End of the third quarter 2017 and year end preview

About a canary, some green shoots and our aggressive fund action in the Commodities & Gold Equities Fund

THE CANARY

If you follow our commentary you understand that we are alluding to Bank of America.

We stated that if the aim for reflation - by changes in the central bank policy (rate hikes and balance sheet tightening) - is to be auspicious for Main Street, the share valuation of Bank of America has to move up (baring a company specific scandal). We were thus happy to see the shares above $26 in the second week of October, its highest level since the Lehman debacle.

We were also comforted by the multiple Fed speeches (Yellen included) indicating that the Fed really means business this time. Even when inflation data are still underperforming, the Fed declares its intention to continue to hike and tighten. When recent data don't corroborate, we see Yellen even using valuation levels to justify a balance sheet tightening starting in November, coupled with a rate hike in December 2017, while still predicting three more for 2018. The new tantra is : "better act now slowly than to have to panic later on" or "inflation is coming, and it is just lack of fiscal policy, creating doubts, that postpones the coming inflation somewhat" or "even as the low reflation is a mystery for us (the Fed) we are sure inflation will normalize and recession fears are not warranted".

We told in earlier comments that the Fed would in the near future disregard its model (Phillips curve included) and in an ultimate reflection of 'self-protection' start to work for Main Street. We declared the coming death of the Fed-put, saying Wall Street had to acknowledge that the Fed will not be covering its back any longer.

Our vision included a high probability for a Minsky blow-up-top coming for the Dow Jones, pushing it somewhere between 32.000 and 40.000, before the Fed and the exhaustion of the business cycle puts the US in recession. With the Dow already flirting with the 23.000 level, our vision has gained credibility. A short term correction in October, November or even in January would not annul our prediction, even if the fall is 15 to 20%. Such a correction may be what the doctor prescribes for US Congress to become active on fiscal policy!

Indeed we see the Fed already behind the curve and 100 basis points (4 hikes) for the next 15 months will not be sufficient to hamper an equity blow-up formation. Fiscal policy implementation - if it happens - can only reinforce such an equity top formation.

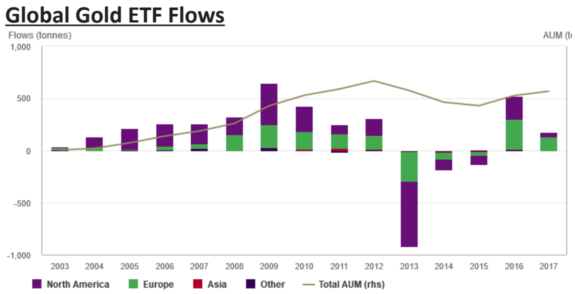
We think that the government bond market and the currency market will be the places where the Fed action will express itself rapidly, with brutal negative effects for Wall Street.

When rate hikes are not done to stop inflation (like nowadays) and they come after the zero lower bound was violated by previous central bank policy, every rate hike until a certain level is reached, will have a reflationary effect. Reserves now hoarded at the Fed will have to migrate to the real economy in search for a decent return. We hope the Fed will execute the promised four hikes independently from whoever becomes the new chair. We see it as necessary to create inflation and stop the hemorrhage in money velocity, going on for decades already. If the Government - by lowering fiscal burdens and by lowering, especially for the banking sector, regulatory constrains - adds to the reflation of Main Street, Bank of America will do more than its part in creating the blow-up-top formation in the coming year(s). So our advice is to continue to look out for the evolution of Bank of America's shares to judge the state of the reflation story in the coming quarters. The fact that the whole world is now declared to be in a salutary synchronized expansion will - while it lasts - also help.

GREEN SHOOTS

We allude to specifics for the gold and silver market. For the first time we believe that the worst of the correction since gold touched $1900 in 2011 is behind us. Based on a bursting of green shoots we are cautiously optimistic that a new spring is coming for precious metal investing.

- Accumulation has started again in bullion ETFs



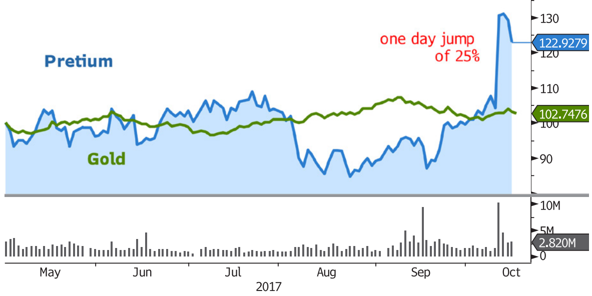
- Bitcoin mania confirms a loss of control for central banks and governments, always a motive for gold investing

- Precious metal mining M&A for mid and small scale operations has revived in the last quarters and majors have almost terminated their balance sheet reparation. They have began talking expansion again.

- Exploration budgets are starting to expand again after years of falling.

- Gold and silver investing is becoming more touted by financial institutes as a good portfolio diversification tool for a 3 to 5% allocation.

