INVESTMENT FOR WEALTH

General report

Comments for March 2013

We see so much confusion in the markets. So many conundrums. Let's just summarize a few.

✪ So much QE and no apparent rampant inflation

✪ Record government debt creation and deficit spending, and still treasuries, bunds and JGB's are perceived risk free safe havens

✪ New records on the Dow and S&P in the face of lacking growth and high unemployment.

✪ Historical ultra-low interest rates announced to endure for several years and still no rush to tangibles. Look at the commodities; especially gold and silver languishing for 18 months already. Bitcoin an intangible and immaterial currency seems to make a mockery of the diehard gold bugs. (see art businessweek Bloomberg for a good explanation on bitcoin … link: http://www.businessweek.com/articles/2013-03-28/bitcoin-may-be-the-global-economys-last-safe-haven)

✪ 'Too big to fail' justifying unlimited bail-outs, to be seen against 'small enough to fail' warranting bail-ins (MF Global or Cyprus)

✪ Professionals warning all the time for bubbles about to pop and the markets refusing to give in

✪ Lip service to fiscal restraint but… just not for now

✪ Years of unconventional crisis-management but still no success in conquering the moral hazard dilemma. The financial sector and big governments are still concentrating risk.

✪ Are the Bernanke put and the rate suppression leading to inappropriate risk taking? Are the supposed wealth effects of rising asset prices stimulating the real economy or just distributing more wealth to those that have in detriment of the have-not's?

Indeed, the actual debate between the Austrian economic school and the Krugmanites (We doubt Keynes ever agreed with QE to infinity) creates so much confusion. We personally believe that the Austrian economists especially in their work on the business cycle and the credit cycle as its main causation (von Mises : boom, bust, inflation deflation, misallocation) and on the economic calculation problem (von Mises and Hayek) leading to refute socialism as an inefficient pricing mechanism and provoking a subpar economic growth accompanied by less liberties, less choice, more taxation and more corruption etc. have been fully validated by the analysis of past economic data. Krugman really jumps to conclusions when he states that the absence of actual high inflation in the face of Fed monetary expansion proves Austrian theory doesn't stand up to the facts. Von Mises alluded to monetary expansion and in absence of the gold standard debt is money. While some sectors, namely enterprises and private consumers are deleveraging, are we really experiencing actual monetary expansion? If the central bank's balance sheet expands less than the banking sector balance sheet implodes, including the shadow banking (default, deleverage, cash hoarding) than inflation will not manifest itself. Isn't the same Krugman lamenting that the Fed should actually do more to reinvigorate the economy?

For the record we do not see much value in the work of other Austrians like Murray Rothbard who conclude that the fractional reserve banking and the Fed should be abolished and that a gold standard would be the solution to the boom bust conundrum. To replace the Fed and the fractional banking reserve by a fixed gold rate standard as they propose has its limits, based on the inflexibility to respond to exogenous shocks. And what to do if there is a sudden big gold discovery. There is nothing wrong with 'fiat' money in se.

Schumpeter also struck gold (economically speaking) with his theory of innovation, creative destruction and sustainability. It should give our big government adepts who always stand ready to "protect the people" from any pain caused by the downturn of the normal business cycle some food for thought.

The invisible hand concept first developed by Adam Smith is also preponderant in my economic analysis. We believe that the sum of the individual's self-interest organizes society as a whole much better than any central planner could ever achieve. Accepting this principle creates a big hurdle for government intervention. It seems that the bigger part of our Eurocrats have long forgotten this principle.

With these confessions in mind, now let's try to interpret recent economic data and events to value our economic forecasts.

We will develop the following themes : currency expectations, central bank actions, asset valuations and growth perspectives.

