



COMMENTARY FOR THE FIRST QUARTER OF 2017

END OF THE FINANCIAL CRISIS?

Looking at equity valuations, rising real estate prices, currencies behaving well, low market volatility and even treasury markets stubbornly refusing to adjust for higher yields (the yield curve is flattening again), one could become easily convinced of the end of the financial crisis. Bond bears are being squeezed and shorting treasuries is competing with shorting Japanese paper to become the new king of widow makers.

Simply said, one is tempted to respond yes. Yes... as if ... 'goldilocks' are in forever. So sell gold, sell volatility, take leverage and pay up on assets as you should keep on dancing?

No bubbles, no complacency... Risk avoiding is a flawed concept to lure investors to accept underperformance. Risk consequences have been eliminated by modern central bank policy. Just buy the dips! Doomers are losers.

Well we beg to differ. At least a tiny little bit... Our vision sees the financial crisis nearing a critical level where 'Mister Market' will overwhelm central bank policies and instable governments will only hasten the outbursts of economic decline. The 'big' financial reset is coming. The Rubicon was crossed a long time ago.

FIRST, ON RISK ASSESSMENT AND RISK TAKING.

In our opinion, risk assessment is not just a mechanical calculation, best done by computers using algorithms based on the 'perfect' economic model. Risk assessment is intrinsically more a function of the relative price paid for an asset than a mechanical calculation based on historical metrics of the asset itself. Indeed, take government debt for example. What is the risk value of such a title after yields have fallen for more than 3 decades, while total government debt is at new highs against actual GDP and demographics are impeding future growth acceleration? Risky assets, as defined by accepted models, can become less risky than bonds or treasuries if your entry point is low in relative terms. This becomes a sure bet, far beyond any mean reversion claims, when bonds or treasuries trade at negative rates. Consequently, we see gold mining shares as becoming less risky than some government claims.

SECOND, ON BUBBLENOMICS

In a past webinar on the economic principles of bubble analysis, we formulated some 'natural laws'. Time seems opportune to

refresh your memory. Indeed, we now see Fed speakers introducing the theme of high, concerning asset valuations in different markets – like commercial real estate and auto loans to name a few. Are they only looking for justifications to continue hiking rates, even if the economy slows down or is there a real actual risk of bubbles brewing future economic crises?

Here are some of the 'laws' we constructed:

- Real bubbles are only unmasked with certainty in hindsight.
- Real bubbles do not stop at high valuations. They end with a bang, a blow-up phase like a final 80% up-move in less than a year, as a required minimum exhaustion move.
- Real bubbles need 'new speak'. New economic theories are introduced to justify that this time IS different. This time, we (or any other, feel free to fill in ... central bankers, economists, authorities, governments etc.) are smarter and better educated so we will perceive bubbles in time.
- Real bubbles never can be controlled by regulations, nor smoothly killed on a soft-landing pad guided by a concerned government or regulating body.

WITH THESE PRINCIPLES IN MIND, WHERE ARE WE IN THE VALUATION MATRIX FOR THE MOST IMPORTANT ASSETS?

EQUITY

We see relative high valuations in general equity markets. Compared to historical tops and given the currently still low rates, their values are not stretched to the point that we can conclude that they are in bubble territory, ready to pop at any moment.

The equity market seems to have discounted a lot of (still partly uncertain) goodies like Trumpism and a benign money ruler.

We think that Trump will deliver on deregulation, on big infrastructure plans and somewhat on lower taxes, but this is more a thing for the end of the year and possibly even for 2018. We even think that a lot of trade barrier fears and an Obamacare repeal will progressively become less of an issue – a lot of talk and a little on action. We definitely see that the Trump government prefers a not too strong dollar.

We think that Trump, after an initial deception due to the delays just mentioned, will become presidential enough to lift a burst of optimism on the American economy in the second half of 2017. The revival of the animal spirits can be hefty, be it tempo-



rary, as 2018 comes along.