- Value investors were busy buying the latest mining correction when value was perceived. This was clear in royalty plays like FNV or RGLD. In the last weeks they seem to expand towards mid tiers as for example the brutal revaluation of Pretium demonstrates. (Something we did not see during past years.)



- Doctor copper is already up more than 25% this year. Even when every auto constructor declares to be now an electric vehicle aficionado, oil prices continue to try out higher prices. Commodity prices rising are consistent with cost push inflation. Thus bullion gets more market attention.

- India this time acted more responsible with the implementation of the level of GST taxes. They were lower than the market feared.

- Indian authorities recently withdrew an order that included jewelers in the Prevention of Money-Laundering Act for purchases above 50,000 rupees ($766), which was hindering high-value deals.

- India is seen overcoming the draw-down from the Modi cash attack, as the trade deficit went down and money is returning from abroad to invest in India's future. See the reinforcement of the rupee. So coming years gold buying in India will normalize and grow with its economy in tandem. … but as always distrust in Modi and the government to meddle again in the bullion market, can never be definitely excluded in the future, however for now, the sky seems clear.

- Shares of quoted jewelers are flying, so good future Diwali buying seems to be coming.

- As China will counter more yuan flights, more internal consumption - and this includes more jewelry buying - will become an alternative for the Chines people.

- Mining production is predicted to go down in the coming years, helping to end the fall in bullion prices.

- As the government bonds, the lowest risk-on category, will become pressured by central bank policy, more value players will feel the need to cover their equity bets with a bit of precious metal exposure in the coming years. Gold can go up with a rising dollar and equity market in such an environment.

- As said in prior commentaries, deflation kills the leverage mines can have over bullion. If reflation becomes a reality, mines should regain their leverage over bullion moves. If

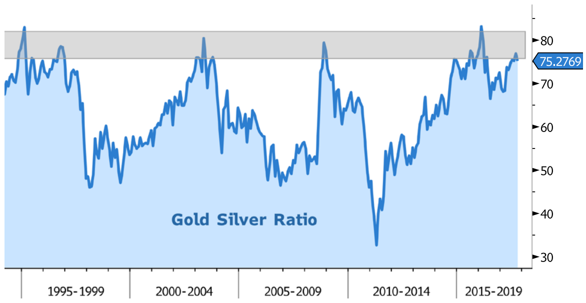
money velocity starts to go up at the end of 2018 (with 4 hikes) we predict mines will perform at least 300% of the bullion move!

- Geopolitical worries and leader uncertainties (Trump, Merkel, Erdogan, May, Rajoy etc. will put a floor under the bids in the bullion market.

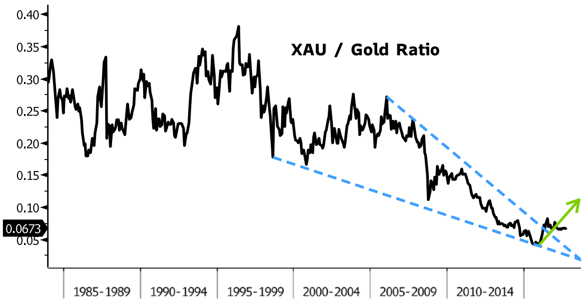
- Everyday more people risk to become aware of the coming financial reset and the need to invest in the under-loved and under-valuated mining sector, will become more attractive. Every hike or tightening of financial policy, brings the inevitable pension crisis more to the forefront.

- Sharia gold investing is another plus.

- The gold silver ratio did not break down and began to revert at the important long term technical level. We hope it now goes under 70 in the coming 6 months, after it reached just under 75 intraday on Friday the 13th of October.



- Mining valuations like the XAU gold ratio are still way below 1999 levels, so a comparable move like the mines did from 2000 to 2011 is in the cards for the coming years.



So we think we are justified to be cautiously optimistic on precious metals, especially on mining. Our target for this year $1300 to $1350 seems realistic as we now quote just above $1300. If inflation moves up during 2018 on a steady basis, we see a possibility for the mines to double in 2018! If the Fed flounders again in 2018, smaller returns are to be expected.

Fund Action

All of this pushed us to undertake aggressive action in our portfolio during September-October.

We quasi liquidated exposure to royalties except Wheaton Precious metals, as silver still has to move. We also liquidated a lot of our majors as we see more value in mid and small caps with proven reserves and attractive land banks. We predict that the majors will be forced to acquire juniors in the coming years, so a whole reappraisal of the small cap sector will happen. Our portfolio is now prepared for such a move. We hope our timing turns out to be correct but we accept Fed hesitance can delay our expected returns somewhat. In order to diversify our small cap investing we acquired the advice of an external team of precious metal mining analysts from London with decades of experience and especially for Australian and London quoted enterprises, an area which we under owned.

iW plans to launch an additional precious metal fund, in UCITS form, in the near future. We plan to align the majority of our precious metal holdings in the SIF with this fund. More news will follow in the short term.

Hope you enjoyed the reading and you participate in our optimism about future returns.

for iW Partners,

the fund manager