For the eurozone

We expect the euro to come under pressure from the collateral effects of the Cyprian bail in. In the European periphery additional confidence in the eurosystem has been lost. Banks in less solvent countries risk losing deposits and by consequence an involuntary REleverage risks to happen. Spreads against the bund are rising again. In terms of risks these banks should lose value in the amount of collateral assets they can pledge to the ECB. How do you readjust for past misallocations in the PIGS? Austerity aggravates their recessions in the short term. We see Germany playing hardball at least until the September elections have passed. The ECB will probably try some band-aids like an interest rate cut and secondary government debt buying. In the light of the hardship imposed on Cyprus we don't see any PIGS government running to ask for Draghi's help.

Interest rate differentials and the perceived better growth expectations for the US should also aid to pressure the Euro. The daunting awareness that deposits (even those under 100.000 euros) are just unsecured claims will redirect some safe haven seekers to the US. US banks are perceived to be better capitalized.

We see the euro as a shorting opportunity on every rally with a first target of $1.26 and then $1.21 .

We see the European stocks continue to underperform the US markets.

Little value in real estate in Europe for the moment. However rent seekers will still prevent big drops in the non-PIGS markets. Some segments of the German market can progress to bubble territory based on still lower bund rates. Speaking of misallocations.

Bunds can still progress, they are some months away from exiting their safe haven status. Lower euro rates and further deficit target misses by most European countries will take their toll someday. Spain, Portugal, France, Belgium and Holland all have missed their targets. Will the German elections push the Germans to accept a unifying euro government debt? Is Cyprus the start of the real survival fight for the euro? Without unified debt and real transfer of fiscal and budget sovereignty to the Euro commission, the euro will not survive . More crisis will be needed to force this. Success is not guaranteed. Political correctness in euro land is still overwhelmingly leftist and failing to appreciate the benefits of less regulation and more invisible hand. This situation until changed will also continue to hamper future European growth.

Spain and Italy debt will suffer further loss of confidence. France is becoming negatively in the picture more and more.

We call the ECB's 'OMT' as pure bluff. It won't be used before the German elections. In Austrian terms its policy is just stimulating misallocation by mispricing government risk amid a financial sector overleveraged with flawed balances where assets are valued to model and not to market. Before 2015 is over the 'OMT' weapon, Draghi's bazooka will be needed if the euro is to survive (We think it will, possibly with less members in the club) and more free market will have to be reintroduced. Markets will sort out what the different credits by depositors in the banks are really worth. You can call it bail in, but for an Austrian it's just reintroducing the free market. Unfunded government promises to the pensioners, the unemployed. the sick and so on will also be repriced and change market behavior for consumers and savers.

After this phase of creative destruction of too much government-central bank intervention the Euro will strengthen and support indirectly, by its sole existence, the coming attack on Americans' privilege for having the printer of the dominant world reserve currency. This attack will be led by the BRIC countries. Time line 2016-2017.

The Bail-in rational offers a short term trade opportunity : long peripheral European government debt and short their weakest banks debt. Surely this will create some funny longer term effects.

For the US Dollar

The 85 billion Fed monetization program helps to sustain the illusion of a sustainable economic recovery. Surely the wealth effect exists. It gives banks a free lunch by not having to risk capital in their normal intermediary function of having to finance long term corporate en private debt attracting shorter term deposits. Surely banks and hedge funds have a free lunch front running the Fed in treasuries. Surely the 'haves' profit from the heavy lifting of their equity portfolios. Surely the low interest rates have an effect on auto sales and real estate. But capital formation is distorted. The real estate revival can continue to top somewhere in 2015. Indeed, some 35 % of residential real estate transactions are now from 'institutionalized' money like Black Rock . These are unstable market participants. They look to flip these properties for a plus value after recollecting rents in the meantime. They have access to grouped sales of distressed properties because they have access to leveraged capital. The normal buyer, the one that buys to occupy has seen his lending approval refused too many times. (Infra we said banks now prefer free lunches to risky lending, a typical example of a central bank induced misallocation.) And when the individual does obtain a loan again there is a distortion because in 2012 around 90% of residential non jumbo loans where government guaranteed by the FHA. The other individual normal buyer, the typical middle class buying to rent as a form of extra pension provision can't play on equal terms by lack of capital and credit needed for this grouped sales. We can already observe that rents are depressed in regions where this institutional money is omnipresent. When the US economy falls back in 2015-2016 in absence of more Fed monetization you will see these institutionals even selling at a loss and making the real estate market crash again, this time for real with a horizon surpassing 2030. Other 'temporary' buyers are the foreigners from Asia and Latin America fleeing to the dollar, buying 'from their own perspective', at low prices. When the perception on the all mighty dollar changes (2016-2017) their perspective on low US real estate will change and they will also become flippers. Some smart money knows this an is just meddling in the business to reap big fees. Indeed some of these pools are now opened up to small investors from 50.000 dollars onwards. Others are just repeating their former game of securitizing off their residential property pools, converting properties in rent baring securities. Indeed, the business of cutting risk in mispriced derivatives is in traction again. But fees are the incentives to lure dumb money from frustrated (frustration caused by the interventionism of the government and the central bank) rent seekers like pension funds, insurance companies and spoiled(spoiled by their past returns of the last three decades) individual rich bond investors that are not yet ready to admit a top is in. In a free market real estate values have to be supported by the incomes of their potential buyers but look how real incomes for 90% of the people 'working for a living' are now lower than in the seventies based in real terms.

