INVESTMENT FOR WEALTH

General report

Comments for August 2013

The end of summer, time for some philosophical reflections. Let's talk about the fears from known and unknown triggers. The aggregate sum of individual perceptions seems to frustrate the macro 'science' of economists and central bankers more and more.

Indeed the smell of uncertainty seems to be announcing a possible chaotic fall.

The Fed and other central bankers made promises to the markets of ample liquidity amid ZIRP policies (zero interest rate policy). It was sold with the objective to restart economic growth while recapitalizing the world's banking system.

Abundantly the analysts cried "wolf", warning that these policies were sowing the seeds of rampant hyperinflation. Other more Keynesian orientated commentators said that the only risk was of not having enough monetary stimuli. If growth didn't resurface, central banks just had to print some more.

The Fed went the last way with QE3 and the ECB even studies on negative interest rates. Japan went straightforward announcing a doubling of its monetary base in the course of just 2 years while persisting with ZIRP, already in place for 15 y.

So where have we landed, what certainties are obvious?

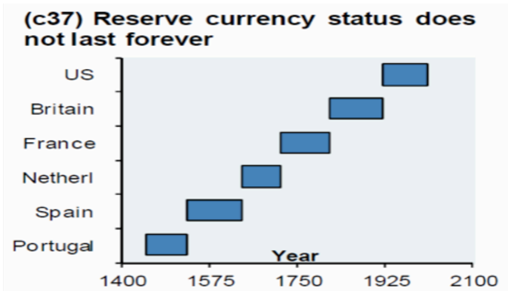
The tapering of QE is a certainty. It has already (before its start) caused higher yields on treasuries. We believe that this movement has not exhausted. Yields will keep rising, even if the Fed continues its ZIRP for some years more. The perception of better US growth and the capital outflows from emerging markets will push the dollar up further. Less QE, higher comparative yields compared to Japan and core Europe will add to the higher dollar. When Europe and Japan are done with repatriations and their fundamental crises resurface, we also risk to see capital flows from these areas to the US, further amplifying the dollar up-move. Less recycling of petro dollars - thanks to shale oil and gas - will also push the yields on US treasuries upwards (because of less liquidity) and fortify the US dollar.

In the meantime ZIRP will allow the US to further build up its debt mountain. The high US dollar will be seen as a true image of a strong US. Wrongly so, we think.

For 80 to 90% of the Americans there is no better economy. They lack the assets to profit from the Fed induced wealth effect. They lack good paying fulltime jobs and see costs for medical care inflating. Higher living taxes hinder them as well. Higher rates on real estate loans and higher house values drive them to become house renters more and more. Do you want some proof for this assertion? Private debt is not growing like in a normal recession-exiting economy. The student-loans debt explosion and auto-loans explosion are just an aberration based on government interference via subsidized rates. Labor participation rates, still making new lows, are just another proof. A record number of people with disabilities or living on food stamps imply the same.

We foresee that the US economy will be in a dire state once the Dow tops - at 24000? and with a bit of irrational exuberance even 30000 points - and the US dollar also tops out. Somewhere at the end of 2015, the US will begin its swan song; a difficult export position, lots of enemies with resentments abroad (think war on terrorism and the financial fallout from the currency war) and the ever bigger charge on its economy from higher yields on rising debt mountains and on underfunded pensions will take their toll.

Between 2016 and 2020 the US dollar will lose its privileged position as the dominant world monetary reserve . It's just time; dominant reserve currencies do have a limited time span.



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Unresolved flaws in the conception of the euro, undercapitalized and still overleveraged banks, and at least some PIIGS with unsafe public debt accompanied by an overreach on taxation will create havoc in Europe. We believe this will start to make noise before year end. A still more 'helping' ECB will not solve these problems. A falling euro will only impoverish, without the benefit of a more sufficient economic growth. Even Europe will blame the US for its suffering.

Japan will see Abenomics fail in the coming years. For the moment the market gives Abe the benefit of the doubt. We see Abe launching new stimuli with the confirmation on the VAT hike somewhere at the beginning of October 2013. The Japanese themselves seem to doubt less. They repatriate. They refrain from capital investments. They are already feeling the effects of the lower yen in their cost of living. At some point further on, they will flee from their government's debt towards their equity market and to the US market.

China continues to manage its slowdown to obtain a growth rate of 7.5 to 8%. When necessary they relax on measures to slow the debt growth which is seen as the greatest risk to their economy. New debt creation in the shadow banking system continues to exceed rational limits. Someday this will create a big problem but for the coming years we think they will be able to postpone this problem.

India, Brazil, Indonesia and other less developed counties are fighting against the effects that the tapering has on their currencies. If the fed neglects their interests completely and pushes too brutally on the tapering, we could see a remake of the Asian-crisis on an even bigger scale.

Sufficient reasons to hedge your assets with a 15 to 30% precious metals exposition. Short term volatility in gold and the mining sector won't change the ultimate course of events.

Performances and trading

iW Alternativ SIF – Low Risk
The fund has increased by 2,07% in August, NAV 9627,66 EUR.
iW Alternativ SIF – Commodities
The fund has increased by 15,01% in August, NAV 499,15 EUR.
iW Alternativ SIF – Real Value Growth
The fund has increased by 6,01% in August, NAV 73,15 EUR (I), NAV 72,13 EUR (P)

Best regards,
The fund manager