From the money rulers, we think that the Fed will hike again in June. After that, we see a third hike depending on the action or inaction of the Trump government. The Fed is done with assisting the economy in intensive care. Behold abrupt market moves, this time the Fed really wants to normalize rates, even if the economy grows by only 1.5 to 2% and even if the private job creation falls down to 100,000 - 125,000 per month. Indeed, they know now that rate repression has not had a trickle-down effect for the vast majority of US citizens, as they have little or no asset exposure. So no benefits from asset inflation for them. Further, the Fed can't deny any longer that market distortions and speculation in the search for yield have become a growing instability risk.

Other rulers like the ECB and the Bank of Japan will have to close QE before year end, if risk-on becomes doped by Trumpism in the second half of 2017.

So this year, sell in May and buy again in September-October could be a good move in equity management. If such a correction occurs, pundits will cry crash. Our advice would be to prepare to (re)invest, as the start of the final equity blow-up becomes highly likely near the end of 2017.

FIXED INCOME

In the bond markets, we only see overvaluation. With a more hawkish ruler (= a more normal monetary policy) and an inflation boosting Trump-hope revival with full employment already 'statistically' in the cards, the end of money velocity going down, should occur before year end. Only bonds of high quality private issuers, convertibles and some specific high yielding emerging market debt seem to offer value. Consider this a last call to liquidate overvalued public debt from your portfolio.

PRECIOUS METALS

On precious metals, we are modestly positive. We maintain our scenario of gold reaching \$1300 to \$1350 by the end of 2017.

Even with gold now at \$1280 - \$1285, such a level at year end would be very important.

First, it would mean that we technically finally breach, in a positive i.e. bullish way, the downward channel in which gold prices have evolved since 2011, after it touched \$1900. The market is repeatedly trying to slope this resistance and we see it happening in the second half of the year.

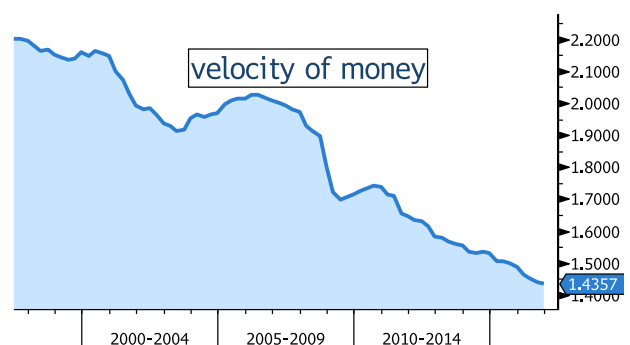
Secondly, the physical supply and demand is tilting towards an uplift in gold prices. Indian demand is becoming normal again as we saw Indian Imports in March 2017 up 582% against March 2016. We expect this normalization to be confirmed during the rest of the year, be it not always on a fivefold comparative level. And for the coming years, if India grows faster, its gold demand will also grow faster.

Another positive new trend is the 'sharia' compliance for Muslims to invest in physical gold products. The demand from this side can easily become 20% of the total new mine production in ample years.

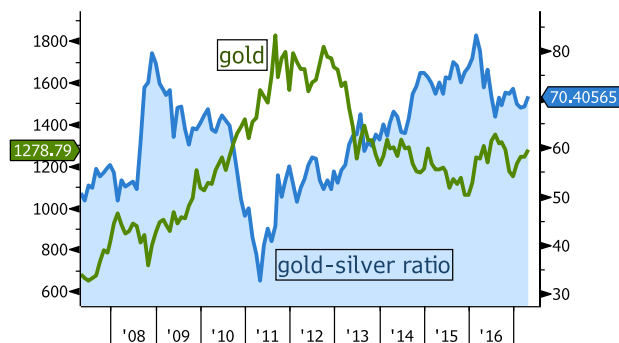
Third, we see a renewed interest in gold again by the fear trade in the western world. Physical ETFs are gaining tons, see GLD for example, up some 32 tons in the first quarter of 2017 alone. The reason why is clear: war mongering, currency uncertainties, rate doubts and political instabilities to name just a few.

We spoke about a modest move for precious metals in 2017. Let's explain our reasoning why we see that the gold mining market still needs some further repair before we can expect more explosive up-moves.