Again somewhere from now to 2016 (again see infra the dollar attack) bonds will lose value not because of higher rates but rather from haircuts in the return of capital. Indeed, in a depressed US economy without more Fed balance sheet expansion and a less credit worthy government, where will the demand for credit by the private sector come from? Enterprises are already hoarding cash. Financial repression will take care of the rate on government debt. The great reallocation from bonds to equity will add to the losses on the bonds. Indeed we foresee the equity bull run possibly attaining 30.000 for the Dow by 2016. The shale oil and gas bonanza will support this in the background helping to make people believe the US growth is sustainable.

Yes we are calling the Bernanke bluff. He announced QE to infinity but just a couple of months after its implementation he asks his lackeys to announce his exit strategy. He knows all too well that the Austrians will be validated at last somewhere in 2016-2017. He knows that capital will flee the US causing a depression where saving the Fed will be more important than taking care of poverty. Bail-ins for social security, pensions and financial institutions will also come to America. They will convince the people that the Fed balance sheet is too 'big' to fail (Some 4 trillion end 2013 with government indebtedness above GDP) The attack on the dollar will prohibit further reckless printing. So we could see a TARP financed by banks to save i.e. bail out the Fed. A more likely alternative could be to revalue the gold reserves in dollar terms. There is too much conflict of interest between the Fed and the banks to withhold a big TARP as plausible if the banks must support it. By financial repression, taxation, capital controls and confiscation the government will take care of itself. Bond holders will have their time in the gulag. It doesn't kill but happy days will not be found again in this circles until after a new financial world order is created where the dollar is no longer the predominant reserve currency.

We don't buy the concept of new normal. Normal relates to the past and new to change. In the end this time won't be different.

Conclusion we see US equities perform well till +/- mid 2015. 2013 will see the market progress again to new heights after every correction. More and more bondholders will become convinced that this is the place to be. Capital inflow from the rest of the world will also help. Can we call this phenomenon a crack up boom? For the moment buy the dips.

Real estate will progress but with less extravagance, just to crash for real somewhere from 2015 onwards.

Bonds will maintain value for the moment but we see corporate bonds and junks already as unattractive.

We think Bernanke will not extend his mandate . It would give some credit to our assumption that he knows the Austrian vision on economics will wipe out the Krugmanites for decennia to come based on data to be collected from the 2016-2017 horizon.

