corporate debt and even equities, but please explain us how this will boost the animal spirits of the free economy? To us it is the road to collectivization (on the 'left' side) or to the new 'dark ages' (on the 'right' side). The road to hell better said.

We still hope that the free market forces will dethrone central bankers before hell arrives. We hope the market will end this

worldwide central banking experiment, forcing a worldwide monetary reset.

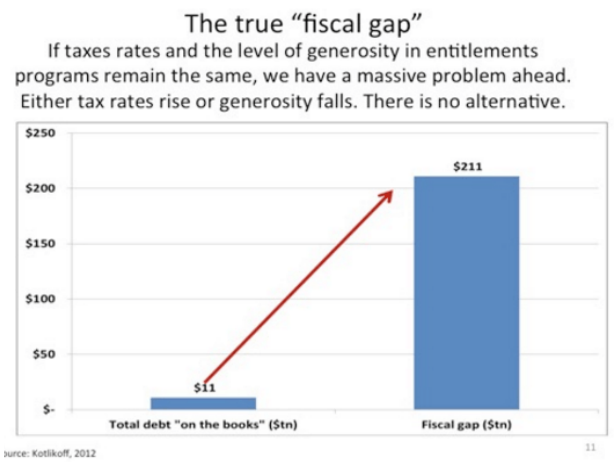
In such a case, gold investments will help transit to the new normalized world comfortably.

We are not a maverick nor are we a lone wolf in the asset management world holding this vision. But yes our vision is still ranged in the alternative sector.

Stanly Druckenmiller shares the same vision. After running a hedge fund for 25 years without any negative year, and with an incredible annualized return of 30%, he came to the conclusion in 2010 that central bankers have rigged the markets to such an extent that he could no longer bear the responsibility to administrate other people's money. He announced the liquidation of his hedge fund. Now he only manages his family's and friends' money. As this still represent more than $1 billion, the investments are disclosed publicly. Since more than 3 trimesters, 30% is invested in gold!

We end with some quotes by Stanly:

April 3rd 2016:
This is the most unsustainable situation I have seen in my career. Simple math shows America is headed for an Economic Disaster, excerpt:



August 16th 2015:
Billionaire Stanly Druckenmiller loads up on gold, makes it his largest position for the first time ever

April 12th 2015:
"Horrific sense" of déjà vu: "I know it's tempting to invest, but this will end very badly"

September 19th 2013:
"The biggest redistribution of wealth from the poor to the rich ever"

May 8th 2013:
"Bernanke running the most inappropriate monetary policy in history"

March 5th 2013:
"When you get this kind of rigging, it will end badly"

February 21st 2013:
"We have an entitlement problem and one day the Fed's hamster wheel will stop"

May 14th 2011:
Druckenmiller calls out the treasury Ponzi scheme: "it's not a free market, it's not a clean market", identifies the real bond threat

We think you must feel comforted that such an eminent market investor now feels the need to insure his family's capital by investing in gold. His talks are not lies; he acts with consequential risks to this own money!

We maintain our vision that when free markets retake the pricing of assets from their usurpation by central bankers, gold will move to $5,000 at least. When? In our educated guess before end 2020 as this is our ultimate projection for the world financial reset.

Best regards,

for iW Alternative Alternative General Partner,

the fund manager

iW PARTNERS

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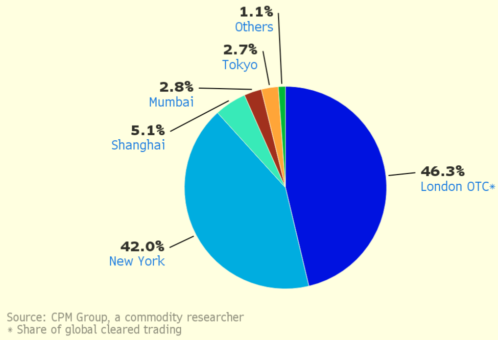
Commentary for March 2016

Goldmarket Insights

Did you know that the volume traded in gold last year amounts to $11 trillion divided over the following trading hubs:

In comparison, the volume of equity traded on the US exchanges amounted to $65 trillion for 2015.



Performances for March 2016

	Class	ISIN	MTD	YTD	NAV
iW Alternative SIF – Low Risk	P	LU0762435906	-0.82%	+10.04%	€10,086.99
iW Alternative SIF – Commodities & Gold Equities	P	LU0762436201	-2.52%	+42.24%	€ 366.45
iW Alternative SIF – Real Value Growth Fund	I	LU0762436037	-0.49%	+23.34%	€ 67.69
	P	LU0762436110	-0.48%	+23.27%	€ 65.90
iW Alternative SIF – Apis Lucrosa	I	LU1071453895	+0.42%*	+3.59%*	€ 1166.53*
	P	LU1071456054	+0.36%*	+3.44%*	€ 1078.44*

** The offical 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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