Important to consider is that sustainable rising inflation and , above all, rising money velocity is not yet a reality. We expect that this will become more evident as the year progresses thanks to Fed hikes and thanks to Trump initiatives. We further expect that real yields in the US will become more negative, as the debt burden will hamper the Fed's braveness towards rate 'normalization'.



Secondly, the gold silver ratio has to move under 64-62 to give us an extra boost of confidence, that this gold correction (from 2011) is over and done. Indeed, all upcycles in the bullion market always see silver acting with even more strength once a precious bull is running. Technically, a gold silver ratio under 62 would be a nice confirmation.



Third, mining assets are negatively impacted by deflation (low inflation). Indeed, historically mining shares have their best runs when inflation rises. Absent Inflation, mines have difficulty to follow bullion. This explains partly why we saw still such low HUI gold ratios, even when gold went up to \$1900.

As a last reason see the continuing fall-out from notorious 'goldbug idiots' like Sprott and a lot of the gang around King World News. If you cry wolf continuously for five years, you end up exterminating a whole generation of precious metals investors. Indeed, by yelling after every up move that the Comex will default, that silver is ready to burst to \$500, that gold will explode any day now towards \$10,000 and more... just to see the HUI correcting again, does not do any good to the market sentiment for investing in precious metals. Same holds for yelling manipulation, with every dollar that gold or silver declines. So you have to understand that value players have to become the 'new goldbugs' in town. These investors are coolheaded by definition. They will want to see that inflation and money velocity are here for real before they will pay up on bullion. In a later phase, after the gold market has developed already a lot of momentum, a new generation of 'goldbug speculators' will enter the market to help push the HUI gold to new extremes, but do not expect this now. Value players will ultimately give their precious metals assets to the weak hands of the newborn goldbug idiot trend followers and leveraged momentum players. We hope we will be sober enough to act wisely and liquidate progressively alongside the strong hands, once the mania will have developed all the characteristics of a full blown precious metals bubble. Luckily, we and you know the rules of bubble-nomics in advance.

for iW Partners,

the fund manager



PERFORMANCES FOR MARCH 2017

	Class	ISIN	MTD	YTD	NAV
iW Alternative SIF – Low Risk	P	LU0762435906	-0.3%	+4.8%	€11,845.30
iW Alternative SIF – Commodities & Gold Equities	I	LU1244155518	-1.1%	+11.3%	€ 796.96
	P	LU0762436201	-1.2%	+12.0%	€ 538.65
iW Alternative SIF – Real Value Growth Fund	I	LU0762436037	-0.7%	+8.1%	€ 90.97
	P	LU0762436110	-0.7%	+8.1%	€ 88.25
iW Alternative SIF – Apis Lucrosa	I	LU1071453895	0.0%	+5.7%	€ 1415.25
	P	LU1071456054	-0.1%	+5.5%	€ 1300.11
iW Alternative SIF – Apis Resiliens	I	LU1372145638	+0.5%	0.0%	€ 993.56
	P	LU1372145802	+0.4%	-0.2%	€ 985.85
	Q	LU1372145984	+0.4%	-0.2%	€ 988.70

Note: This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of, or located in, any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation. Additional information is available upon request.

The information, tools and material presented in this document are provided for information purposes only and are not to be used or considered as an offer or solicitation to buy, sell or subscribe any securities or other financial instruments. Past performance should not be taken as an indication or guarantee of future performance and no representation or warranty, expressed or implied, is made by iW Partners ('iW') regarding future performance. Information found in this report has been prepared based on information provided by various financial sources. Information usually attributable to a unique specific source is quoted whenever such information is available. Otherwise, the information may have been gathered from public news dissemination services such as Bloomberg, Reuters or any other news services.

Information and opinions presented by iW have been obtained from sources believed to be reliable, and, although all reasonable care has been taken, iW is not able to make any representation as to its accuracy or completeness. Accordingly, iW accepts no liability for loss arising from the use of this document presented for information purposes only. iW has no obligation to update, modify or amend this report or otherwise notify a reader thereof in the event that any matter stated herein becomes inaccurate.