For Japan

Forced by decades of chronic deflation the new Japanese premier Abe Shinzo and the new central banker Kuroda promise to heal the Japanese economy. In a perfect Gresham Law illustration they will do it, imitating Bernanke's Fed follies. They will no longer neutralize their currency interventions. The central bank will be permitted to buy more assets than the yen monetary base in existence and the central bank will engage in a twist like operation charging its balance sheet with long term debt. From pure debt monetization to deficit spending they will push for a 2% inflation target. Again we have to call their bluff. With JGB's surpassing 240% of Japanese (shrinking) GDP and debt servicing already at 25% of fiscal receipts the amount of monetization needed to create a 2% inflation is just beyond belief. It has to be accompanied by a big yen devaluation to have a shot at success. Yes you can intervene in the JGB's rate by ever more printing but at some point the control on the currency will be lost. Japan could see a hyperinflation when its bond market is killed by this overprinting. So here the big rotation from bonds to equity risks to be very explosive. Abe and Kuroda know this all too well, just look at their continuous on-and-off Abenomics discourse. The start of full implementation of 'Abenomics' started with the central bank reunion on April 4th. Japan's trade partners will not accept a full yen devaluation. This will affect Abenomics. The for the moment verbal war between China and Japan (for some rocks in the sea) is already affecting trade between the two countries. If Abe overplays his hand real war could start in 2014. Another tremendous hurdle for Abenomics' success is the demographic situation. The Japanese are aging and the population is shrinking.

Conclusion play shorting the yen and long the Nikkei but be aware that it will be on-off. Take profits and reengage after corrections because Abenomics will also be on and off. JGB's are in a bubble if the new policy creates inflation. Real estate will also get a 'temporary?' reflation boost. Abe had to resign in the past on corruption between some of his ministers and big corporates in Japan, especially the big ones working on governmental infrastructure projects. REIT's can have a reflation boost but will it be durable if not sustained by demographics? Hedge the yen if you play this speculative real estate play.

The BRIC's

China will, aided by the BRI's, challenge the dollar in 2016-2017. They will engage for real in this currency war once they have accumulated enough physical gold and made the renminbi freely convertible. Isn't it ironic that the communists are discovering the benefits of the 'Invisible hand' when the western world is racing towards more state intervention? Want some proof? Look at the alternative IMF World bank that

that they planned with South Africa this month. Look at the growing currency swaps they continue to make with trade partners all over the world. The in March announced 30 billion swap with Brazil covers 50% of the trade between the two. So, many deals were done, from London to Australia to Asian trade partners. Every month there is some more done on this subject. For the same reason we think it is no coincidence that China is investing to become the world biggest gold producer nor that they continue to grow their imports of gold via the mainland and via Hong Kong. The Yuan was recently fixed at its highest against the US dollar for over more than 18 years. We think that China will moderate its internal credit growth some more and thus grow a bit less than in the past. They won't bet their future world empowerment on the altar of short term growth. Yes social unrest can temporally derail China's move but their new president will conquer the hearts of the Chinese people with his speech on the Chinese dream. He is already trying to export this dream to Africa. Will the world someday worship Xi Jinping like the dreams of Martin Luther and Kennedy? (Ref to Zero Hedge citing Ross Anthony of the Diploma. link: http://www.zerohedge.com/?page=1&destination=articles&name=Reformed%20Sheep&op=Log%20in&form_build_id=form-d329e0484bc0dc5df9329f13c7f40343&form_id=user_login_block) At least corruption is really outlawed in China if necessary by hanging. Compare this to Corzine (MF Global) and all the revolving doors at the Fed, FDIC, US Treasury etc. Compare this to the protection New York judges systematically give to the big New York banks. China is for the same reason further expanding its military budget, complicating the US (defense) budget cuts. In the meantime America's war on terrorism didn't buy them much sympathy in a big part of the world. Arabian countries can be destabilized by shale oil and gas. Again creating opportunities for China.

Russia is still overly linked to the price of energy. Shale oil and gas pose risks to its global economy. Our impression is that the paramount factor in the administration of the economy comes from the geo-strategically positioning of the country rather than the pure economic sense. This constitute still a risk to invest in the country.

India and Brazil have real inflation problems. They point fingers to the US interventionism regularly. The problem is partly self-inflicted. They did not liberate their economies enough to give room to abundant capital inflows from abroad. Roussef vociferates that she will not compromise economic growth in the inflation combat. Sounds a little bit too Chavistic at our gusto. Debt is also becoming a problem in Brazil. The consumer perceives the credit rates as low. Enterprises are financing a lot in US dollar. Mismatches with an appreciating dollar is a risk. In general for all emerging countries the low dollar rates risk fomenting future problems. Is it logical that Bolivia sells debt at 3.65% in US dollar for 10 years. Isn't this an outgrowth of the Fed liquidity flotation programs? Being the world reserve currency the Fed policies do thus also cause multiple misallocations in the rest of the world. Their reverberations will affect the American Empire and hasten the call for a new world currency system. India has more attraction, although too slow, they seem on the correct path towards a better future. A factor in its favor in the 2016-2017 clash will be the traditional savings in gold from its population. Indians have 25% of their savings stored in gold. If the Fed is forced to use the 'gold revaluation' tool they will benefit.

Time to conclude.

Savings are the basis for sustainable growth not debt according to the Austrian vision. Debt contracted for monetary tools or without the intention to ever pay them off or without sufficient marginal productivity are not a sustainable solution. It's just the road to perdition.

We hope that this global introduction gives you some usable insights. Do not assume that We am a born pessimist. We believe we are just in transition to a more sustainable and better world. After the reset with the new world currency order the future will be open. The benefits of internet, robotization, alternative energies, gen technology, 3D printing and so on will create opportunities for a better live for all of us. We just want to draw you to take sufficient precautions not to lose your wealth in the transition period. As a last gift we believe gold is a safe medium to sleep well at night during this turbulent times. History learns that it a good hedge against risk in uncertain times much more than being a perfect inflation hedge. How much? 10% seems a good start.

Some funnies, or not so funny.

On the last ECB press conference a Goldmanite (= a person doing God's work) told the truth for 100%. M Draghi said that the Cyprian solution was not a template for bail out. Indeed it is just a template for bail-in.

Abe is a Master of the Universe bigger than nature. On the 5th of april his policy, just one day into operation caused a 13 Sigma event in the JGB market. This 13 trillion (worth in US dollars) market saw interest rates on the 10 year falling from 0.53% to 0.31% just to see it rise minutes later to 0.62%. Even the Fukushima tsunami was far from a 13 Sigma event. The JGB market had to be suspended twice thanks to the Japanese central bank. Very assuring when Kuroda and Abe say that there is no bubble in JGB's. And wasn't a central bank mandated to create monetary stability? Top Chinese economists already called the BOJ's decision "monetary blackmail" and they want a PBOC currency war retaliation action.

The great rotation (from bonds to equities) was shocked by the 88 000 NFP figure for March. No pre-emptive exiting from QE to infinity for some time to come. The structural changes in the Labor participation rate (at its lowest since 1979) is just inviting Bernanke to succumb one's more to the 'krugmanites' : you will just have to print more. Can we call the wealth effect caused by the Fed's policy of levitating real estate and equities a recovery producing effort ? The 1% haves are 99% in favor of keeping the printer at full capacity. C Biderman nominated Krugman for the 'Big Lie' Award and David Stockman ex director of budget under Reagan : "We've been Lied to, Robbed and Misled by Greenspan and Bernanke".

On Stockman, see his announced book on 'The great Deformation' and his opinion in a March 31st article in the New York Times, and also on Bloomberg *Radio : On Bernanke's actions : "The Ultimate Consequence will be a Train Wreck" link : http://www.zerohedge.com/news/2013-04-02/stockman-bernankes-actions-ultimate-consequence-will-be-train-wreck)*

For a link on Biderman : http://www.zerohedge.com/news/2013-04-02/biderman-nominates-krugman-big-lie-award.

Performances and trading

iW Alternativ SIF – Low Risk
The fund has increased by 1,1% in March, NAV 10681,84 EUR.
iW Alternativ SIF – Commodities
The fund has increased by 6,3% in March, NAV 766,28 EUR.
iW Alternativ SIF – Real Value Growth
The fund has increased by 5,8% in March, NAV 89,92 EUR (I), NAV 88,92 EUR (P)

Best regards,
The fund manager